

FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE
DEVELOPMENT

Studies in Financial Systems

No 13

The Swedish Financial System

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Key words: Sweden, Swedish model, welfare state, financialisation, financial system, financial crisis, banking crisis

Journal of Economic Literature classification: E44, F3, G2, N14, N24, O52, P16

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Acknowledgments:

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800. The author cannot take sole responsibility for this work and credits Eric Clark², Ilia Farahani³, Anders Lund Hansen⁴ and Marco Passarella⁵ for valuable contributions. In addition, excellent support has been given by Andrew Brown, Helen Evans and Malcolm Sawyer (University of Leeds).

28 October 2014

Website: www.fessud.eu

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ABBREVIATIONS

ATP	Allmänna Tilläggspensionen
ATS	Austrian schilling
AUD	Australian dollar
BEF	Belgian franc
BIS	Bank for International Settlements
bp	basis point [1/100%]
CAD	Canadian dollar
CD	Certificate of Deposit
CDU	Christlich Demokratische Union
CDS	Credit Default Swap
CEM	Controlling Enhancing Mechanism
CIP	covered interest rate parity
CHF	Swiss franc
CP	Commercial Paper
CPI	Consumer Price Index
CPIF	Consumer Price Index with a fixed interest rate
CRS	Cross Currency Swap
CR5 Index	Five firm Concentration ratio
CSU	Christlich-Soziale Union
DEM	German mark
DKK	Danish krone
ECB	European Central Bank
ECU	European Currency Unit
EDP	Excessive Deficit Procedure
EEA	European Economic Area
EONIA	Euro Overnight Index Average
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESP	Spanish peseta
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FIM	Finnish markka
FIRE	Finance, Insurance, and Real Estate
FRA	Forward Rate Agreement
FRF	French franc
FRN	Floating Rate Note
FX	foreign exchange
GBP	Pound sterling
GDP	Gross Domestic Product
GOV	Government bonds
GRD	Greek drachma

IMAA	Institute of Mergers, Acquisitions and Alliances
IRS	Interest Rate Swap
IEP	Irish punt
ITL	Italian lira
IMF	International Monetary Fund
JPY	Japanese yen
LHS	left hand side
LIBOR	London Interbank Offered Rate
LO	Landsorganisationen i Sverige (Swedish Trade Union Confederation)
M	month
M&A	mergers and acquisitions
MB	Mortgage bonds
MPC	monetary policy committee
NIER	National Institute of Economic Research (Konjunkturinstitutet)
NIM	Net Interest Margin
NLG	Dutch guilder
NOK	Norwegian krone
NOS	Net Operating Surplus
NZD	New Zealand dollar
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Index Swap
OTC	Over-the-counter
PLM	Proportionality-Limiting Measure
PPA	Premium Pension Authority
PRS	Premiereservsystemet (Premium Reserve System)
PTE	Portuguese escudo
RHS	right hand side
ROAA	return on average assets
ROAE	return on average equity
SAF	Svenska Arbetsgivareföreningen (Swedish Employers Association)
SAP	Sveriges socialdemokratiska arbetareparti (Swedish Social Democratic Party)
SEK	Swedish krona
SONIA	Sterling Overnight Interbank Average Rate
STIBOR	Stockholm Interbank Offered Rate
STINA	Stockholm Tomnext Interbank Average
T-bill	Treasury bill
T/N	tomorrow / next
TCW	Total Competitiveness Weights
USD	United States dollar
VRN	variable-rate note
XCCY	Cross Currency Swap
Y	year

Executive Summary

This study investigates the evolution of the Swedish financial system since the 1980s. The concept of financialisation, with its different elements and perspectives, is used as a lens through which the key historical developments are analysed. The aim of the study is two-fold. First, by highlighting some unique country-specific features, it addresses the profound changes that have taken place in the Swedish financial system during the last decades in relation to the 'rise and fall' of the so-called 'Swedish model'. Second, in doing so, the study considers the appropriateness and applicability of standard attempts to categorise financial systems according to the weight of banks versus markets, states versus markets and so forth. The picture that emerges from the Swedish example in particular shows the need to go deeper and beyond these classifications in order to obtain or more nuanced understanding of the increasing role of financial markets in developed countries.

Sweden presents itself immediately as an interesting case for the study of financialisation, given its historical role model as a pioneering and extensive 'welfare state'. The Swedish (or Nordic) model was, often even among its critics, widely regarded as a successful synthesis between capitalism and socialism, between free enterprise and social planning. Broadly speaking, the society could truly be portrayed as egalitarian, with a solid social safety net stretching from free education to universal health care. Full employment was almost taken for granted, and equality and social peace was achieved and sustained through solidaristic taxation and income distribution, conflict-free wage negotiations and a consensus-based political process. As such, Sweden could be regarded as an extreme version of the Rhineland model of Germany and other northern European countries.

Against this background, the recent transformation of the Swedish financial system – and indeed the Swedish society as a whole – has been remarkably comprehensive. The outcome of the reform process that began in the 1980s has been dramatic by any measurement, and can be summarised as follows:

First, the Swedish financial system has been transformed from one of the most regulated to one of the least regulated in the developed world. A high degree of protectionism has been replaced by internationalism and openness to foreign financial interests. Sweden today is truly a small, *open*, economy.

Second, the previously under-developed financial market is barely recognisable. For a country with less than 10 million people, Sweden ranks disproportionately high in terms of stock market capitalisation and turnover in the SEK-denominated foreign exchange and derivatives markets turnover.

Third, the country, traditionally regarded as having a typical bank-based system, has embraced the more market-based model with gusto, and in many respects gone further than Anglo-Saxon countries. The banking sector remains large and has increased in size relative to GDP, and is highly concentrated. At the same time, a vast range of new players has entered the financial arena.

Fourth, neoliberalism (as defined broadly) has penetrated the Swedish society profoundly but also, perhaps surprisingly, with little social and political resistance. Seen from a political perspective, the country has transformed itself from a role model for those wishing to implement reforms often associated with the Swedish Social Democratic Party (SAP) to a 'poster boy' for European parties on the Right aiming to pursue an agenda with a limited role of the state. Hence, whereas Sweden was ahead its time in conducting Keynesian economic policy, it currently leads by example in implementing reforms associated with a free-market ideology.

Fifth, the change in the macroeconomic, as well as monetary, policy has evolved remarkably during the period. The central bank adopted inflation targeting relatively early after a long tradition of various fixed exchange rate regimes, whereas government policy has changed to encompass a range of measures seemingly incompatible with the 'old' Swedish model, such as income tax cuts, large scale privatisation programmes and policies aimed at achieving budget surpluses and government debt reduction. Within the international foreign exchange and money

markets, Sweden has evolved from being perceived as a volatile, unpredictable country during the late 1980s and early 1990s to gradually gaining a 'safe-haven' status.

Sixth, the rate of increase in *inequality* is the highest in the world, albeit from very low levels. The consensus-based and solidaristic wage negotiation process has been replaced by mediation in between increasingly fragmented unions.

Seventh, the financialisation process has become highly visible in overall 'daily life', not least as market mechanisms have been encouraged to enter previously 'sacred' areas, such as housing, education, health care and pensions. The Swedish population has, directly and indirectly, become a collective of individual investors and risk managers highly exposed to the direction and volatility of the financial markets.

It is for this very reason Sweden (and in particular the financialisation process in Sweden) portrays itself as a paradox. How could such a radical reform agenda be implemented without much opposition politically (given the social democratic hegemony) or popularly (given a largely homogenous population having grown accustomed to and prided itself of the Swedish model for several generations)?

As this study highlights, the paradox appears to be rooted in two deeply embedded perceptions about the old Swedish model among (foremost non-Nordic) observers: a) that the model was characterised by an intrusive, and thus market-unfriendly, state apparatus and b) that the model as a whole was created by the Swedish Social Democratic Party alone.

However, when these two myths are revealed, Sweden becomes portrayed not so much as a country that suddenly has abandoned the 'state' in favour of the 'markets', but as a culture that historically has been distinctively consensus-based, pragmatic and also individualistic. Seen from this perspective, financialisation has been embraced widely not as a perceived end-goal in itself, but as a pragmatic choice in an on-going ambition to maintain economic growth, full employment and individual freedom in an increasingly globalised world. In other words, the

Swedish model contained a number of features that, when put to the test at particular junctions in time, proved unusually fertile ground for sowing the seeds of financialisation. Seven points are notable along these lines:

First, Sweden was a homogenous country and had a long and stable legacy of statehood. It was, early on, a centralised nation state founded on taxation and centralised bureaucracy.

Second, whereas the rest of Europe had a history of institutionalised feudal relationships, this did not take place in Scandinavia – partly as a result of a relatively weak aristocracy and resource base. Egalitarianism was already present in the old peasant society, with Sweden being more or less an exception in Europe.

Third, stemming back from the 18th century, Sweden had a history of strong and popular mass movements. These movements, or 'folkrörelser' (people's movements), became prominent around 1900. The most notable were the labour movement, the free churches, the temperance movement and various consumers' and producers' cooperatives. Notably, there were strong connections between the free churches¹, the temperance movement and the newly founded (and later very powerful) trade unions. Although this type of civil society sometimes was at conflict with the interests of government policy at the time, they increasingly became incorporated into the state apparatus. A platform for consensus-based policy was thus laid early on. The omnipresent term 'Folkhemmet' (the people's home) of the Swedish society could even be regarded as a quasi-version of constitutional patriotism - a semi-official Swedish ideology (Wittock, 2004).

Fourth, as Trädgård (2008, p. 580) states, 'Swedes link the values of decency, fairness, solidarity and freedom to a demonstrated will to work'. An internalisation of the Lutheran-inspired moral

¹ In Sweden, 'free churches' relate to denominations that are Protestant, but not part of the Lutheran Church of Sweden.

code in the Swedish society had been prominent since the 1600s – evidenced by a high level of work ethic and efficiency and low levels of corruption (Wittcock, 2004).

Fifth, the high levels of literacy and general education in Sweden pre-dates the hegemonic period of the Social Democratic Period. In fact, literacy rates in Sweden were the highest in Europe already in the 17th century, stemming from a combination of a free and politically represented peasant population and the requirement by the Swedish Church that every Swede should be able to read basic texts from the Bible (Trädgård, 2008).

Sixth, Swedish welfare policies have an old history. Local communities had, since the prohibition of the Catholic Church in the 1500s, been responsible for their own poor, old and sick under the Poor laws. During the late 1800s, laws were passed making employers responsible for workers they had made redundant. However, labour shortage, rather than unemployment, was the main concern around the turn of the century following the mass emigration to North America. As the rural areas were hardest hit, the focus of the debate shifted early on towards universal policies aimed at the (still largely rural) population as a whole rather than Bismarckian-style worker's insurance as was prevalent on the European continent (ibid).

Seventh, controversially and perhaps surprisingly, Sweden could be regarded as 'individualistic' in the sense that informal contracts (such as families, charities and small communities) have historically been regarded with deep suspicion. Instead, the state has fulfilled the role of providing the necessary individual security. This alliance between the individual and the state implies that the latter has been expected to provide everyone with a *first* opportunity, and not a second opportunity like in, for instance, the Anglo-American model (ibid). This is important, as policy measures directed towards an improved position of women, children and the elderly in the society are unlikely to meet by any notable resistance from family-conservative political parties.

To sum up, Sweden has arguably been liberalised faster than any other developed country during the recent decades. The financialisation process has not only been prominent, but has also been fuelled by a market-embracing and market-promoting state apparatus. Therefore, instead of

regarding the transformation of the Swedish model as a paradox, we should perhaps begin to look at the country from a different perspective: namely as the *ideal* country for financialisation.

1. The Swedish Model of Financialisation

1.1 Introduction

The objective of this report is to provide an overview and analysis of the transformation of the Swedish financial system since the 1980s. Using the concept of financialisation as a lens, Sweden hereby becomes a case study within a complex, but highly urgent, theoretical field. Importantly, the era coincides with the demise of the so-called 'Swedish model', or at least to the perception of it. Hence, this study puts particular emphasis on potential linkages between increasing financialisation on the one hand, and a weakening welfare state on the other.

For the purpose of this study, financialisation is broadly defined. In line with the FESSUD project, the processes of financialisation contain the following eight features: large-scale expansion and proliferation of financial markets; de-regulation of the financial system itself and the economy more generally; the birth of a whole range of new financial institutions and markets; at a systemic level, the dominance of finance over industry, with implications for capital investment and so for productive activity; market mechanisms, complemented or even reinforced by policies, that underpin rising inequality of incomes and of inequality more generally; consumption tending to be sustained by the extension of credit; not merely the expansion and proliferation of financial instruments and markets but also the penetration of such financing into a widening range of both economic and social (and environmental) reproduction; and a particular culture (individualistic, rationalistic, and market orientated).

All of the features of financialisation just listed above are very much present in Sweden today. As the report will demonstrate, Sweden is by no means an exception or outlier in Europe with regards to the speed of the financialisation process. On the contrary, once having been put in motion, financialisation has in many respects extended deeper, and into a wider array of the Swedish society than in other countries.

On the other hand, however, Sweden has traditionally presented itself as a very unique country, where crude classifications become, if not invalid, then at least open for questioning. 'The third

way', 'the Nordic model' etc., highlighting the uniqueness of the small, developed countries in Northern Europe, have become convenient labels for economists, political scientists and legal scholars alike to portray these characteristics. Although these classifications may no longer apply fully, the country has undoubtedly had a different journey during the era of financialisation, making comparisons hard to find yet again. Sweden was never a largely 'bank-based' country like Germany, France or Japan or a largely 'market-based' country like the UK or the US. Sweden is neither member of the Eurozone, nor a small, open transitional economy like those in Eastern Europe. Indeed, the global financial crisis – having provided the financialisation literature with an abundance of material and insights – affected Sweden differently. A severe downturn was rapidly reversed. Instead, the country and its neighbours experienced their own banking crises already 20 years ago, following a rapid deregulation and liberalisation. Consequently, the financialisation process in Sweden is likely to have a range of country-specific features that this report will strive to capture.

In sum, Sweden has gone through a remarkable change during the recent decades, often seemingly completely at odds with the traditionalist view of the Swedish model. One of the numerous effects of this transformation is visible in visits by foreign politicians to Sweden. The country is no longer a model for left-leaning political parties. Instead, it has become an inspiration and 'success story' for liberal-conservatives in favour of an increasing role of market-determined processes in the society. Financialisation in Sweden since the 1980s, therefore, needs to be put into the context of the uniqueness of the Swedish model, and its demise.

1.2 Background

Sweden presents itself as an interesting case for the study of financialisation since around 1980, as it coincides with a sharp downturn in the Swedish economy at the time – the moment when the so called Swedish model came to become seriously questioned.

The Swedish (or Nordic) model was, often even among its critics, widely regarded as a successful synthesis between capitalism and socialism, between free enterprise and social planning. Although there is no clear definition of the Swedish model, most scholars would agree that the following characteristics could be attributed to it: a 'decommodified' wage relation, public commitment to full employment, welfare state universalism, a large social service sector, egalitarianism (in particular with regards to women) and a kind of class compromise between capital, labour and farmers (and later including white collar workers) (Ryner, 1999; 2007). Broadly speaking, the society could truly be portrayed as egalitarian, with a solid social safety net stretching from free education to universal health care.

Full employment was almost taken for granted, and equality and social peace was achieved and sustained through solidaristic taxation and income distribution, conflict-free wage negotiations and a consensus-based political process. As such, Sweden could be regarded as an extreme version of the Rhineland model (see Albert, 1993; Peck and Theodore, 2007). Combined, these features appear to have contributed to the success of the model in the mid 1960s: A solid GDP growth rate (around 4% per annum), low inflation (around 3% per annum), full employment (unemployment in range 1.5-2.5%), a high degree of cyclical stability, stable balance of payments position and no visible structural imbalances (Lundberg, 1985).

Swedish GDP had increased by around 3% per year from the early stages of the industrialisation up until the Second World War. Seen from an international perspective, the growth rate was exceptionally high – putting Sweden among the wealthiest countries in the world in terms of GDP per capital already in the 1930s. The growth rate was even higher in the aftermath of the Second World War up until the mid 1970s, and considerably more stable. Like many other developed countries, a period of low growth followed towards the end of the 1970s. The downturn, however, came to be more pronounced in Sweden, and 1975-82 was the period when the long-trend of

Swedish growth was finally broken. A similar era, characterised by such little or no economic growth whatsoever, cannot be found since the Swedish industrialisation began (Dahmén & Carlsson, 1985).

The Swedish model had also been characterised by a long period of political stability, most notably the hegemonic status of the Swedish Social Democratic Party. From 1932 to 1976 (with the exception of a brief period in 1936), the party had governed continuously, sometimes in coalition with other parties. Although the Social Democratic Party is often credited for having been at the core of the Swedish model, the party did not 'create' it, but managed to capitalise it, strengthen it and internalise it to a large success. Therefore, before moving on to the 'fall' of the Swedish model (and the subsequent rise of financialisation), it is important to note that many of the foundation stones of the Swedish welfare state existed *prior* to the 1930s and the long social-democratic era. In this respect, Sweden differed from the large majority of other European countries:

First, Sweden was a homogenous country and had a long and stable legacy of statehood. It was, early on, a centralised nation state founded on taxation and centralised bureaucracy.

Second, whereas the rest of Europe had a history of institutionalised feudal relationships, this did not take place in Scandinavia – partly as a result of a relatively weak aristocracy and resource base. Egalitarianism was present already in the old peasant society, with Sweden being more or less an exception in Europe.

Third, stemming back from the 18th century, Sweden had a history of strong and popular mass movements. These movements, or 'folkrörelser' (people's movements), became prominent around 1900. The most notable were the labour movement, the free churches, the temperance movement and various consumers' and producers' cooperatives. Notably, there were strong connections between the free churches, the temperance movement and the newly founded (and later very powerful) trade unions. Although this type of civil society sometimes was at conflict with the interests of government policy at the time, they increasingly became incorporated into

the state apparatus. A platform for consensus-based policy was thus laid early on. The omnipresent term 'Folkhemmet' (the people's home) of the Swedish society could even be regarded as a quasi-version of constitutional patriotism - a semi-official Swedish ideology (Wittcock, 2004).

Fourth, as Trädgård (2008, p. 580) states, 'Swedes link the values of decency, fairness, solidarity and freedom to a demonstrated will to work'. An internalisation of the Lutheran-inspired moral code in the Swedish society had been prominent since the 1600s – evidenced by a high level of work ethic and efficiency and low levels of corruption (Wittcock, 2004).

Fifth, the high levels of literacy and general education in Sweden pre-dates the hegemonic period of the Social Democratic Period. In fact, literacy rates in Sweden were the highest in Europe already in the 17th century, stemming from a combination of a free and politically represented peasant population and the requirement by the Swedish Church that every Swede should be able to read basic texts from the Bible (Trädgård, 2008).

Sixth, Swedish welfare policy has an old history. Local communities had, since the prohibition of the Catholic Church in the 1500s, been responsible for their own poor, old and sick under the Poor laws. During the late 1800s, laws were passed making employers responsible for workers they had made redundant. However, labour shortage, rather than unemployment, was the main concern around the turn of the century following the mass emigration to North America. As the rural areas were hardest hit, the focus of the debate shifted early on towards universal policies aimed at the (still largely rural) population as a whole rather than Bismarckian-style worker's insurance as was prevalent on the European continent (ibid).

Seventh, controversially and perhaps surprisingly, Sweden could be regarded as 'individualistic' in the sense that informal contracts (such as families, charities and small communities) have historically been regarded with deep suspicion. Instead, the state has fulfilled the role of providing the necessary individual security. This alliance between the individual and the state implies that the latter has been expected to provide everyone with a *first* opportunity, and not a second

opportunity like in, for instance, the Anglo-American model (ibid). This is important, as policy measures directed towards an improved position of women, children and the elderly in the society are unlikely to meet by any notable resistance from family-conservative political parties².

There is no doubt that policies implemented by the Social Democratic Party during a number of decades in power (including work life reforms, improved social insurance and retirement schemes and the introduction of a vast social safety net including free education and universal health care) came to position the Swedish welfare model as a successful synthesis between capitalism and socialism, free enterprise and social planning. Likewise, the party was pivotal in overseeing the solidaristic income policy practised by both sides in wage negotiations, what came to be a class compromise between white and blue collar workers promoting social peace and a non-conflict wage negotiating culture with very few strikes well into the 1970s. However, it is important to note that the roots to the harmonious blend of pragmatism, efficiency, consensus-culture, egalitarianism and solidarity required to make the Swedish model successful pre-dated the Social Democratic Party. The party was successful in managing to internalise it into policy. Thus, whereas the Social Democratic Party cannot take full credit for its success, neither would be correct to blame the party for the demise of the Swedish model towards the latter part of the 20th century.

The era of Swedish financialisation therefore has to be studied critically, taking into account not only the perception of the Swedish model more generally, but also considering some of the key exaggerations and misperceptions that may have helped to shape the common view of Sweden.

2 The Swedish Financial System since 1980

² Kristdemokraterna (the Swedish Christian Democratic Party) has been a tiny political force in Sweden in comparison with, for instance, the CDU/CSU of Germany.

2.1 Deregulation of the Financial Markets

The deregulation process marked the beginning of a widespread transformation of the Swedish financial markets. Up until the late 1970s, the Swedish financial system was highly regulated. At the time, the financial markets were far from developed and had a limited stock market activity and an even less prominent money market (Viotti & Wissén, 1991). However, as the Swedish economy had been going through an era of stagflation for a while, the underdeveloped financial system was widely beginning to be seen as major problem in debt financing and for companies' ability to compete internationally. Moreover, the government's traditional instruments of control had gradually become less effective, as new financial actors had begun to emerge. The fact that the country was a small and open economy also played key role: Sweden did not want to be left isolated as the globalisation process accelerated and the European integration process became more and more prominent. Importantly, a number of large Swedish multinational companies had been posed with the prospect of moving abroad, or at least with a realistic ability of threatening to so. All in all, these factors gradually led to a change in the perception of what was supposed to be in the Swedish 'national interest' (Reiter, 2003).

The deregulation process, which came to fundamentally change the Swedish financial landscape, began in 1978. It broadly concerned four areas: regulations of prices and interest rates, regulations of quantities, regulations of international transactions and regulations of domestic transactions (Englund, 1990). First, ceilings on various prices and interest rates were abolished; beginning with bank deposit rates in 1978 and followed by corporate bonds in 1980 and bank loan rates in 1985. Second, the requirement on banks and insurance companies to hold bonds was abolished in 1983 and 1986 respectively. Ceilings on new bond issues from private companies were abolished in 1982, and those on loans and finance companies in 1985. Third, towards the latter half of the 1980s, the deregulation process came to include an international dimension. Investments by Swedes in shares abroad were allowed, as was the acquisition of Swedish shares and interest-bearing assets denominated in Swedish kronor by foreigners. Foreign exchange controls were abolished, as well as the outright ban on foreign bank subsidiaries (1986) and

foreign bank branches (1990). Fourth, the tax on bank issues of certificates of deposits (CDs) was abolished in 1980. The low tax on stock exchange transactions was removed in 1979. The tide of deregulation until 1993 is summarised in Table 1.

However, this was also the time when Sweden introduced (and later abolished) the so-called 'valpskatt', a financial transaction tax. The tax was introduced and levied on Swedish brokerage houses as from January 1984. It was initially set at 0.5% on the buy and sell side (i.e. 1% per transaction), and generated tax revenues amounting to 0.13% of GDP in 1984. In 1986, the tax rate was doubled, and also came to include convertibles and options – thereby increasing the tax revenues to 0.33% of GDP in 1986. A year later, the tax also came to encompass futures on stocks and stock market indices (Almenberg & Wiberg, 2012).

Table 1: The tide of deregulation in Sweden (monetary and credit policy instruments) 1978-93

Regulation	Year of abolition
Regulation of bank deposit rates	1978
Regulation of corporate bonds	1980
Regulation of insurance companies' lending rates	1982
Liquidity ratios for banks	1983
Lending ceiling for insurance companies' leasing	1985
Placement ratios for non-life insurance companies	1985
Regulation of bank lending rates	1985
Placement ratios for life insurance companies and AP-funds	1986
Investments in shares abroad	1987-89
Other foreign exchange regulation	1989
Regulation of establishment of foreign banks' branches	1990
Regulation of foreign acquisition of shares in Swedish commercial banks, broker companies and finance companies	1990
Regulation of establishment of financial institutions other than banks	1991
Issue price control	1991
Issue price indices	1991
The act on foreign acquisition of Swedish companies	1992
Trade permit requirement for foreigners	1992
Restrictions in the articles of associations regarding foreigners' rights to acquire shares in Swedish companies	1993
The payments services act	1993

Source: Lybeck (2000)

The impact of the financial transaction tax on the stock market turnover was considerable. According to estimates by Almenberg & Wiberg (ibid), daily turnover on the Stockholm Stock Exchange fell by around 30% overall. The turnover of the largest 11 stocks fell by 60% (Umlauf,

1993), as domestic investors traded less and foreigners shifted their trading to exchanges outside the Swedish jurisdiction.

In 1989, the financial transaction tax was extended to include fixed income instruments, such as bonds, T-bills and derivatives on these. The idea was to create neutrality among the different assets classes. However, it also gained popular support due to large derivatives losses by the City of Stockholm and the insurance company Folksam in 1987. Stig Malm, who was chairman of both LO and Folksam at the time, confronted the money market participants for 'creating economic instability and excessive wage differentials' and suggested to 'reduce the overly large and socially worthless activities in the money market'. (Campbell & Froot 1993; Lybeck & Engström, 1991)

The money market turned out to be much more sensitive to the introduction of the financial transaction tax than the stock market, despite a lower levy (a maximum of 0.15% depending on the maturity). Bond trading volume immediately fell by about 85%, whereas the turnover in fixed income futures fell by 98%. The options market more or less disappeared. Instead, trading shifted to other instruments that were not subject to the tax, but could be seen as substitutes nonetheless (such as debentures, variable-rate notes (VRNs), FRAs and IRSs). Consequently, the tax revenue from fixed income transactions was clearly disappointing. Although the Ministry of Finance had forecasted revenues of SEK 1.5 billion per year, it only reached an average of SEK 50 million (Campbell & Froot, 1993). Having vastly overestimated the potential tax revenues (or having underestimated the ability of financial market actors to avoid paying it), the financial transactions tax was finally abolished in 1991 as the new conservative government came to power.

As a direct consequence of the deregulation process, Sweden went from having one of the *most* highly regulated financial systems in the world to one of the *least* regulated. The impact was substantial, in particular with regards to money and capital markets, credit markets and share ownership.

The deregulation process went hand in hand with rapid financial innovation that stemmed from the large international financial centres. With the introduction of Certificates of Deposits (CDs) in March 1980, Sweden began to embark on its journey towards more developed financial markets (see Table 2).

Table 2: Financial instruments and benchmarks in Sweden (introduction)

Financial instrument / Benchmark	Year
Certificates of Deposit (CDs)	1980
Treasury bills (T-bills)	1982
Commercial paper (CPs)	1983
Government bonds	1983
Fixed income futures	1985
Fixed income options	1986
Floating Rates Notes (FRNs)	1986
Stockholm Interbank Offered Rate (STIBOR)	1986
Interest Rate Swaps (IRSs)	1986
Caps and floors	1987
Forward Rate Agreements (FRAs)	1997

Source: Lybeck & Hagerud (1996)

The first CD issue was enabled as a particular stamp duty had been abolished. Even though the CDs came to play a rather minor role in itself, the knowledge of how securities worked and the technology associated with the process paved the way for a similar, but vastly more popular, financial instrument: the T-bill (Treasury bill) in 1982. During the latter half of the 1970s and the early 1980s, the borrowing requirements of the government had increased dramatically. Problematically, however, as a large part of the borrowing had taken place from the banks, the liquidity quotas were beginning to become stretched. The T-bill market hereby provided an opportunity for the government to borrow *directly* from the financial markets, rather than *indirectly* via the banks.

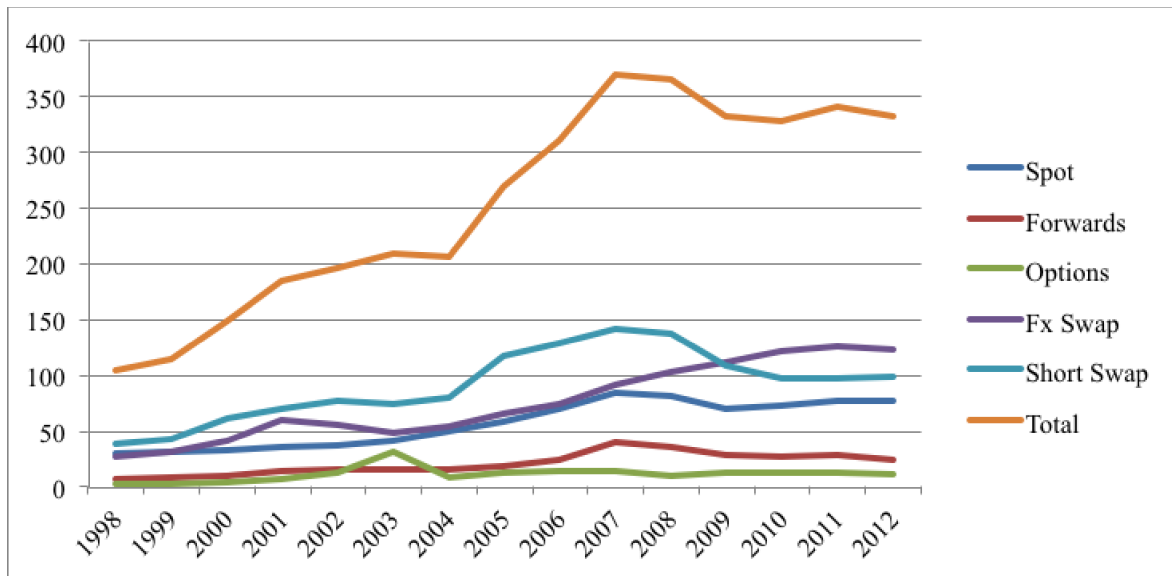
Within a year, the first commercial paper (CP) was issued in Sweden. It quickly became a widely used instrument for funding and investment alike. Towards the end of the decade, the market had grown significantly and at times came to ranked as the world's third largest CP market.

The T-bills, of course, had the drawback of having a short maturity (up to one year). In 1983, the duration of the government debt came to be extended through the launch of the government bond market. This, likewise, rapidly became a booming market. The large borrowing needs of the

government during the following years led to the Swedish government bond market becoming among the largest (and most volatile) among developed countries. When the mortgage institutions were allowed to expand their lending, a mortgage bond market was created with the government bond market as a template. Soon thereafter, a range of SEK-denominated financial derivatives was introduced in line with developments in other countries (Viotti & Wissén, 1991).

Mirroring developments in other countries, the deregulation process also had a major impact on foreign exchange trading, and the dependency on interest rates elsewhere. The total value of outstanding FX forward contracts increased from just 10% of GDP in 1975 to 115% in 1988 (Franzén & Sardelis, 1988; Englund, 1990). The turnover in the Swedish foreign exchange market increased markedly during the following decades - largely mirroring that of developments globally. According to a survey conducted by the BIS in April 2013, global daily foreign exchange turnover amounted to USD 5,345 billion. The turnover in SEK was around USD 94 billion, of which USD 27 billion was FX spot, USD 12 billion FX outright forwards, USD 53 billion FX swaps, USD 1 billion currency swaps and USD 2 billion FX options.

Figure 1: Average daily turnover in the Swedish foreign exchange market (SEK bio)

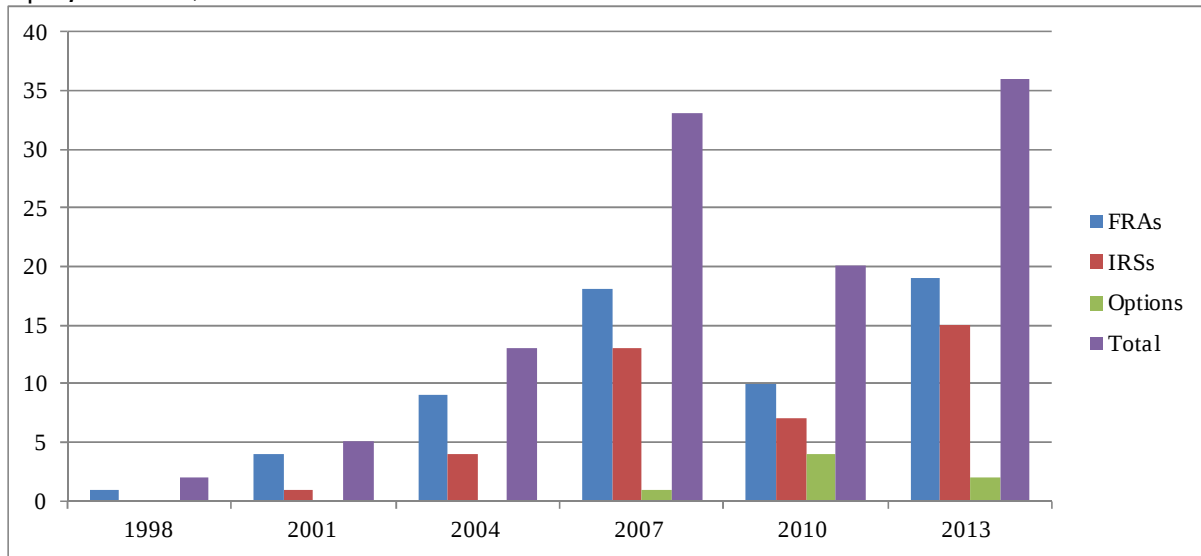


Sources: Sveriges Riksbank

Seen from an historical perspective, the global share of SEK foreign exchange trading was fairly negligible prior to the launch of the euro in 1999, at around 0.5% (with the exception of the ERM crisis of 1992 when it was around 1.3%). Since the launch of the euro, however, the SEK is involved in around 2-2.5% of all foreign exchange transactions. In foreign exchange turnover terms, the Swedish krona is currently ranked 11th globally, slightly higher since the launch of the euro, but recently overtaken by emerging market currencies (such as the Mexican peso). As a venue for foreign exchange trading, Sweden is ranked 15th. Since 2010, turnover has increased at a rate of around 9% per year (from a daily average of USD 16 billion in 1998 to USD 45 billion in 2010) (BIS, 2002; Sveriges Riksbank, 2005, 2013a).

With regards to the turnover in over the counter (OTC) derivatives, the Swedish krona is currently ranked 7th globally. Again, like developments elsewhere, the turnover has increased exponentially in recent years – from a daily average of around USD 2 billion in 1998 to USD 35 billion in 2013. The vast majority of OTC derivatives trading consist of forward rate agreements (FRAs) and interest rate swaps (IRSs) (BIS, 2013).

Figure 2: Average daily turnover in SEK-denominated interest rate derivatives (net-net basis in April, USD bio)

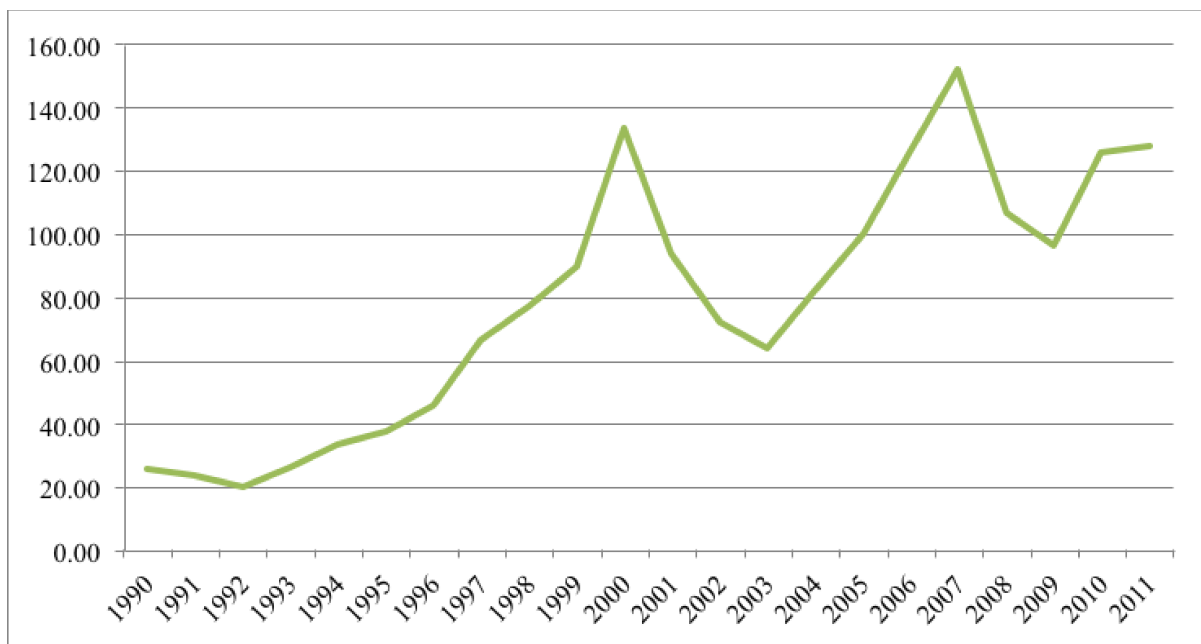


Source: BIS

2.2 The Stock Market

The deregulation process also came to have a dramatic effect on the Swedish stock market and the corporate ownership landscape. Figure 3 illustrates the soar in share prices during the 1990s.

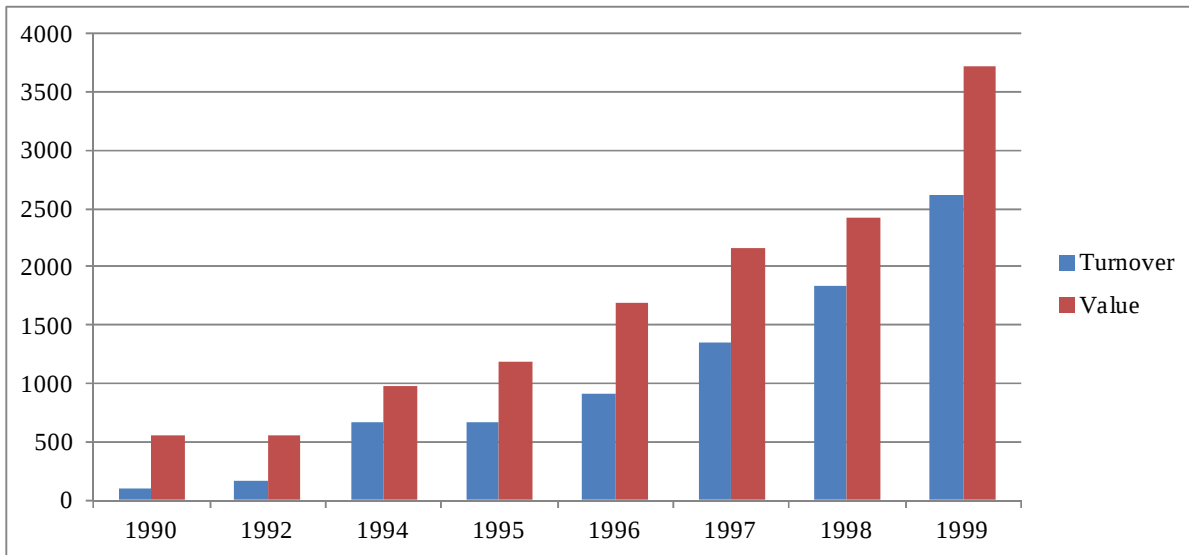
Figure 3: Swedish share price index (2005=100)



Source: OECD

From having a turnover of just SEK 7 billion in 1980 (Reiter 2003), the turnover showed an increase of almost 2500% in less than 10 years (see Figure 4). The market capitalisation increased from SEK 558 billion in 1990 to SEK 3,717 billion by the end of the decade.

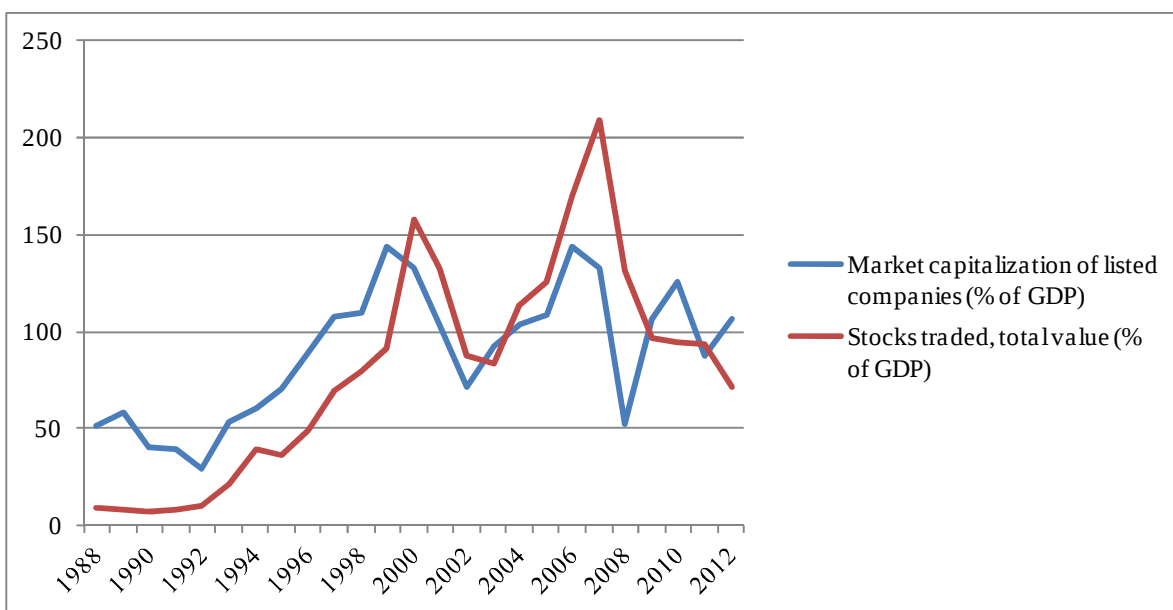
Figure 4: The Swedish stock market value and turnover 1990-99 (December, SEK bio)



Sources: OM Stockholm Stock Exchange, Sveriges Riksbank, SCB (from Finanssektorns framtid, Vol. A, p. 240) (Reiter 2003)

Seen in comparison to the Swedish GDP, stock market turnover rapidly increased from less than 8% to over 200% (before the outbreak of the global financial crisis). Stock market capitalisation of listed companies in relation to GDP has more than doubled during the period and now accounts for around 100% of the Swedish GDP (see Figure 5).

Figure 5: Stock market capitalisation and turnover versus GDP (%)



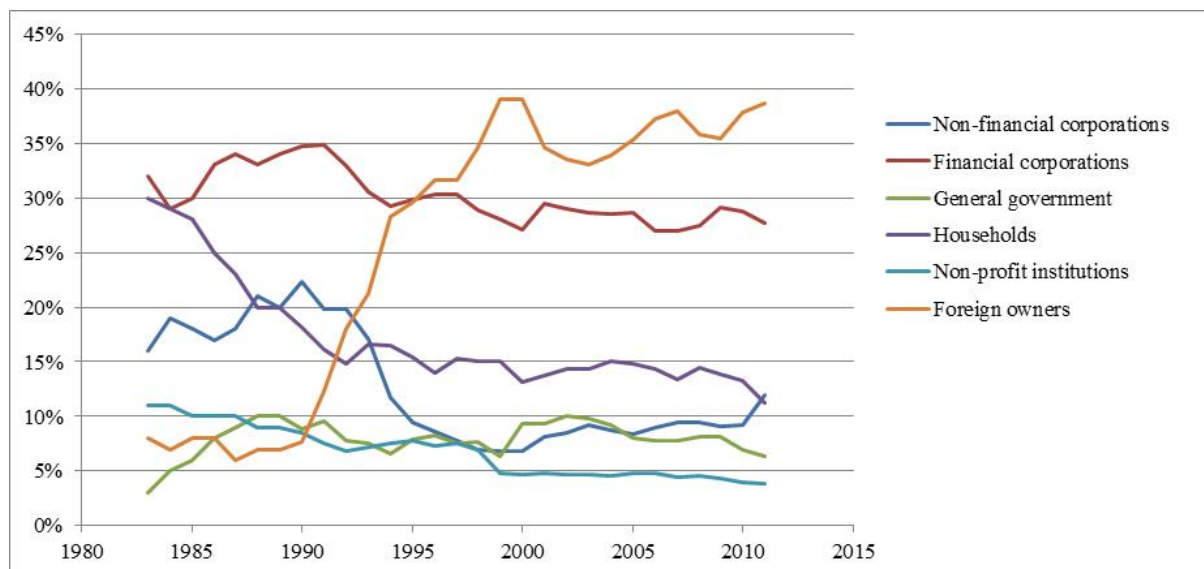
Source: The World Bank

However, the deregulation process came not only to have an impact on the turnover, volatility and prices of shares and other SEK-denominated financial instruments; it also came to fundamentally change the composition of ownership and control. Several points are notable here.

First, foreign owners flocked to the Swedish stock market. From having held less than 8% of the market the by the late 1980s, foreign owners quickly came to represent around 35-40%. This number has remained fairly stable since the 1990s (see Figures 6 and 7).

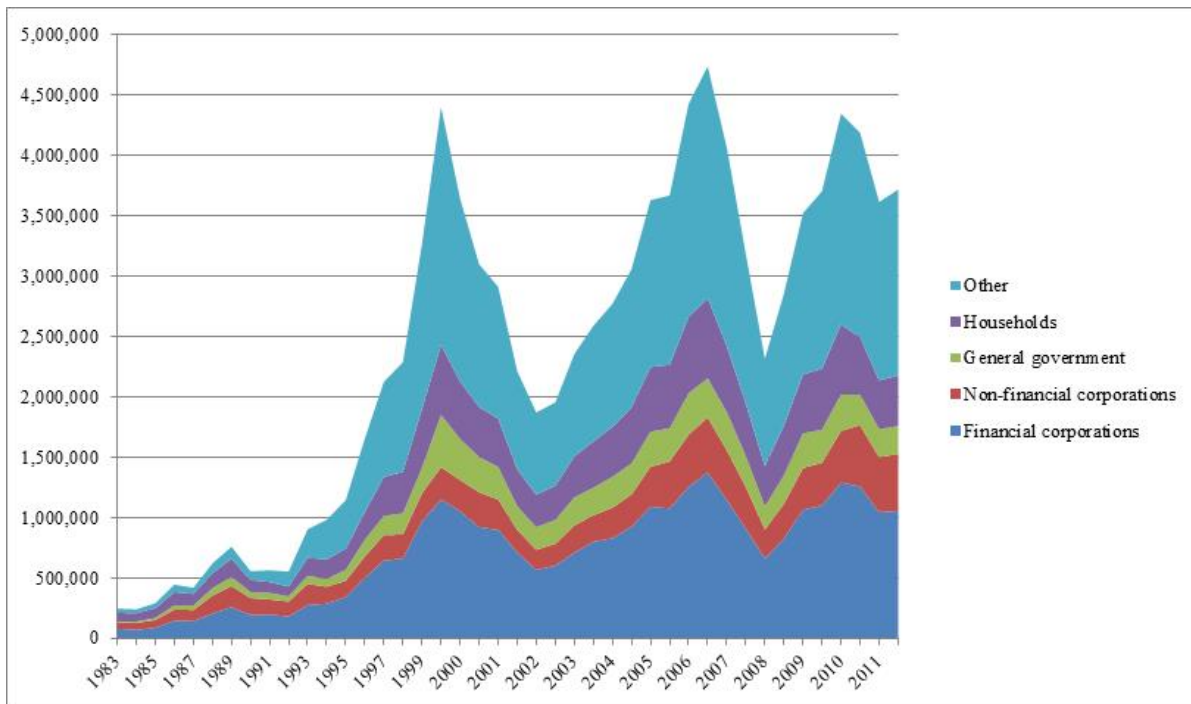
Even from an international perspective, this shift was remarkable. During 1995-97, Sweden ranked number one in the world in terms of direct investments as a share of domestic gross investments (UNCTAD, 1999). Some of this can naturally be explained by similar developments elsewhere. However, as Henrekson & Jacobsson (2010) state, the economic (and tax) policy had hitherto favoured large firms and institutional owners, whereas individual and small companies were greatly disadvantaged. Thus, the Swedish business sector had been 'packaged' during the previous era in a way that made it particularly susceptible to foreign takeover once the deregulation process and the lift of the ban on foreign ownership paved the way.

Figure 6: Share ownership by sector (%)



Source: Statistics Sweden

Figure 7: Share ownership (SEK mio)

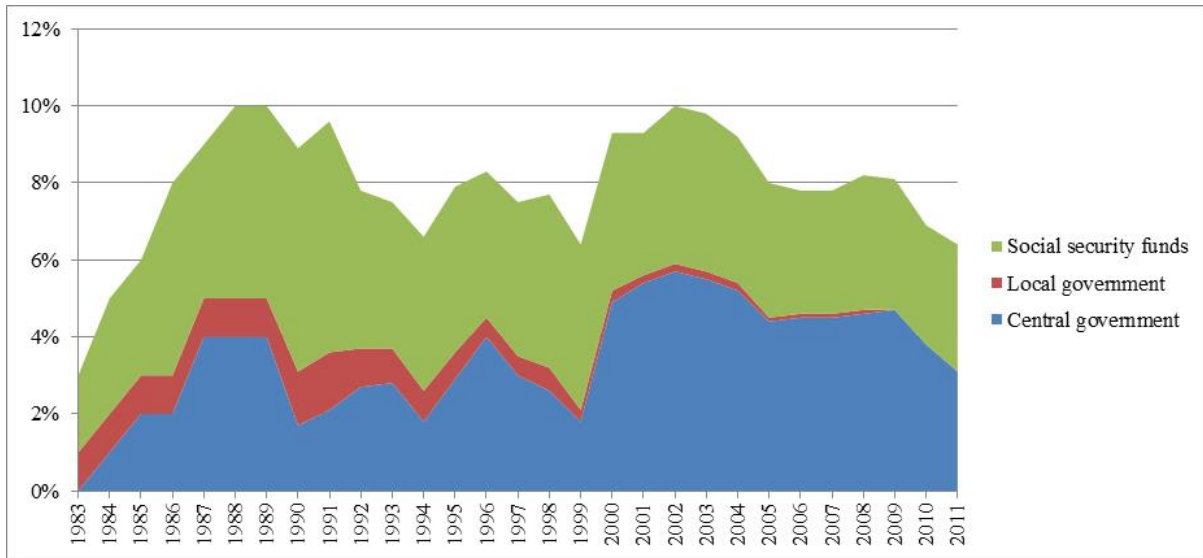


Source: Statistics Sweden

Second, although share ownership in *absolute* terms has increased for household and non-profit institutions, they have gone from having owned more than 40% of the market in the late 1980s to just around 15% in the early 2010s. Non-financial corporations have seen a similar shift with their share roughly halved (from 20% to 10%) during the same period.

Third, the Swedish government was – perhaps surprisingly – never a relatively large holder of shares in listed companies (generally less than 10%). See Figure 8:

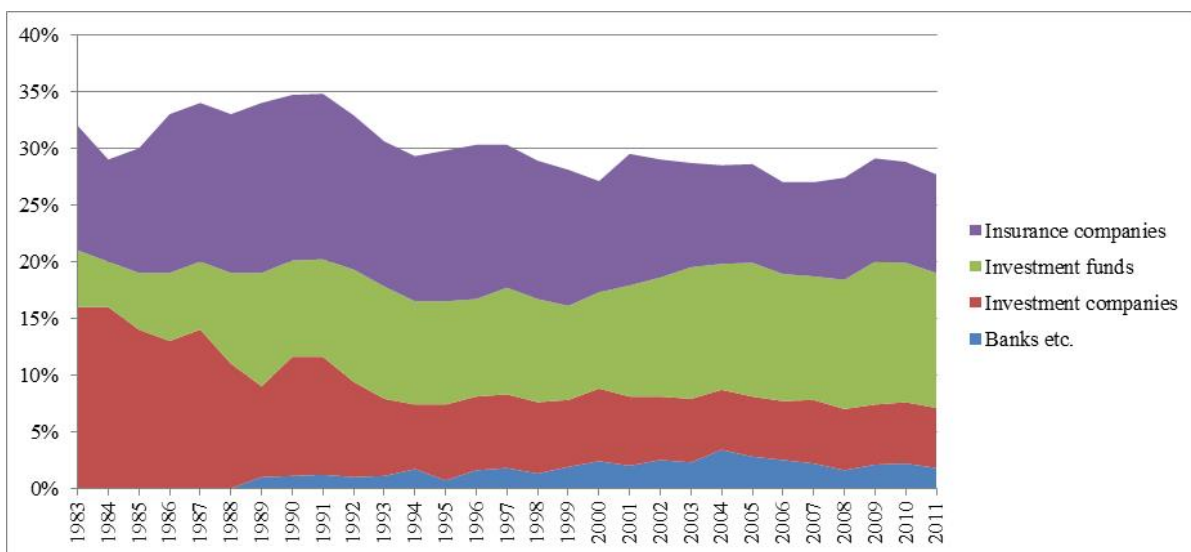
Figure 8: Share ownership (general government, %)



Source: Statistics Sweden

Fourth, the Swedish financial sector has held a fairly constant share of the stock market at around 30%. However, several changes are notable with this sector: the share held by investment companies (typically seen as the backbone of Swedish corporatism) has decreased from around 15% to 5%. This decrease has largely been offset by an increase in the holding by investment funds (see Figure 9).

Figure 9: Share ownership (financial corporations, %)



Source: Statistics Sweden

Thus, the ownership structure of Swedish shares has seen a dramatic shift during the era of financialisation. Domestic households, non-profit institutions and non-financial corporations, having held more than half of the Swedish stock market during the early 1980s, now hold around one quarter. By contrast, foreign owners now account for around 40% of the stock market.

The portion owned by the domestic financial sector is only marginally smaller than during the mid-1980s. However, an important shift in ownership has taken place from investment *companies* to investment *funds*. This development is important for several reasons. To begin with, the remarkable increase in stock market capitalisation and turnover in relation to GDP could be seen as evidence suggesting that Sweden has undergone a shift from a bank-based system towards a more Anglo-Saxon-style market based system during the recent decades. In fact, Sweden has traditionally been seen as having a bank-, rather than market-based, financial system. Like in, for instance, Germany, the capital market was small and strictly regulated until the ground breaking deregulation wave began in the 1980s. Likewise, the relationships between financiers and corporate lenders have tended to be close and long lasting. Further, private sector ownership has been concentrated among a few bank-centred business groups in the form of investment companies, such as Investor (part of the Wallenberg group and thus SEB) and Industrivärden (part of the Handelsbanken group). These investment companies, acting as holding companies for business and banking groups, had traditionally fulfilled the industrial role of the banks. A law had namely been passed in the aftermath of the Kreuger crash during the 1930s that prevented banks from holding shares. Finally, the government had pursued an active labour market policy, and interacted closely with the development of the financial system its conduct of economic policy from the post war years up until the deregulation process began (Reiter, 2003).

These features suggest that Sweden traditionally should stand out as a typical country having a bank-based financial system. However, it should be noted that the Swedish financial system has had some characteristics that are not entirely consistent with this view.

First, state ownership has been fairly limited in comparison to, for instance, France and Germany. Contrary to the perception by (often) foreign observers, government ownership was never seen as particularly desirable – not even *prior* to the deregulation process.

Second, consensus-based politics between the state, trade unions and bank-related business groups has been at the core of the Swedish model, having had a significant impact on the shaping of the financial system. The government has largely been absent from the collective bargaining process in wage-negotiations. Consequently, the strong trade unions (on behalf of the employers as well as the employees) should not be seen as having put constraints on market forces generally (and thus hindering a process towards a more market-based financial system). Rather, they acted precisely *as if* market forces ultimately determined wage levels. The government did intervene with regards to labour market policies, but rarely in the wage mechanism itself.

Third, powerful investment companies, rather than banks, have fulfilled the banks' role as provider of funds to industry (Reiter, 2003). Thus, banks have played an indirect, rather than direct, role in what could be regarded as the Swedish-style bank-based system.

The deregulation process came to have a rapid and profound impact on the Swedish financial markets. However, to assess whether this came to result in a fundamental shift towards a more market-based system, we first need to have a closer look at the causes for the concentration of ownership and control to be maintained and strengthened in a particular area of the domestic private sector. Swedish corporate governance, i.e. the system in which companies are directed and controlled, can be seen as an extreme form of the so-called 'Rheinland model', with a regulatory mix stretching back far back in history. The country has been a coordinated market economy dominated by a few large industrial groups promoting organic growth (Habbard, 2008).

Supported by a consensus-driven political setting, the stability and concentration of the ownership structure has remained remarkably stable, even *after* the deregulation phase two decades ago. What makes Sweden unique in an international context is the continuity and longevity of this system, in line with the almost uncontested leadership of the Social Democratic Party throughout the 20th century.

An extensive use of controlling enhancing mechanisms (CEMs) is central to Swedish corporate governance, namely the disconnection between share ownership and control right in terms of voting rights. Investor and Industrivärden have been disproportionally large holders of A-shares (with 10 times more voting rights than B-shares). It is important to note that new important investors, such as foreigners and pension funds generally hold B-shares. The impact of this is staggering. For instance, the Wallenberg family 'only' owned 1% of the total value of listed shares on the Swedish stock exchange in 1998. However, Investor (the Wallenberg-owned investment company) had control over approximately 42% of the total stock market value. Seen from another perspective, Investor and the other major investment company Industrivärden owned around €20 billion worth of shares on the stock exchange in 2005. They could, however, exert significant influence over 15 OMXS companies with a total market capitalisation of €144 billion.

Table 3 shows proportionality-limiting measures in various European countries, including Sweden. As can be seen, Sweden stands out by having the by far the highest proportion of companies with differentiated rights.

Table 3: The existence of Proportionality-Limiting Measures (PLMs) in the top-20 listed companies in selected OECD countries (% share within group)

Country	MCS	NVP	PS	VC	CS	SA
Belgium	0	0	40	0	0	25
Denmark	25	0	0	10	0	0
Finland	40	0	0	10	0	5
France	55	0	20	20	10	15
Germany	0	20	15	5	10	0
Greece	0	5	15	10	0	5
Hungary	5	5	35	20	0	5

Ireland	0	30	0	5	0	0
Italy	0	30	45	10	0	40
Netherlands	10	5	30	0	0	0
Poland	20	0	10	20	0	0
Portugal	0	0	..	75	..	..
Spain	0	0	20	30	0	5
Sweden	80	0	65	5	25	5
Switzerland	12	6	..	35	..	..
UK	5	50	0	10	0	5

Source: OECD (2007)

MCS=Multiple-class shares, NVP=Non-voting preferences, PS=Pyramid structures, VC=Vote ceilings, CS=Cross shareholdings, SA=Shareholder agreements

From the outside, the corporate governance structure in Sweden (favouring a few powerful and wealthy) could be seen as incompatible with social democratic policies. However, this paradox can mainly be explained by the fact that the export industry was fundamentally seen as the economic motor required for full employment. The unique ownership structure was seen as stable and long-term focussed, and incentives were welcomed where family fortunes were re-invested in the companies and organic growth prevented short-termism and capital flight.

The deregulation process was an important factor leading to the gradual erosion of this old system of Swedish corporatism. To a large degree, the importance of bank-related investment companies has been reduced, as they have been forced to consolidate their holdings in a smaller number of companies in order to keep a controlling share. Foreign investors, on the other hand, have increased substantially – suggesting the influx of more anonymous and short-term oriented owners. Likewise, pension funds and insurance companies have become increasingly important actors on the Swedish stock market.

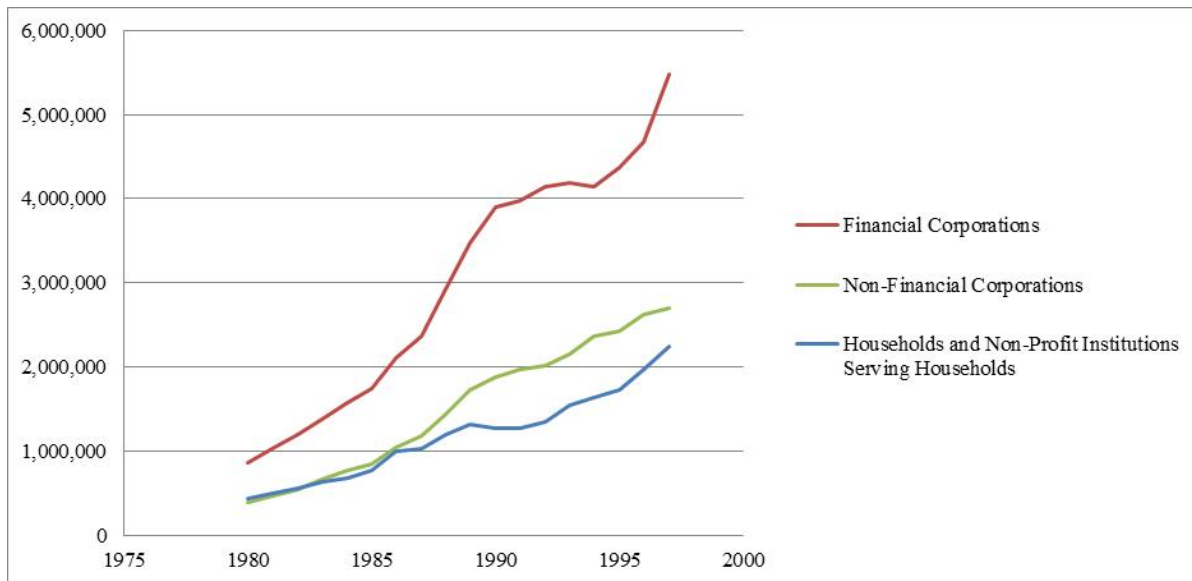
However, despite profound changes in other parts of the financial system as a result of the rapid deregulation process in the 1980s and 1990s, the corporate governance regime has managed to remain relatively unchanged. The system has allowed the controlling entities to remain powerful, with their voting rights immune against the influx of new (and foreign) investors (Habbard, 2008). Moreover, the pension reform in 2000 did increase the importance of the AP pension funds, but without a corresponding dilution in ownership concentration.

Thus, the unique corporate governance structure, coupled with foreign exchange controls and limits on foreign ownership, managed to keep both ownership and control of Swedish enterprises in a few large domestic hands. As these were seen as stable and long-term, they were regarded as acting in the Swedish national interest. Importantly, the presence of a few strong Swedish owners could aim to facilitate the work with trade unions, which was totally in line with the social democratic policy agenda. Thus, the subsequent abolishment of foreign exchange controls and regulations of foreign acquisition of Swedish companies did not necessarily endanger this power structure, as ownership transfer was not met by a corresponding shift of control.

2.3 The Swedish Banking Crisis

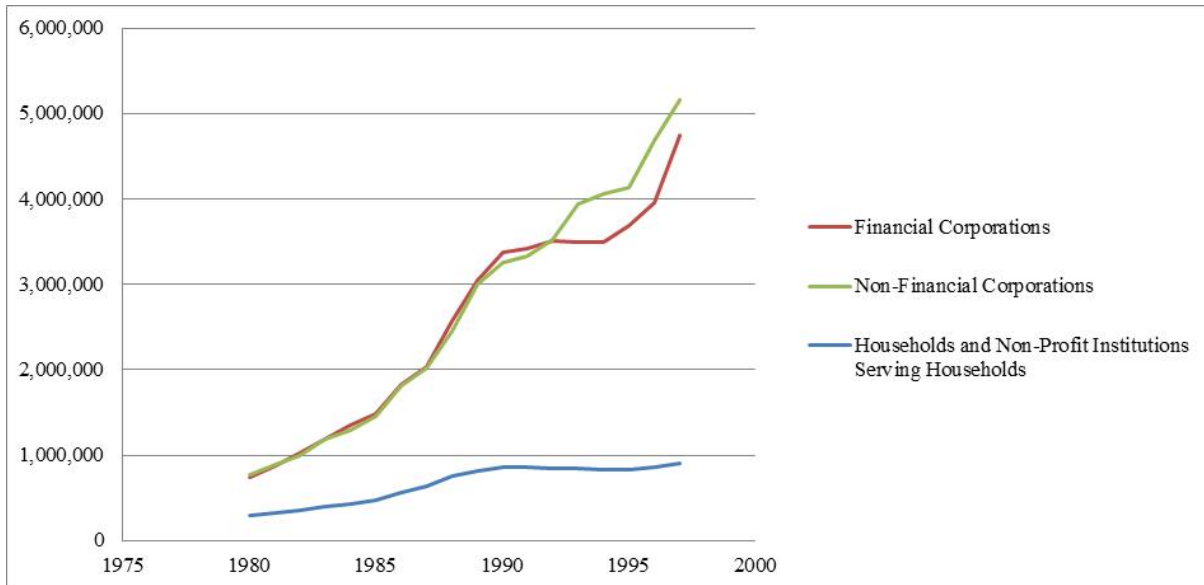
As noted in the previous sections, the deregulation process had a significant impact on the turnover, value and ownership structure of Swedish financial assets and instruments. Financial assets held by financial corporations increased fourfold between 1980 and 1990. Non-financial corporations, households and non-profit institutions saw an almost similar increase (see Figure 10).

Figure 10: Financial assets 1980-1997 (SEK mio)



Source: Statistics Sweden

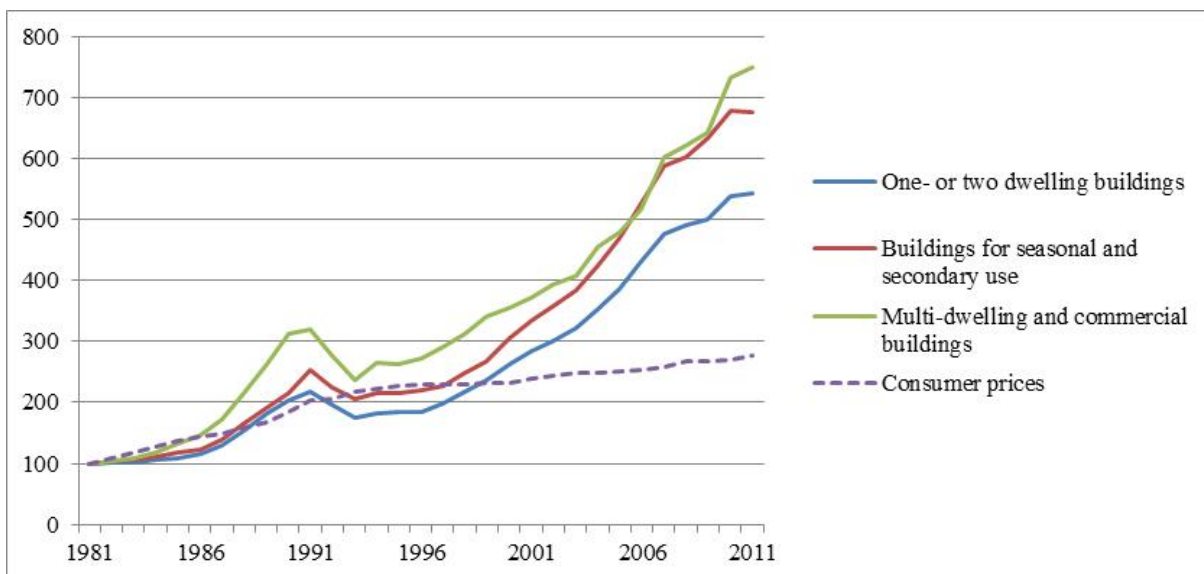
Figure 11: Financial liabilities 1980-1997 (SEK mio)



Source: Statistics Sweden

The effect of the deregulation was also visible across other non-financial asset categories, not least in the property market. As Figure 12 shows, the latter half of the 1980s came to signify a Swedish property price boom.

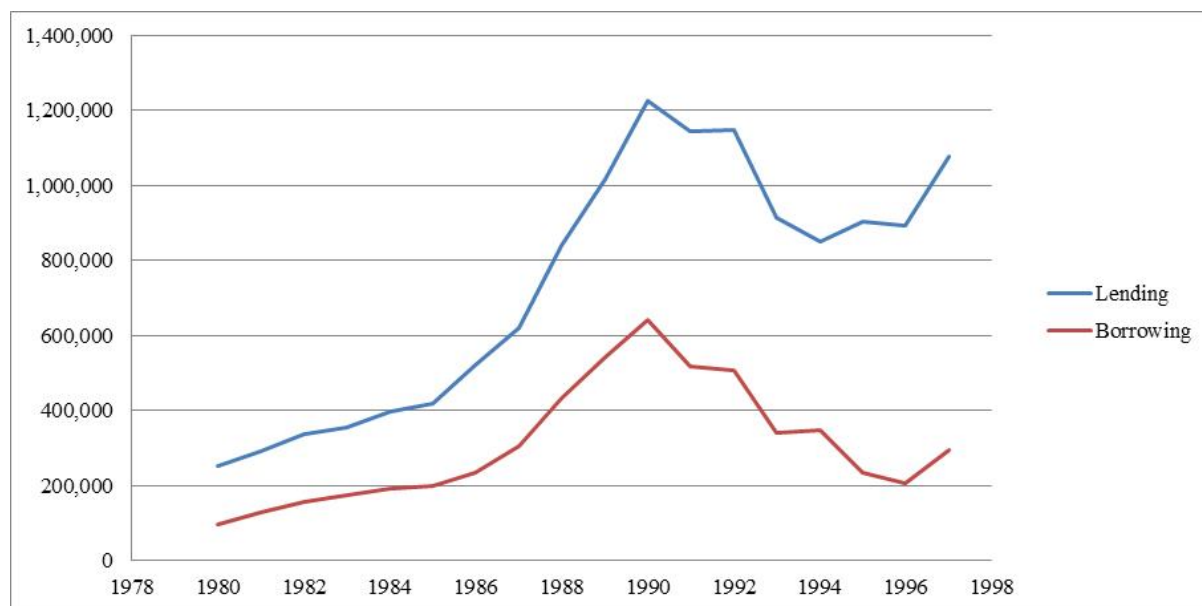
Figure 12: Real estate price index (1981=100)



Source: Statistics Sweden

The dramatic increase in real estate prices during the period was to a large extent enabled by the broad credit expansion that took place in the aftermath of the deregulation (see Figure 13). Between 1986-90 lending increased by 136% (73% in real terms).

Figure 13: Bank loans (total balance, SEK mio)



Source: Statistics Sweden

The largest increase came from those mostly affected by the previous regulatory regime, namely banks and mortgage institutions (174% and 167% respectively). Insurance companies and finance institutions, on the other hand, lost their comparative advantage during this period. A significant portion of new lending went to corporations (an increase by 129%), whereas households stood for an increase of 86%.

The rapid increase in lending led to a boom in asset prices, which in turn enabled banks to furthermore increase their lending to the public. However, although the nominal interests were high, the real after-tax interest rates facing borrowers were low – even negative.

Sweden namely experienced a decade of very high and volatile inflation running up to the mid-1980s. The 12-month average CPI gradually rose from around 2% to 13% during the 1970s. After a drop below 7% around the turn of the decade, the inflation increased to 14% during the early

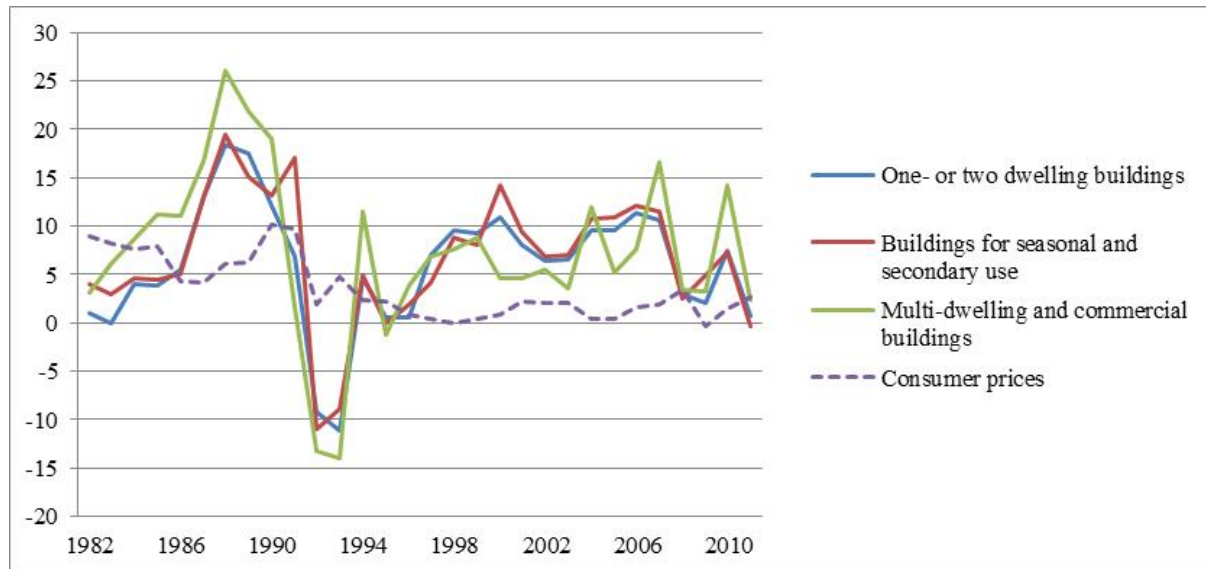
1980s, for then to gradually fall back below 4% in 1987. As a consequence, the krona kept on appreciating in real terms and the policy response was a series of devaluations from 1978 onwards. However, coupled with weak government finances, the real appreciation continued – prompting renewed devaluation expectations reflected in money market and FX forward rates (Englund, 1999).

The Swedish tax system, including the tax-deductibility of interest rate payments, made real after-tax interest rates very low. As Englund (ibid) shows, they were significantly negative throughout the 1970s and early 1980s. Using a simplified model of the tax system, the author suggests that the real *ex post* 5-year real interest was below -6% during most of the 1970s. It was not until the early 1990s that Swedish households faced positive real costs of borrowed funds for the first time in several decades.

High Swedish interest rates made foreign currency loans particularly attractive. As a result, lending in foreign currency increased from 27% of total bank lending in 1987 to over 47% in 1990 (Wallander, 1994).

The boom years came to an abrupt end during the autumn of 1989, with large corrections in both the stock market and the property market. By the end of 1990, the real estate index had fallen by 52% against its peak the previous year, whereas the stock market as a whole was down 37% from its peak (see Figure 14).

Figure 14: Real estate price index (change/year, %)



Source: Statistics Sweden

However, worse was to come as Sweden faced a period of higher interest rates stemming from three sources. First, interest rates abroad rose as a result of the German unification. Second, the tax reform of 1991 included a sharp reduction of the tax on capital income and interest deductions. Third, the Riksbank embarked on a series interest rate hikes, and anti-inflationary policies became prominent on the agenda.

In September 1990, the finance company Nyckeln faced rollover problems on its 'marknadsbevis'³. Soon, the whole market for marknadsbevis dried up, and the crisis spread to the rest of the money market. A number of finance companies defaulted, the crisis spread quickly to the banking sector, and was followed by a rapid downturn in the Swedish economy. Industrial production reached a peak in June 1990, and thereafter fell by 10% to a low during the early part of 1993. GDP fell by a total of 5% during 1991-93. The number of newly registered cars, having reached a peak in May 1990, fell by 20% over the next 12 months. The unemployment rate increased from 1.1% in June 1990 to 2.2% in June 1991, 5.1% in June 1992 and 9% in June 1993. The number of bankruptcies doubled between 1990 and 1992 (Lybeck, 2009). Credit losses increased and property prices fell dramatically.

³ A 'marknadsbevis' was a kind of certificate mainly issued by finance companies to secure short-term funding.

Table 4 shows the experience of the major Swedish banks during the banking crisis during the early 1990s.

Table 4: The experience of major banks during the Swedish banking crisis

Bank	Total lending in 1985 (SEK bio)	Losses on % of lending	Increase in lending 1985-88 (%)	Real estate lending 1990 (%)
SE-banken	65.6	11.7	76	12
Development: New capital from owners in 1993.				
Handelsbanken	73.1	9.5	38	9
Development: Survived, met capital requirements without new capital.				
Nordbanken	84.2	21.4	78	12
Development: New capital from owner (state). Non-performing loans separated in Securum.				
Gota	29.8	37.3	102	16
Development: Bankrupt. Bought by the state, merged with Nordbanken. Non-performing loans into Securum.				
Sparbanken Sverige	78.3	17.6	88	14
Development: One billion SEK loan from government, new capital from owners.				
Föreningsbanken	23.1	16.6	67	10
Development: Received 'capital requirement guarantee' that was never used.				
Total		16.8	77	12

Source: Wallander (1994)

As can be seen, there was a clear correlation between increase in lending during the boom years of 1985-88 and real estate lending on the one hand, and credit losses on the other. Handelsbanken, in particular, had expanded lending less aggressively than their peers, resulting in relatively little credit losses (11.7%). Gota, at the other end of the spectrum, had increased lending by 102% during the short period and was heavily exposed to the real estate market. The bank faced losses of over 37% of lending and had to be rescued by the state, and later merged with Nordbanken (which also got a capital injection from the state). A 'bad bank', Securum, was formed in 1992 to take on and gradually unwind the non-performing loans.

Credit losses within the banking system (including Securum and Retriva) amounted to SEK 56.7 billions in 1993 – around 7% of total lending. However, if the bank-owned mortgage institutions are included in the calculations, the ratio falls to 4.4%. Some insurance companies were also drawn into the banking crisis. Svenska Kredit (owned by Skandia and Trygg Hansa), Folksam and

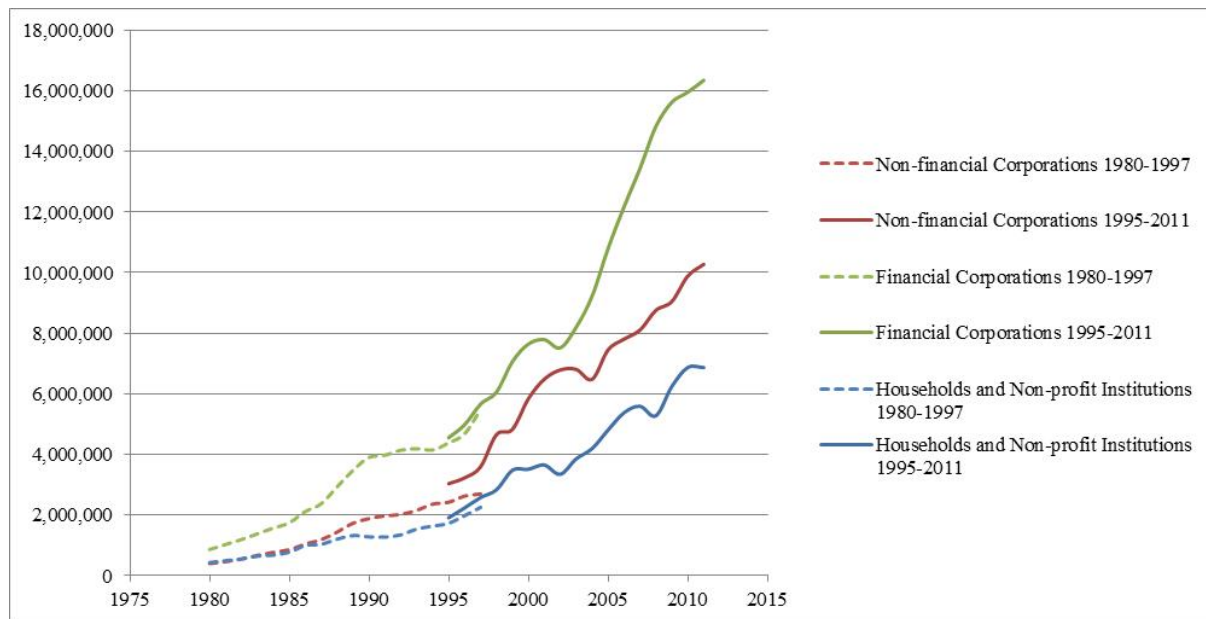
WASA reported losses amounting to several hundred million in 1991-92. Njord, an insurance company, filed for bankruptcy in September 1991 (Lybeck, 2009).

Seen as a whole, the severe banking crisis was solved rather quickly, after having gained broad-based support politically and with the underlying principle of protection of depositors at the expense of shareholders. (Englund, 1999; Wallander, 1994)

2.4 The Swedish Financial Sector

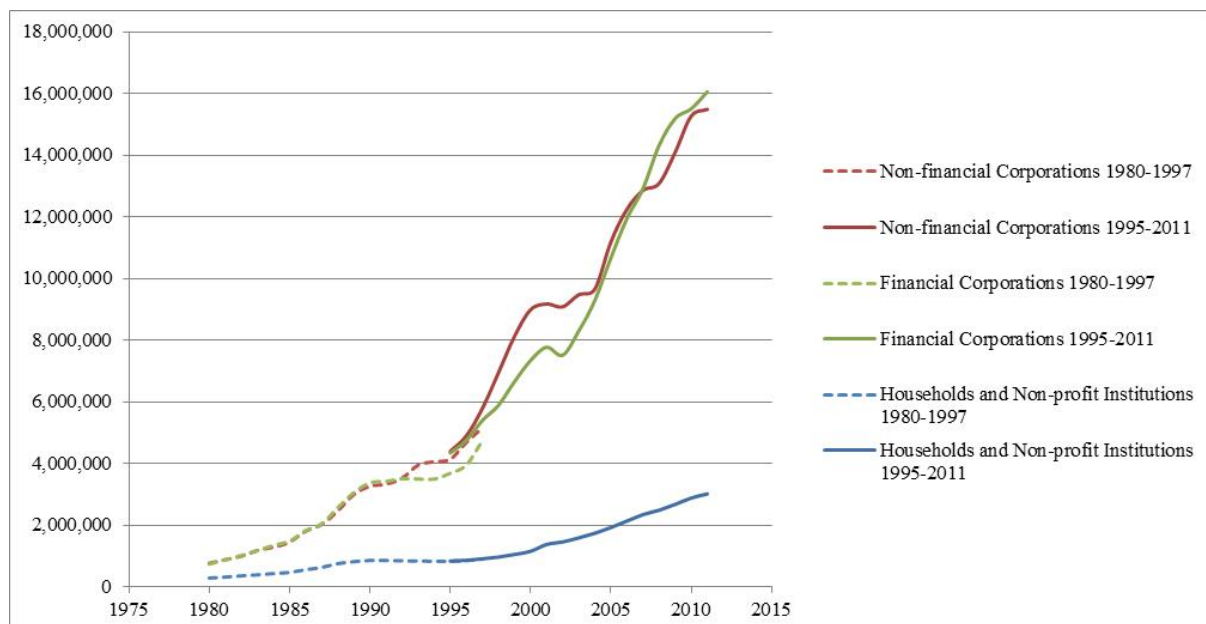
Figures 15 and 16 depict the growth in the financial assets and liabilities respectively during the period 1980-2011.

Figure 15: Financial assets 1980-2011 (consolidated, SEK mio)



Source: Statistics Sweden

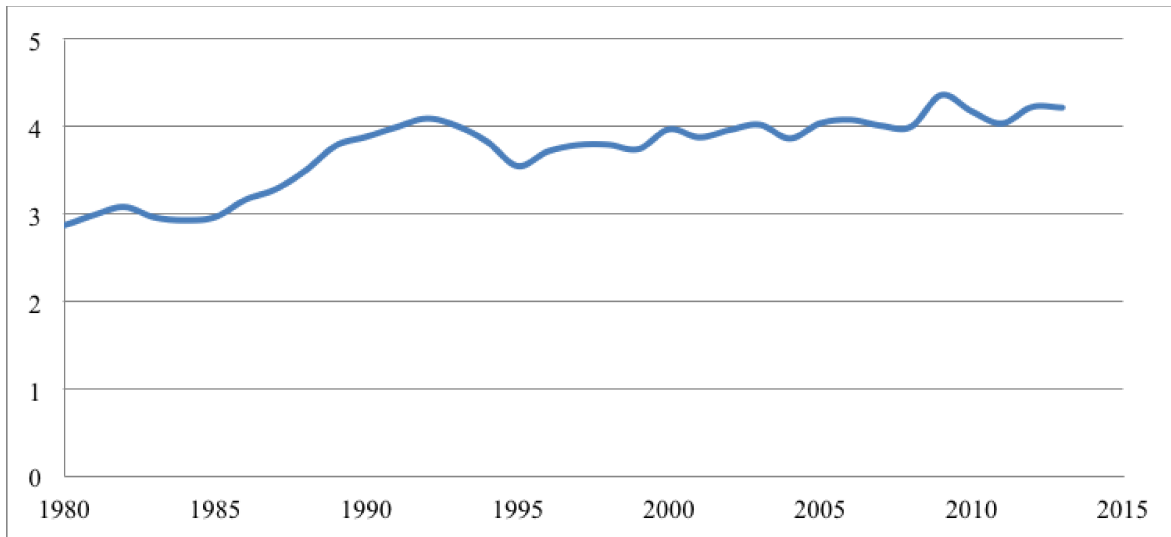
Figure 16: Financial liabilities 1980-2011 (consolidated, SEK mio)



Source: Statistics Sweden

Despite the increasing importance of finance in Sweden since the deregulation process began, the financial output as a share of GDP has remained fairly stagnant around 4% (see Figure 17).

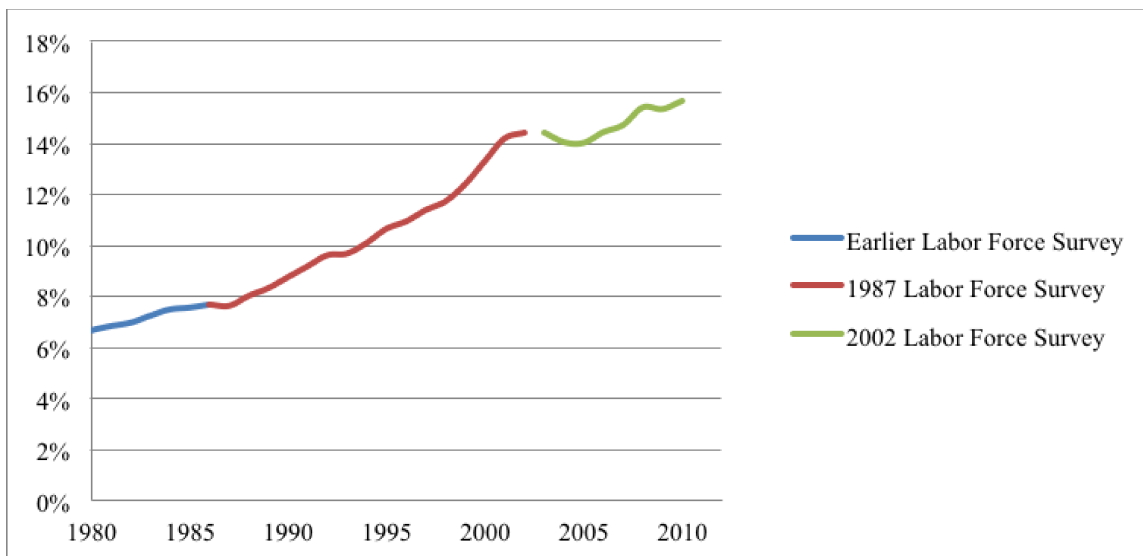
Figure 17: Financial output of GDP 1980-2012 (%)



Source: Statistics Sweden and NIER (The NACE)

However, with regards to overall employment in the financial sector, Figure 18 shows a fairly steady increase from around 7% of the total labour force to close to 16% in 2010.

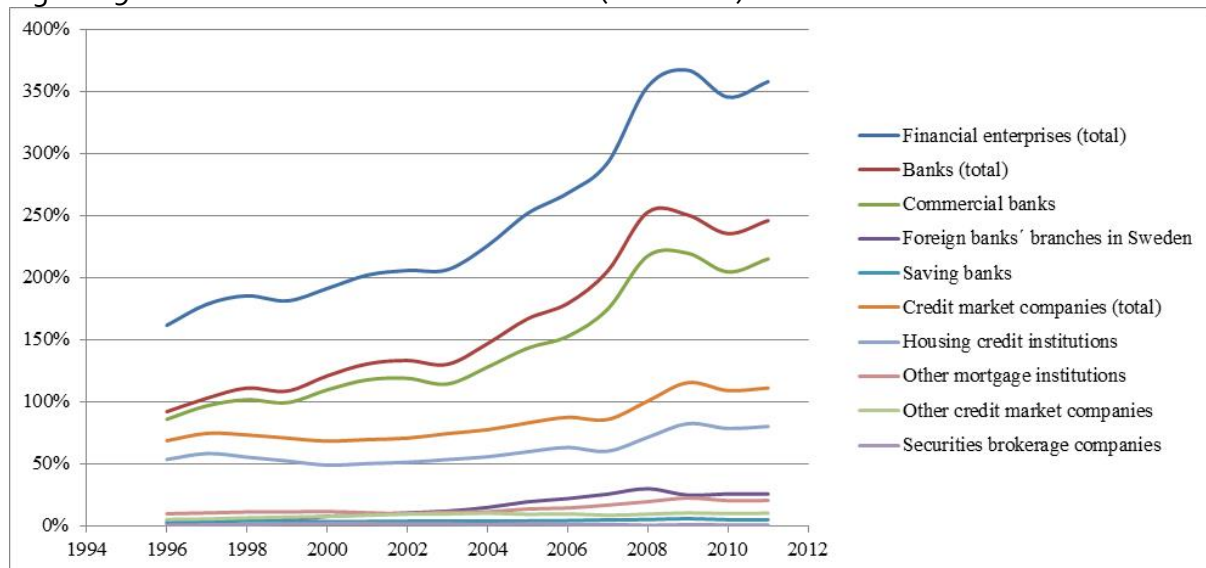
Figure 18: Employment in the financial sector (% of total employment)



Source: Statistics Sweden

The main theme that emerges when studying the Swedish financial sector after the deregulation is the prominence of banks, and that of a few large banks in particular. The Swedish economy (and its banking sector) recovered quickly after the banking crisis, and the total assets of the financial sector have increased with a fairly steady pace since (see Figure 19).

Figure 19: Total assets of the financial sector (% of GDP)



Source: Statistics Sweden; NIER

Today, the Swedish banking sector can be divided into four main categories: Swedish commercial banks, foreign banks, savings banks and co-operative banks. As of December 2012, there were 117 banks in Sweden (see Table 5):

Table 5: Commercial banks (December 2012)

Swedish banks' parent companies, Bran. ¹	Emp. ²	Lending	Borrowing	Balance sheet	
Subsidiaries and branches of foreign banks			to the public (SEK Mio)	from the public (SEK Mio)	total (SEK Mio)
SEB	169	7,228	915,890	637,721	1,809,377
Svenska Handelsbanken	461	6,984	731,967	668,683	1,724,766
Nordea Bank	308	6,601	310,789	431,357	1,305,580
Swedbank	310	7,909	347,233	473,104	1,149,727
Danske Bank, branch	44	1,231	318,340	202,904	680,923
SBAB Bank	4	413	46,360	27,654	162,028
DNB Bank, branch	1	328	51,902	38,357	108,969
Länsförsäkringar Bank	130	110	35,213	62,535	99,503
SkandiaBanken	1	272	60,011	77,365	84,635
Sparbanken Öresund	33	447	23,752	23,531	30,426
Volvofinans Bank1	177	13,087	11,788	28,644	
GE Money Bank	1	317	21,512	8,653	22,909
IKANO Bank	4	309	11,612	13,880	20,155
Färs & Frosta Sparbank	19	233	10,063	13,921	16,262
Nordnet Bank	1	228	4,737	12,815	14,500
Swedbank Sjuhärad	10	177	10,706	11,169	13,572
Santander Consumer Bank, branch2	86	4,610	0	12,828	
Marginalen Bank	9	299	8,563	10,908	12,212
Avanza Bank	1	232	3,710	11,116	12,071
ICA Banken	2	301	7,427	10,267	11,603
Varbergs Sparbank	8	116	7,759	7,802	10,064
Sparbanken Alingsås	5	95	6,138	7,116	8,784
Sparbanken Skaraborg	5	98	5,347	6,367	8,701
PBB Deutsche Pfandbriefbank, branch	1	3	8,325	0	8,333
SEB Kort Bank	1	401	5,070	49	8,035
Resurs Bank	3	204	6,114	6,429	8,013
Carnegie Investment Bank	3	397	979	2,769	7,303
Sparbanken Rekarne	3	105	5,415	6,566	7,229
Forex Bank	75	737	3,464	6,150	7,201
Sparbanken Lidköping	1	59	3,603	4,075	5,684
Crédit Agricole CIB, branch	1	48	3,504	0	4,390
Sparbanken Eken	6	52	3,351	3,738	4,291
Tjustbygdens Sparbank	3	60	2,532	3,006	3,843
Bergslagens Sparbank	8	66	2,542	3,463	3,819
Toyota Kreditbank, branch	1	23	3,779	3,260	3,804
Fortis Bank, branch	1	34	2,312	233	3,267
Ölands Bank	5	58	2,355	2,635	3,046
OK-Q8 Bank	1	32	2,586	2,134	2,875
MedMera Bank	1	41	527	1,281	2,855
Sparbanken Göinge	4	28	2,202	2,335	2,848
Citibank International, branch	1	59	81	1,712	2,675
Erik Penser Bankaktiebolag	1	88	743	1,629	2,000
Vimmerby Sparbank	1	21	1,158	1,378	1,589
TF Bank	1	31	1,205	1,263	1,571
The Royal Bank of Scotland UK	1	33	0	789	1,114

Renault Finance Nordic bankbranch ¹	1	11	647	0	755
Amfa Finans	4	50	250	150	300
BIGBANK, branch	1	5	109	-	116
Deutsche Bank, branch	1	33	0	0	115
UBS Switzerland Stockholm, branch	1	34	0	0	89
Aareal Bank AG, branch	1	8	-	-	70
Evli Bank, branch	1	29	0	0	20
Nykredit Bank, branch	1	18	0	0	20
Standard Chartered Bank, branch	1	3	0	0	5
UBS UK Stockholm, branch	1	0	0	0	1
Bank of China, branch	..	..	..	..	..
Catella Bank, branch	..	..	..	..	..
Credit Suisse, branch	..	..	..	..	..
EFG Bank	..	..	..	..	..
J.P. Morgan Europe, branch	..	..	..	..	..
J.P. Morgan Securities, branch	..	..	..	..	..
Landshypotek	..	..	..	..	..
Northern Trust Global Services, branch	..	..	..	..	..
Saxo Privatbank, branch	..	..	..	..	..
Terra Kortbank, branch	..	..	..	..	..
Ålandsbanken, branch	..	..	..	..	..
Total	1,665	756	3,019,581	2,824,057	7,445,515

¹ Branches in Sweden

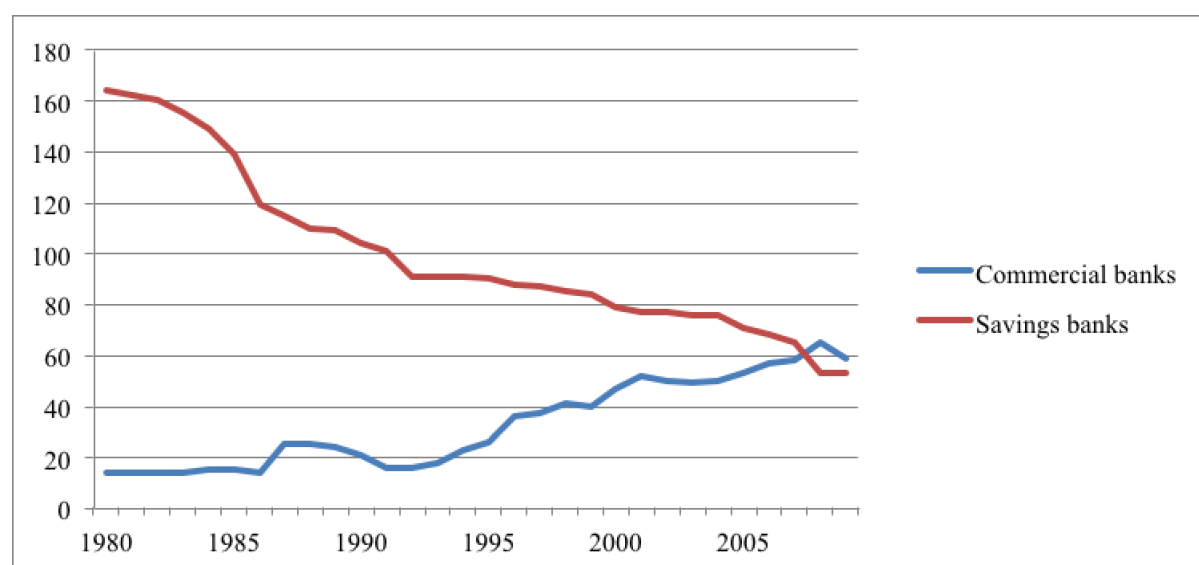
² Employees in Sweden

.. Figures not available from the bank

Source: Svenska Bankföreningen (2013)

The number of commercial banks has gradually increased, mainly at the expense of savings banks (see Figure 20):

Figure 20: Number of commercial and savings banks in Sweden



Source: OECD, Statistical Abstract of Sweden (Yearbook)

The Swedish commercial banks can further be divided into three sub-categories.

The first group consists of the 'big four' (Nordea, Swedbank, Handelsbanken and SEB), which are universal banks and together hold a market share of 66% of the deposit market (see Figure 6):

Table 6: The 'big four' banking groups (2011)

Bank	Employees		Lending to the public	Total balance
	Total	Sweden	SEK (Bio)	SEK (Bio)
Nordea ¹	32,983	7,530	3,005	6,385
Handelsbanken	11,184	7,648	1,591	2,454
SEB	18,912	8,839	1,186	2,363
Swedbank	16,287	8,305	1,211	1,857

¹The entire Nordea Group (including activities in the other Nordic countries)

Source: Svenska Bankföreningen (2013)

Nordea is the largest financial company in the Nordic region, having been formed through mergers among leading banks in Denmark, Finland, Norway and Sweden. It includes one the largest finance companies in Sweden, and is prominent in fund management and mortgages. It also owns Plusgirot, a credit transfer payment system.

SEB was founded by the Wallenberg family and is controlled by Investor, their investment company. It has generally been strong in corporate and investment banking, and has an extensive international network.

Handelsbanken has the largest branch network in Sweden (461), and is prominent in the fund management and the finance company sectors.

Swedbank was formed in 1997 through the merger of Sparbanken Sverige and Föreningsbanken. Although both were commercial banks, they, in turn, were formed through mergers of smaller savings and co-operative banks. However, Swedbank stays in close co-operation with the still independent savings banks with regards to IT and a range of products and services. Swedbank acquired Hansabank in 2005, and has major operations in the Baltic region. The bank also includes Robur, the largest fund management company in Sweden, and the mortgage institution

Swedbank Hypotek. Swedbank acquired Hansabank in 2005, and has major operations in the Baltic region. The bank also includes Robur, the largest fund management company in Sweden, and the mortgage institution Swedbank Hypotek.

The second group among commercial banks consists of the savings banks that have been converted to joint-stock companies.

The third group is a range of other commercial banks, most of which have been formed since the 1990s. Although they provide an array of banking services, they tend to be prominent in retail banking. This group contains banks such as SkandiaBanken, ICA Banken and Volvofinans Bank.

The second bank category consists of foreign banks, which have a fairly short history in Sweden. Banks were not allowed to operate in Sweden until 1986, and the first branches were permitted in 1990. Since then, their importance has gradually increased. There were 29 foreign banks in Sweden in 2012, of which Danske Bank was by far the largest (5th overall). Generally, foreign banks have focussed on corporate banking and the securities market.

The third bank category contains a large number of savings banks that are active the local and regional markets. Most of the savings banks co-operate with Swedbank, and their number has decreased in recent years due to mergers (see Table 7).

Table 7: Savings banks (December 2012)

The ten largest savings banks	Bran. ¹	Emp. ²	Lending to the public (SEK Mio)	Borrowing from the public (SEK Mio)	Balance sheet total (SEK Mio)
Sparbanken 1826	20	257	12,666	15,889	18,505
Sparbanken Nord	14	190	11,805	13,037	15,003
Sörmlands Sparbank	7	176	7,045	8,726	10,808
Sparbanken Syd	6	156	6,560	6,489	8,591
Falkenbergs Sparbank	5	88	5,143	5,839	7,107
Westra Wermlands Sparbank	7	94	4,108	5,245	7,003
Sparbanken i Karlshamn	6	75	5,242	4,666	6,698
Orust Sparbank	4	45	4,018	4,941	6,260
Roslagens Sparbank	5	96	4,520	5,366	6,244
Sparbanken Västra Mälardalen	4	81	3,823	4,206	5,770
Total above	78	1,258	64,928	74,406	91,989
Total all savings banks (49)	174	2,323	119,977	141,051	171,424

¹ Branches in Sweden

² Employees in Sweden

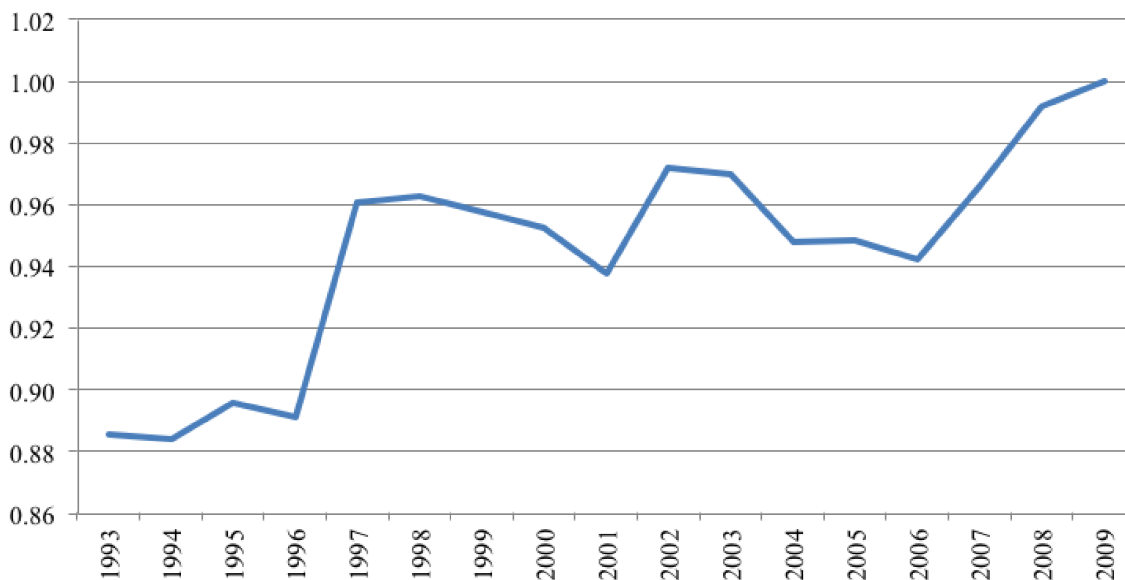
Source: Svenska Bankföreningen (2013)

The fourth bank category contains the two small co-operative banks, Ekobanken and JAK Medlemsbank.

The Swedish banking system is large, concentrated and highly dependent on short-term wholesale funding (OECD Economic Surveys: Sweden 2012). Although the banks are well capitalised, the OECD report stresses that it is '[...] partly driven by low risk weights. Indeed, overall leverage ratios for some banks imply that capitalisation is less strong although by exactly how much depends on the definition of capital that is used'. Further, as the OECD report states, 'the financial system is also very concentrated: the four major banks account for three fourths of deposits and domestic lending, and are therefore domestic systemically important institutions enjoying implicit state guarantees' (p. 22).

However, the high banking concentration in Sweden is not a new phenomenon. The bank concentration index of Sweden calculated by the World Bank (as the fraction of assets held by the three largest banks) was already very high in the 1990s compared to other countries (see Beck, Demirguc-Kunt and Levine, 2003), but increased further in the second half of the 2000s (see Figure 21):

Figure 21: Bank concentration index in Sweden 1993-2009 (annual)

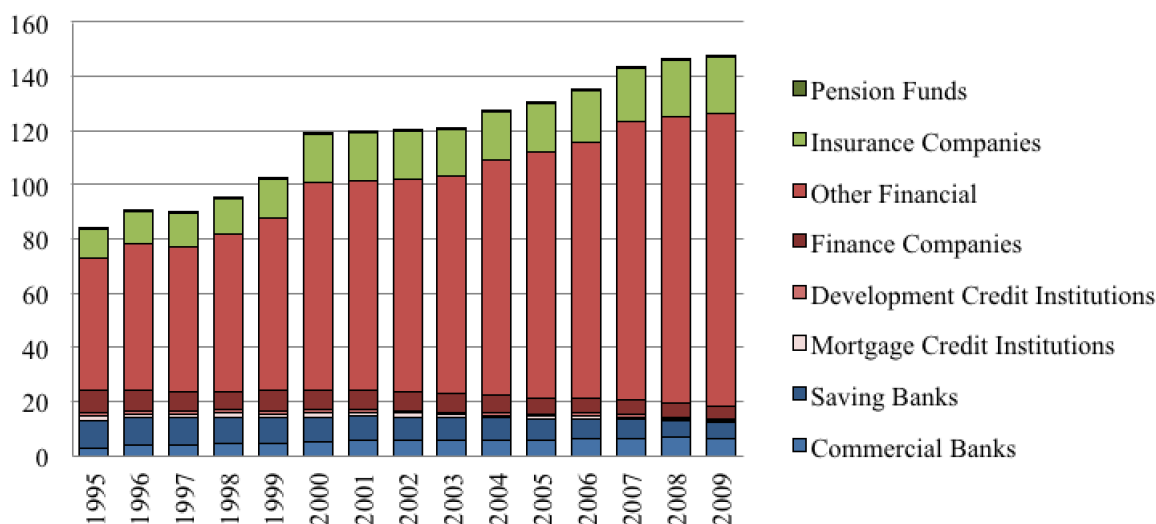


Source: our elaboration on World Bank statistics (March 2012)

The relatively low number of independent credit institutions confirms the high degree of concentration of Swedish banking system. In 2010 there were 0.12 units per 10,000 inhabitants in Sweden compared to 0.05 in France, 0.13 in Italy, 0.20 in Germany and 0.52 in the US.

However, the total number of financial institutions per 1 million inhabitants increased in the period considered (see Figure 22):

Figure 22: Number of monetary, finance and insurance institutions (except the central bank) per 1 million inhabitants in Sweden 1995-2009

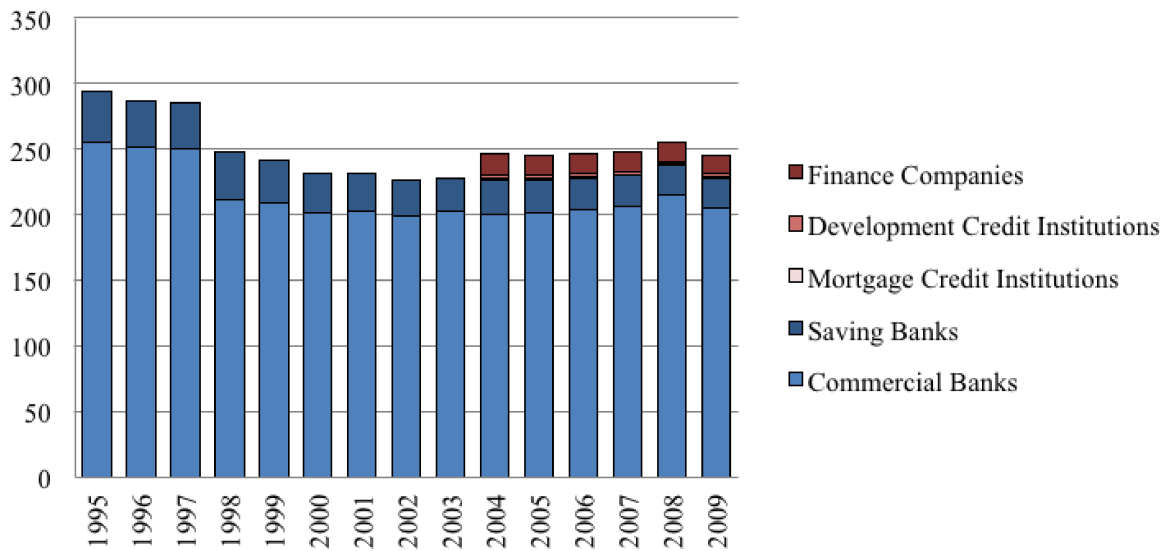


Source: our elaboration on OECD and World Bank statistics (March 2012)

To be more precise, the number of savings banks and financial companies decreased, whereas the number of commercial banks, insurance companies and other financial institutions (such as investment corporations, leasing and factoring firms, and mutual funds) increased.

A comparative analysis of the number of branches highlights the high level of concentration in the Swedish banking system (see Figure 23). In 2010 there was 1 branch per 4,386 inhabitants in Sweden, compared to 2,200 in Germany, 1,640 in France, and 1,770 in Italy.

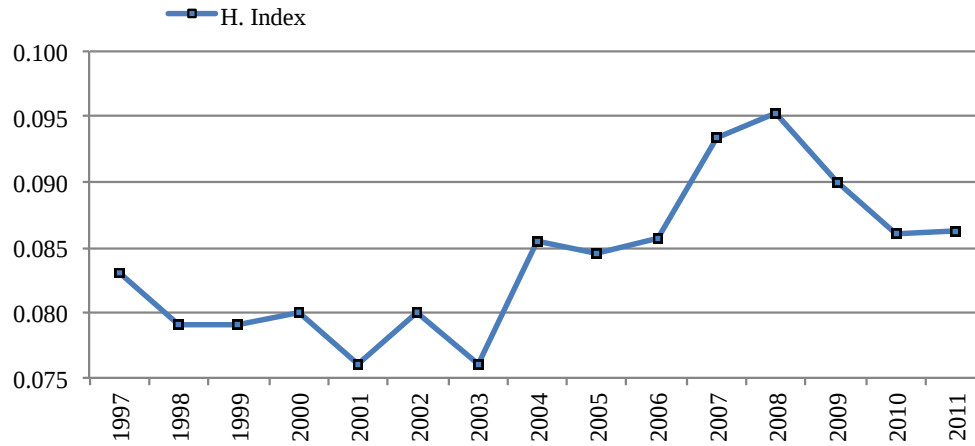
Figure 23: Number of branches of finance companies, banks and other credit institutions in Sweden per 1 million inhabitants 1995-2009



Source: our elaboration on OECD and World Bank statistics (March 2012)

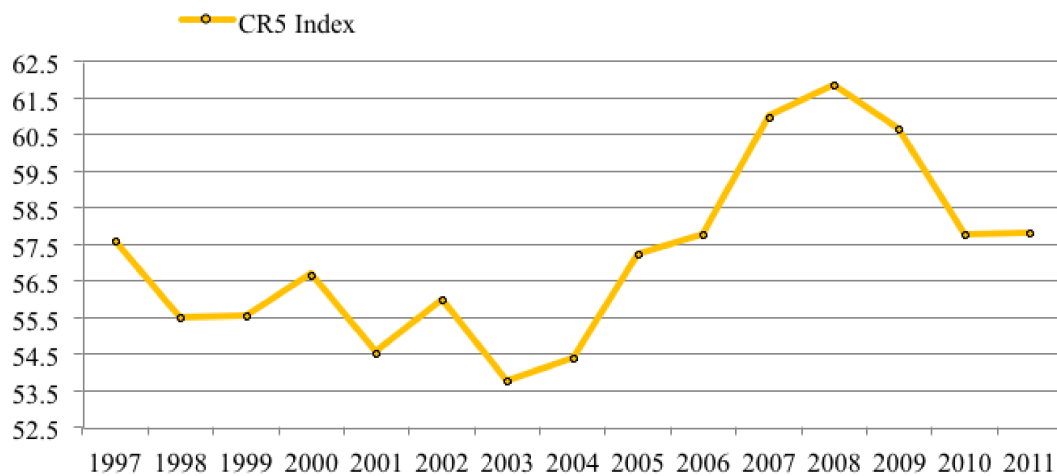
Finally, both the Herfindahl Index (assessing the market share of top banks in relation to the whole sector, and hence the degree of competition among them) and the CR5 Index (namely, the share of the 5 largest banks) for the Swedish banking system show a continuing trend towards concentration from 2003 to 2008, (partially) offset by the sharp decrease in 2009-2010 (see Figure 24 and 25).

Figure 24: Herfindahl index of Swedish credit institutions 1997-2011



Source: our elaboration on ECB statistics (December 2012)

Figure 25: CR5 index ratios of Swedish credit institutions 1997-2011



Source: our elaboration on ECB statistics (December 2012)

There are 75 fund management companies in Sweden (see Table 8). The largest four are owned by the big four banks.

Table 8: Fund management companies (December 2012)

Insurance company	Assets under management (SEK Mio)	%
Swedbank Robur	468,035	23.3
SEB Fonder	280,598	13.9
Nordea Fonder	230,518	11.5
Handelsbanken Fonder	206,049	10.2
Sjunde AP-fonden ¹	132,219	6.6
Länsförsäkringar Fonder	70,722	3.5
AMF Pension	69,071	3.4
SPP Fonder	64,015	3.2
Brummer & Partners	52,520	2.6
Skandia Fonder	49,805	2.5
Others	389,483	19.3
Total	2,013,034	100.0

¹ Sjunde AP-fonden (AP7) is a state authority which manages premium pension asset through their funds. AP7's funds are included in the Swedish Pension Agency's default option fund AP7 Såfa.

Source: Svenska Bankföreningen (2013)

The Swedish insurance system has gone through two major structural changes during the last 50 years. The first took place during the late 1940s and early 1950s, as the insurance market came to be subject to considerable regulation and state intervention - at the same as the public insurance system began to grow. The new legislation took effect in 1948, and the insurance sector became characterised by two guiding principles: the Principle of Need (which sharply restricted the establishment of new entrants) and the Principle of Equity (which controlled the insurance premium levels). The overriding objective with this policy was to make the private insurance sector more efficient and to lower the insurance premia (Larsson & Lönnborg 2006; 2007). Insurance companies also came to be subject to a range of regulation linked to central bank policy, most notably through the placement ratios with regards to mortgage bonds.

The second major change took place from the 1980s, in conjunction with the deregulation process. Table 9 shows the major changes that affected the insurance market.

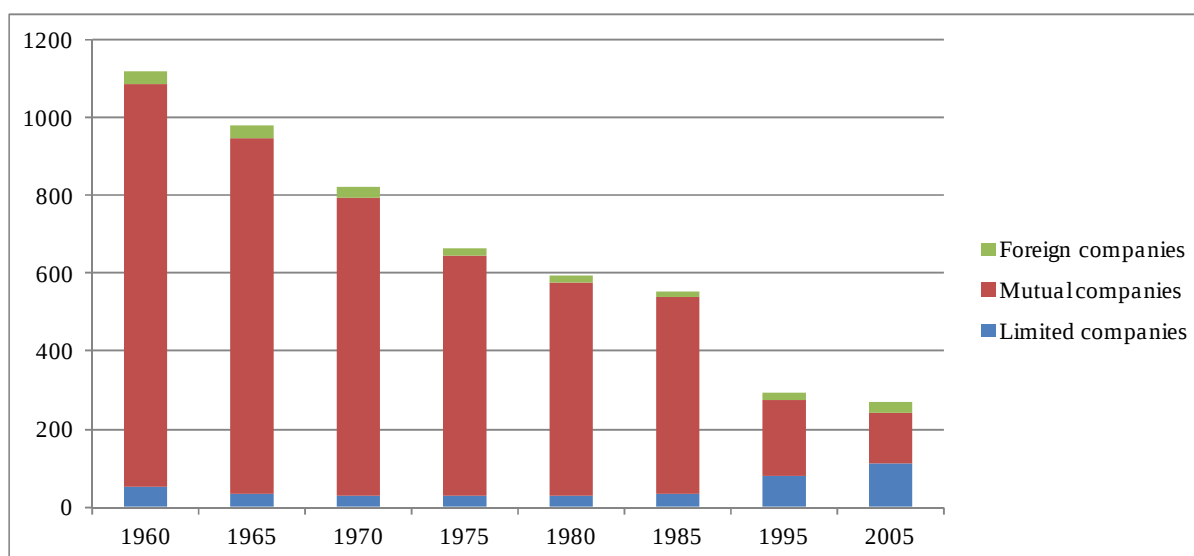
Table 9: The deregulation of the Swedish insurance market

Deregulation of insurance companies' lending rates	1982
Lending ceiling for insurance companies' leasing are abolished	1985
Placement ratios for non-life insurance companies are abolished	1985
The principle of need is abolished	1985
Placement ratios for life-insurance companies and AP-funds are abolished	1986
Insurance brokers are permitted	1990
Unit-linked insurance is introduced	1990
Insurance companies allowed to outside the insurance sector	1991
EU rules begin to be adopted in the insurance market	1991
The principle of equity is abolished	2000

Sources: Larsson & Lönnborg (2006); Lybeck (2000)

The deregulation process of the insurance sector came to have rapid and widespread consequences throughout a range of areas. Not only did banks become more involved in the insurance sector, the proportion of profit-maximising and foreign companies in the sector also increased dramatically (see Figure 26), a result of allowing a transformation of non-profit-sharing mutual companies into limited companies.

Figure 26: Number of insurance companies by ownership structure in Sweden 1960-2005



Source: Larsson & Lönnborg (2007)

As of 2012, there were 410 registered insurance companies in Sweden, most being small non-life insurance companies. The insurance market is highly concentrated into a few large companies

and company groups. The five largest companies have 83% of the non-life insurance market, and 53% of the life-insurance market (Insurance in Sweden, 2012). Likewise, all of the major commercial banks have their own insurance companies, the largest bank-owned insurance company being SEB Trygg Liv (see Figure 10):

Table 10: Insurance companies¹ (Dec. 2012)

Insurance company	Assets (SEK Mio)	%
Alecta	554,401	20.9
Skandia	442,745	16.7
AMF Pension	372,390	14.0
SEB Trygg Liv	313,067	11.8
Folksam (incl. KPA and Förenade Liv)	290,363	10.9
Länsförsäkringar	196,982	7.4
SPP Liv	147,642	5.6
Swedbank Försäkring	104,764	3.9
Handelsbanken Liv	80,955	3.1
Nordea Liv	49,838	1.9
Avanza Pension	32,219	1.2
Danica Pension (Danske Bank)	27,484	1.0
Others	40,759	1.5
Total	2,653,608	100.0

¹ Life insurance (excluding labour market insurance)

Source: Svenska Bankföreningen (2013)

Table 11 provides an international comparison - by showing developments in the structure of the insurance sector in both Sweden and a number of selected countries. It provides the 5-firm concentration ratio for both the life and the non-life insurance markets (provided by the European Insurance and Reinsurance Federation, CEA). As Fenna et al. (2008) point out, *'[...]the overall picture that emerges from Table [XX] is a substantial increase in 5-firm concentration ratios as a result of the merger and acquisition activity in most European markets between 1992 and 2000'* (pp. 90-91). In this context, Sweden represents a partial exception, as the concentration ratio of its non-life insurance sector has not shown an increase during the period studied. However, its absolute value has remained fairly high compared to that of the other countries.

Table 11: Five-firm concentration ratios in life and non-life companies 1992-2000-2002 (%)

	Non-life insurance companies			Life insurance companies		
Countries / Years	1992	2000	2002	1992	2000	2002
Denmark	60.3	72.2	68.5	77.0	54.8	57.6
Finland	82.7	88.5	91.5	98.7	99.7	89.8
France	40.7	53.4	55.5	46.4	54.4	57.1
Germany	23.5	27.6	28.3	31.5	30.8	32.4
Sweden	89.0	84.9	87.9	70.3	74.3	74.1
United Kingdom	28.6	35.7	49.9	29.2	48.9	46.1

Source: our elaboration on Fenna et al. (2008) statistics

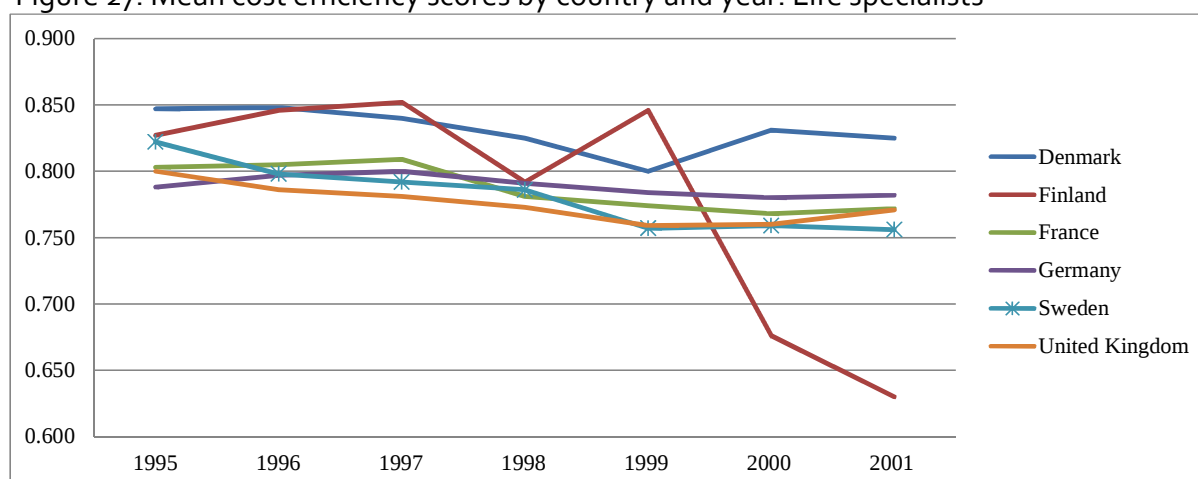
Table 12 and Figures 27-29 show the mean cost efficiency scores by year for three business types in both Sweden and a number of selected countries. The cost efficiency for Swedish insurance companies in the non-life and composite sectors was relatively stable over the period 1995–2001. By contrast, the cost efficiency of companies operating in the life insurance sector declined. However, this had been a common trend in EU countries. According to Fenna et al. (2008), this is *'perhaps a consequence of the considerable growth in firm size in this sector over this period [...]. It is significant that the European life insurance sector has seen a substantial degree of merger and acquisition activity throughout the period of study (much of it involving the acquisition of mutual life offices by stock insurers)'*. This is usually regarded as a *'major contributory factor in the substantial increase in firm size and is likely to lead to scale economies'*. Yet, previous *'results suggest that the difficulties of coordinating post-merger integration of European life insurance companies [...] have been non-trivial'* (pp. 95-96). A comparison between Table 11 and Table 12 confirms this insight, by showing that the concentration of the non-life insurance sub-sector in Sweden increased, whereas its cost efficiency decreased. In sum, there is some evidence about an increasing concentration trend in the insurance sector in Sweden.

Table 12: Mean cost efficiency scores by insurance sub-sector 1995-2001

Countries / Years	Sector	1995	1996	1997	1998	1999	2000	2001
Denmark	Life	0.847	0.848	0.840	0.825	0.800	0.831	0.825
	Non-life	0.942	0.941	0.943	0.940	0.940	0.933	0.936
	Composite	-	-	-	-	-	-	-
Finland	Life	0.827	0.846	0.852	0.792	0.846	0.676	0.630
	Non-life	0.935	0.934	0.938	0.930	0.919	0.925	0.922
	Composite	-	-	-	-	-	-	-
France	Life	0.803	0.805	0.809	0.781	0.774	0.768	0.772
	Non-life	0.920	0.923	0.924	0.923	0.917	0.918	0.913
	Composite	0.985	0.989	0.990	0.989	0.989	0.988	0.988
Germany	Life	0.788	0.797	0.800	0.791	0.784	0.780	0.782
	Non-life	0.923	0.928	0.929	0.923	0.921	0.922	0.920
	Composite	0.984	0.989	0.989	0.988	0.988	0.989	0.989
Sweden	Life	0.822	0.798	0.792	0.786	0.757	0.759	0.756
	Non-life	0.927	0.929	0.932	0.930	0.929	0.915	0.920
	Composite	0.978	0.981	0.984	0.986	0.991	0.988	0.990
United Kingdom	Life	0.800	0.786	0.781	0.773	0.759	0.760	0.771
	Non-life	0.948	0.947	0.945	0.943	0.941	0.939	0.940
	Composite	0.988	0.988	0.988	0.989	0.989	0.989	0.989

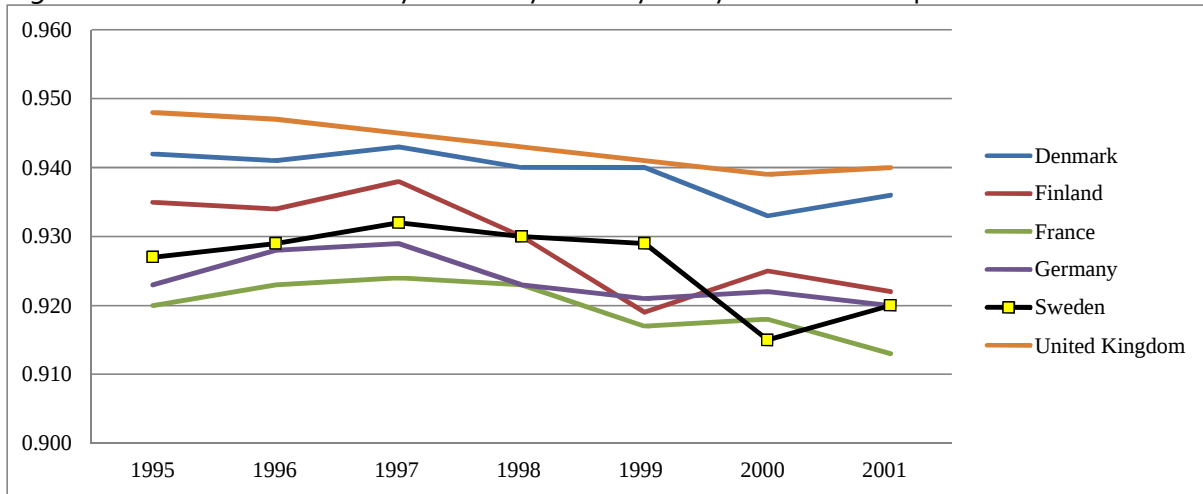
Source: our elaboration on Fenna et al. (2008) statistics

Figure 27: Mean cost efficiency scores by country and year: Life specialists



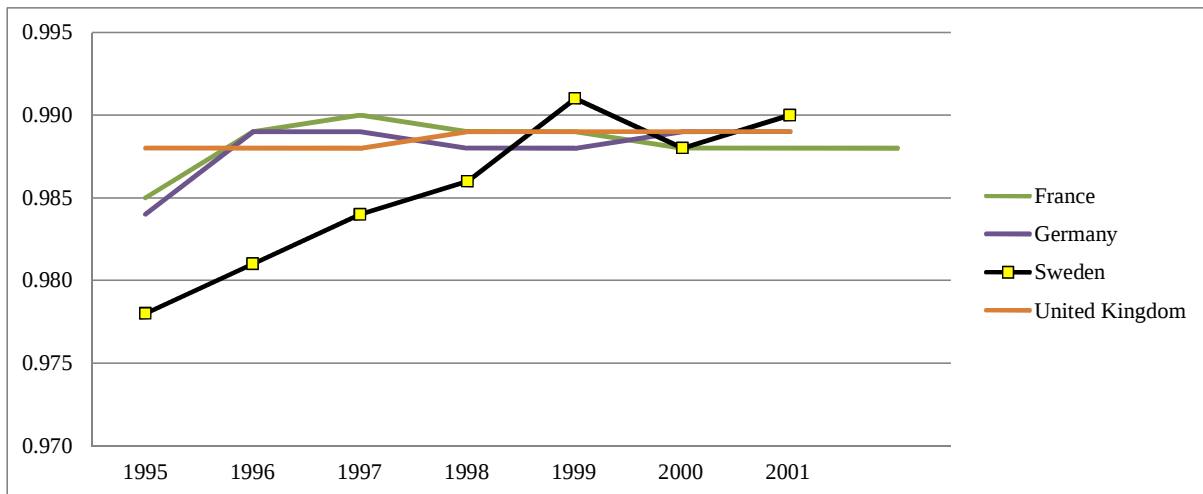
Source: our elaboration on Fenna et al. (2008) statistics

Figure 28: Mean cost efficiency scores by country and year: Non-life specialists



Source: our elaboration on Fenna et al. (2008) statistics

Figure 29: Mean cost efficiency scores by country and year: Composites



Source: our elaboration on Fenna et al. (2008) statistics

2.5 The Central Bank

From the post-war period until the mid-1980s, the tasks of Sveriges Riksbank mainly centred on the administration of an advanced regulatory system with interest rate regulation, credit regulation, currency regulation and control of bond issuance. From this perspective, the system worked to channel savings to different prioritised purposes, such as housing projects and to cover budget deficits. The interest rate as a monetary policy tool was very limited at the time, as the money and bond markets were far from market-determined up until the early 1980s (Nyberg & Viotti, 2013). Even though the interest rate markets developed rapidly following the deregulation process from the 1980s, the new market-conformed monetary policy continued to be aimed at maintaining a fixed exchange rate.

For the 120 years up until 1993, monetary policy had been conducted within a framework of a fixed exchange rate regime with only two exceptions (1914-22 and 1931-33). The fixed exchange regimes had been the Gold Standard and then in the post-war period the Bretton Woods system, and then Sweden participated in the European 'Snake' during the period 1973 to 1977. Between 1977 and 1991, the country pegged the currency to trade-weighted basket of currencies. In May 1991, the Riksbank decided to unilaterally peg the krona to the ECU, which was widely seen as sign of credibility and commitment to the European integration process. However, towards the end of 1991, the tight German monetary policy became increasingly incompatible with the severe economic downturn that Sweden was experiencing at the time. The country had been in a recession during for a whole year, unemployment was rising and inflation was declining from an already low level.

The situation deteriorated severely following the decision by the Finnish central bank to devalue the markka by 12.3% in November 1991 – further increasing the pressure on the Swedish krona.

The Riksbank, however, was determined to defend the peg and did so by gradually increasing its policy rate, the marginal rate. On 9 September (the day of the Gota bankruptcy⁴), the marginal rate was raised to 75% to stem capital outflow. As the UK and Italy left the ERM, the Riksbank drastically raised the marginal rate to 500% on 16 September 1992, the so-called 'Black Wednesday'.

The currency crisis was also closely connected to the banking crisis. The financial sector was impacted by very high level of defaults as a result of previous monetary tightening and over-expansion of credit. As noted earlier, borrowing in foreign currency had surged during the boom years because of the high interest rate differential. As a result, banks had increased lending in foreign currency during the boom years to over 40% of total lending. The deposit guarantee introduced earlier acted as cushion towards potential bank runs. However, the Riksbank sorted to unusual measures by providing liquidity to the banks by depositing part of the foreign exchange reserves with them.

The manoeuvre to raise interest rates to 500% was a temporary success, and speculation against the krona faded. This was, however, short-lived. After an unsuccessful T-bill auction by the Debt Office in November, the peg was finally abandoned on 19 November 1992 (Bernanke et al., 1999). The GDP fell for three years in a row, -5.1% in total during 1991-93, and investment fell by more than a third during the same period (Englund, 1999).

Although persistent inflation and devaluation expectations in the run up to the 1992 currency crisis clearly acted as a trigger point for the adoption of inflation targeting in Sweden, the decision also needs to be put into the perspective of academic as well as macroeconomic developments globally at the time.

⁴ Table 4 in Section 2.3 shows the experience of the major Swedish banks, including Gota bank, during the banking crisis in the early 1990s.

The high inflation environment after the collapse of Bretton Woods led to a broad rise in monetarism with sceptical view of the long-run trade-off between unemployment and inflation (Friedman, 1968; Phelps, 1968). Overall, central banks were seen to have become too influenced by their respective governments, resulting in over-accommodative monetary policy and ultimately high inflation. Consequently, the powers and objectives of central banks had to be redefined in order to reduce state activism.

The policy changes that followed were profound, and were supported by developments in economic theory at time - such as the 'time inconsistency problem' and the analysis of the conflict between rules and discretion in policy decisions (Kydland & Prescott, 1977; Barro & Gordon, 1983). A policy maker exercising power at its discretion, rather than according to a set of rules, was seen as not only generating lower welfare, but also higher inflation.

Further, discretionary and accommodative monetary policy was seen as creating a 'moral hazard' problem vis-à-vis the public (drawing upon Rational Expectations Theory). Empirical evidence suggesting a positive correlation between low inflation, central bank independence and – sometimes - macroeconomic performance therefore made independent central banking appear as a kind of 'free option' (Bade & Parkin, 1984; Grilli, Masciandaro & Tabellini, 1991; Alesina & Summers, 1993).

Thus, 'central bank independence' came to be defined as a central bank that was not influenced by the government on how to conduct its policy. The symmetry with inflation targeting, however, has always been very clear as the level of independence became represented by the weight placed on inflation objectives, rather than other goals such as fixed exchange rate, economic growth, low unemployment and financial stability (Faust & Svensson, 2001; Svensson, 1997, 1999ab, 2000).

Bernanke et al. (1999) define 'inflation targeting' as:

'[a] framework for monetary policy characterized by the public announcement of official quantitative targets (or target ranges) for the inflation rate over one or more time horizons, and by explicit acknowledgement that low, stable inflation is monetary policy's primary long-run goal.' (p. 4)

Towards the late 1990s, a legal framework was laid out to make the Riksbank independent. The constitution had to be amended, and the decision was approved by all political parties except for the Green Party and the Left Party (Nyberg & Viotti, 2013).

The Riksbank is governed by six people forming the Executive Board, which make the monetary policy decisions. The six members are appointed by the General Council of the Riksbank, whose members in turn are appointed by the Riksdag. Voting by the members of the Executive Board, who have independent positions with regards to their monetary policy stand, makes repo rate decisions. Voting members are banned from seeking and receiving instructions when carrying out their monetary policy tasks. This independence is in line with the delegation of monetary policy from the Riksdag to the independent Riksbank.

However, the adoption of inflation targeting in Sweden in 1993, and the subsequent change in the Swedish constitution to make the Riksbank independent, should not necessarily be seen as a conscious and careful shift in long-term strategic policy at the time. Instead, it could be regarded as a pragmatic choice following the loss of credibility following the extraordinary policy measures adopted to defend the peg. In addition, the Riksbank was in need of greater short-term flexibility to address domestic economic issues. Having studied the recent experiences of other small open economies (such as Canada, Switzerland and New Zealand), inflation targeting seemed like an obvious compromise that was widely accepted among political parties, trade unions and media.

When the inflation target was introduced in 1993, the Riksbank specified price stability as an inflation target where the annual consumer price index (CPI) should be 2%. Initially, a tolerance band of $\pm 1\%$ was included. However, this was removed during spring 2010. Although the inflation target is the overriding objective, the Riksbank adopts a flexible inflation-targeting regime in so far as it also strives to stabilise production and employment around long-term sustainable paths

(although much less loosely defined). The monetary policy objective is, according to the Sveriges Riksbank Act of 1999, to maintain price stability.

The Riksbank also has a mandate to 'promote safe and efficient payment systems' (Sveriges Riksbank, 2014c). The main focus is the banks and the 'big 4' in particular. With regards to financial stability, the Riksbank works closely with Finansinspektionen (the Swedish financial supervisory authority) and the Ministry of Finance, which regulates financial enterprises. It also works with the Swedish National Debt Office, which is responsible for the deposit guarantee, and international bodies. A Financial Stability Report is published twice a year, outlining potential risks to financial stability according to the Riksbank. The Riksbank is a component of the European System of Central Banks (ESCB), including the ECB and the central banks of the other EU27 member states, which do not adopt the Euro. Theoretically it is obliged under the Treaty of Maastricht to adopt the Euro at some point in the future.

When it comes to the implementation of inflation targeting, it is notable that the Riksbank has been at the forefront in terms of transparency. Partly, this has been aimed at market participants, with the view that transparency enables monetary policy to be conducted easier and more efficiently. However, greater transparency can also be seen in the light of how the Riksbank was perceived previously – namely as a fairly secretive institution (Nyberg & Viotti, 1993).

Today, regular monetary policy committee (MPC) meetings are held six times per year, and three MPC reports are published. The Riksbank also publicly discloses the minutes from the MPC meetings leading up to the interest rate decisions, as well as the voting and motivations of the individual committee members (Sveriges Riksbank, 2010a, 2013b).

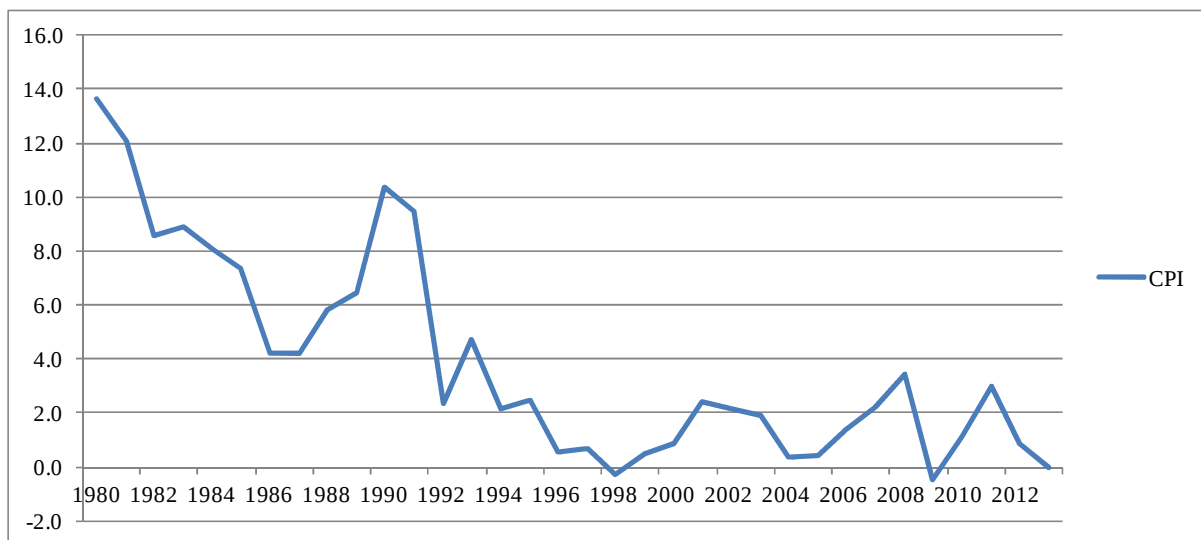
Furthermore, the Riksbank has also been receptive towards so-called 'quantitative forward guidance'. According to this, monetary policy is seen less as a series of ad hoc decisions, and more as a forward looking process. What matters the most is not the prevailing central bank policy interest rate. Rather, it is the private sector expectations of the interest rate and risk premium paths that shape the yield curves and ultimately impact the real economy (Andersson &

Hofmann, 2009; Gjedrem, 2006; Rudebusch & Williams, 2008; Svensson, 2006). Several central banks, including the Riksbank, have gradually come to adopt greater transparency in the form of publicly announced forecasts to make monetary policy more predictable. Currently, the Riksbank's forecasts include the projected GDP, CPI, CPIF (underlying inflation), unemployment and repo rate over a three-year horizon. This is supposed to influence market expectations, to make monetary policy more predictable and thus simultaneously increase central bank credibility and reduce financial market volatility.

Repo rate and risk premium projections by central banks might differ from prevailing market expectations. As Svensson (2006) notes, the central bank should strive to lead and influence market expectations, rather than mechanically follow them. Nonetheless, they are closely connected – and since 2006 the Riksbank uses market interest rates, rather than a constant repo rate, in their monetary policy models (Nyberg & Viotti, 2013).

The average inflation since the adoption of inflation targeting has been low, and close to the 2% target (see Figure 30).

Figure 30: CPI (annual average, %)

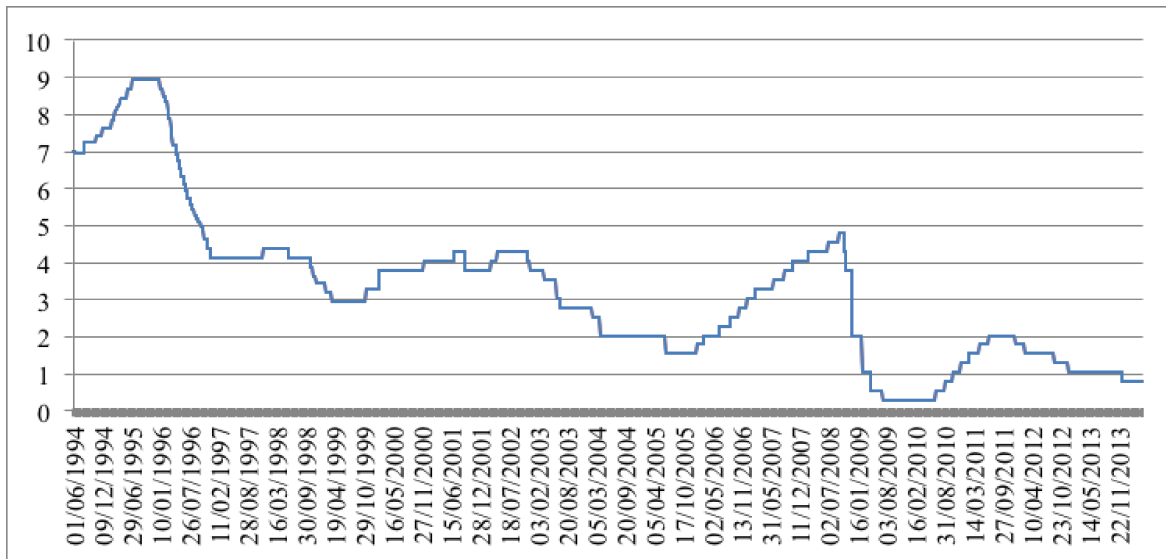


Source: Statistics Sweden and NIER

As a consequence, the repo rate was rapidly cut from 9% in 1995 to 3-4% during 1997-2003. After further cuts to 1.5%, the repo rate was then gradually raised between 2005 and 2008 in line with

raising inflation expectations. Like a range of other central banks, the repo rate was cut aggressively during the financial crisis and has been kept low since.

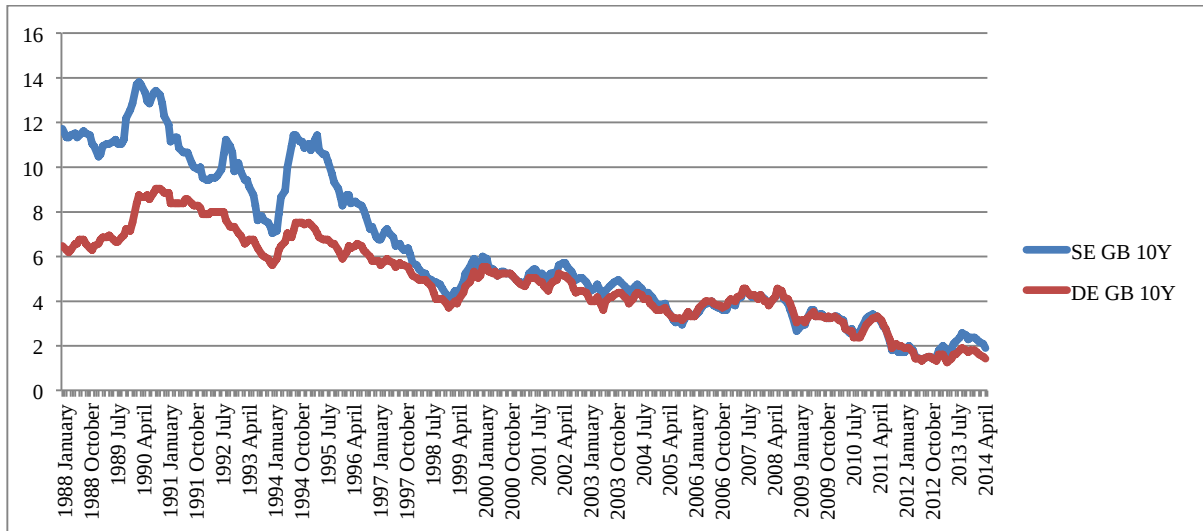
Figure 31: Repo rate (%)



Source: Sveriges Riksbank

Between 1987 and the launch of the euro, the Swedish 10-year government bond yield spread over Germany gradually decreased from around 500 bps to close to zero, with a temporary spike during the aftermath of the currency crisis in the early 1990s (see Figure 32).

Figure 32: 10Y Swedish and German government bond yields (monthly averages, %)



Source: Sveriges Riksbank

The impact of the global financial crisis, and the Riksbank's measures to deal with it, is discussed in more detail in Section 4.1.

3 Relations between the Financial and Non-financial Sectors

3.1 Macroeconomic policy

The floating of the Swedish krona in 1992 and the introduction of inflation targeting resulted in a fundamental change in the balancing act between monetary and fiscal policy. Sweden had pursued pro-active stabilisation policy already since the 1930s, courtesy of the so-called 'Stockholm School'⁵. Seen from an international perspective, the results of this policy had been positive. The 1930s depression was relatively mild in terms of output loss and unemployment. Inflation remained contained, and although the government debt rose to 55% of GDP around the Second World War, it quickly returned to 30% and fell below 20% of GDP during the mid-1960s (Flodén & Tson Söderström, 2013).

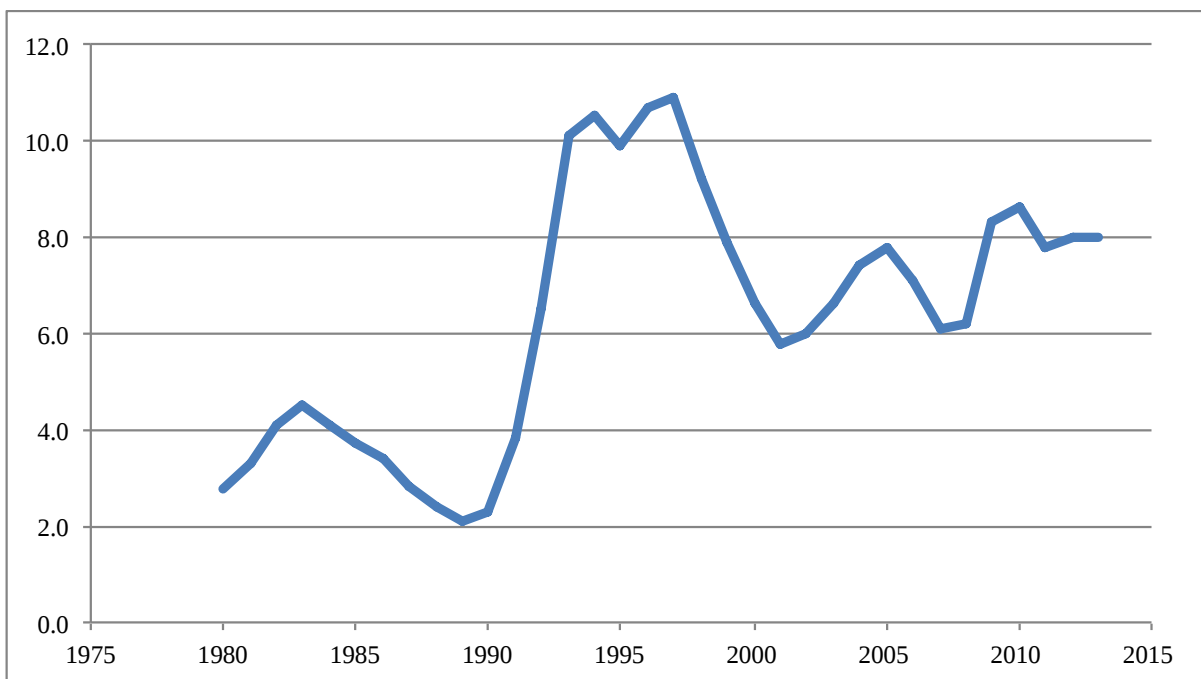
Sweden joined the Bretton Woods framework in 1951, and the next two decades came to signify a 'golden era' with low inflation, high GDP growth and an unemployment rate steadily around 2%. However, Sweden began to experience similar inflationary pressures as other countries after the collapse of the Breton Woods system in 1971 and the oil crisis a few years later. The small open economies in Europe were faced with problems in terms of loss of competitiveness and growing current account deficits during the time. However, their policy strategies to tackle them differed markedly. Switzerland was non-interventionist. Austria and the Netherlands pursued a hard currency line (mixed with income policy to keep nominal wages low and fiscal policy to influence domestic demand, respectively). The Nordic neighbours Denmark, Finland and Norway, on the other hand, utilised exchange rate adjustments to restore competitiveness in the export sector

⁵ The term 'Stockholm School' stems from the article 'Some Notes on the Stockholm Theory of Savings and Investment II' by Bertil Ohlin (1937) published in the *Economic Journal* in response to J. M. Keynes' 'General Theory on Employment, Interest and Money' a year before. Although the group was informal and included more than a handful of Swedish academics, Professor Ohlin himself (Stockholm School of Economics), Professor Gunnar Myrdal (Stockholm School of Economics) and Professor Erik Lindahl (Uppsala University) are normally referred to as the core.

and thereby boosted employment. Whereas Finland generally pursued a tight fiscal policy, the other two focussed on income policy (ibid).

In such a comparison, Sweden stands out by having adopted all three strategies: income policy, fiscal policy and exchange rate policy – both in turn and overlapping with each other. The results were not overly successful in bringing down inflation. Public expenditure as a share of GDP rose from 45% in 1973 to 65% in 1982. The GDP growth fell significantly below that of previous decades and even below the OECD-average. Budget and current account deficits became a new norm, and the government debt rose from 20% of GDP to 60% of GDP in just one decade. Inflation remained high and the krona was devalued repeatedly. However, the main policy target at the time – namely unemployment - remained stubbornly low at around 2% (ibid).

Figure 33: Unemployment (%)

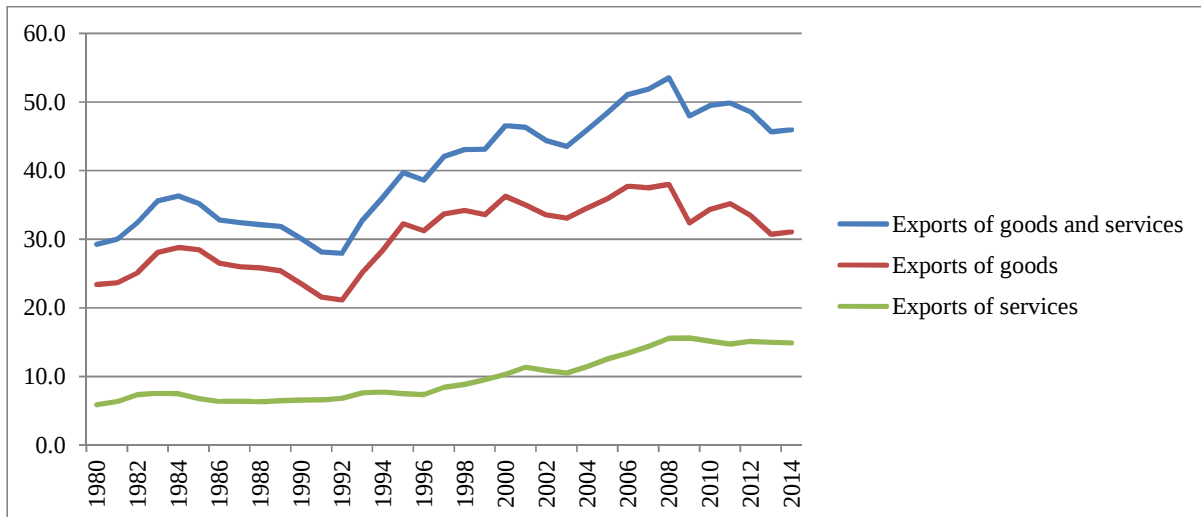


Source: NIER

During the late 1980s, it became clear that the combination of rapid deregulation of the financial sector, exchange rate controls, high inflation expectations and low after-tax interest rates had become unsustainable. The unemployment rate dropped below 2% during 1987-90 and the wage

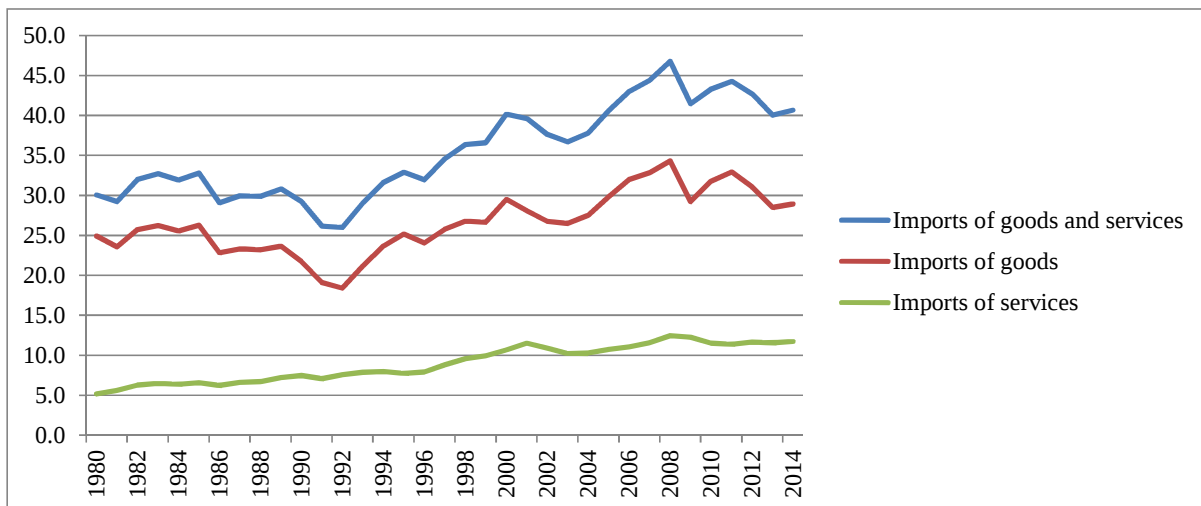
growth increased from 7% in 1987-88 to 10% in 1989-90. The export industry suffered, as depicted by Figure 34.

Figure 34: Swedish exports (current prices, % of GDP)



Sources: Statistics Sweden and NIER

Figure 35: Swedish imports (current prices, % of GDP)



Sources: Statistics Sweden and NIER

Simultaneously, the collapse of the Soviet Union and increasing European integration spurred the military neutral and non-EU members Sweden and Finland to make structural adjustments to a new European landscape. EU membership emerged in the public debate, requiring fundamental

changes to macroeconomic policy in order to comply with the Maastricht criteria (i.e. low and stable inflation, low interest rates, a stable currency and sound government finances). Although full EU and EMU membership (including the adoption of the euro) was advocated initially, euro membership was later rejected in a referendum in 2003. Sweden does not have an opt-out clause like Denmark and the UK on the currency, and is so technically obliged to adopt the currency at some point. However, weak public support has so far preventing a renewed referendum to appear on the agenda.

In the fiscal plan of 1991, the government declared that low and stable inflation was to be prioritised ahead of 'other ambitions and demands'. Formally, this was the first time that a Social Democratic government had degraded employment from its list of priorities in economic policy. The shift came to coincide with the Conservative government having gained power. Subsequently, an ambitious programme with regards to market-oriented reforms (in contrast to that of the Conservative government of the 1970s/1980s) was laid out. Deregulation, privatisation, public spending cuts and tax cuts appeared high up on the agenda. The new overriding target - price stability – also became widely accepted among the political opposition, the trade unions and the public (ibid).

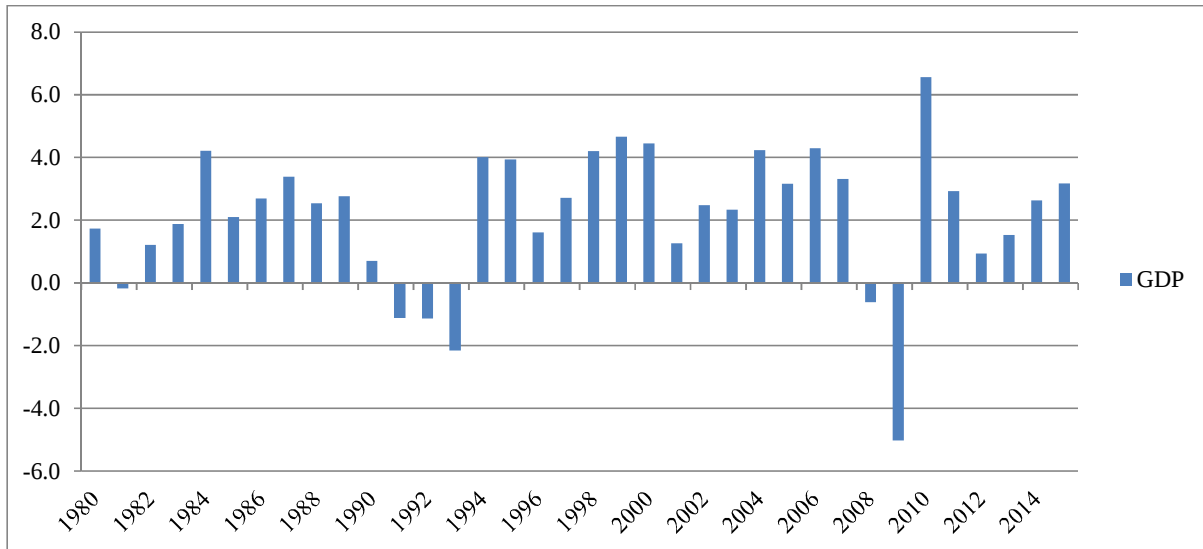
However, the political honeymoon for the Conservative government came to be short-lived. The combination of deregulation, low interest rates with generous tax-deductibility rules and high inflation expectations had led to a property and asset price boom. With the Swedish exchange rate policy having lost its credibility, higher German interest rates and another devaluation by the Bank of Finland (following a post-Soviet export shock) induced a series of rate hikes. Separately, interest rate tax deductibility was cut from 50% to 30%. Within a year, real interest rates rose from below zero to over 5%. Bankruptcies followed in quick succession and banks' credit losses, having been a couple of billion SEK per year, increased to SEK 10 billion in 1990 and SEK 36 billion in 1991 (around 4% of total lending). Domestic demand fell rapidly and the unemployment rate rose to 8% in 1994 (on top of around 5% of the work force that were in labour market policies). Lower tax revenues coupled with higher public spending (to support the banks, unemployed etc.)

led to higher budget deficits and an increase in government debt from 44% of GDP in 1990 to 77% of GDP in 1994 (ibid).

After a series of speculative attacks against the krona, and the infamous interest rate hike to 500% by the Riksbank, the Swedish krona became free floating on 19 November 1992. The change from a fixed to a floating exchange rate regime came to have profound effects on foundations of the stabilisation policy in Sweden. As mentioned in Section 2.5, Sveriges Riksbank became an independent central bank focussing on inflation targeting, and a few years later the foundations for a new framework within fiscal policy was laid. Three principles were important here. First, the parliament was to decide upon the government budget in two steps, rather than one. Second, a yearly nominal expenditure ceiling was introduced. Third, the parliament should also decide upon a long-term target for the budget balance. Further, the government term was extended from three to four years in order to enhance stability (ibid).

The results of this policy change have, in many respects, been profound. As can be seen from Figure 36, growth returned to the Swedish economy after the banking crisis 1991-93– in line with the upswing internationally. The 'dot-com' crisis of early 2000s had a fairly mild impact on the Swedish GDP. The global financial crisis, however, was marked by a sharp, but short, downturn in GDP growth (see Sections 4.1 and 4.2). As of 2011, the GDP of Sweden amounted to SEK 3,495 billion and represented around 0.87% of the world GDP.

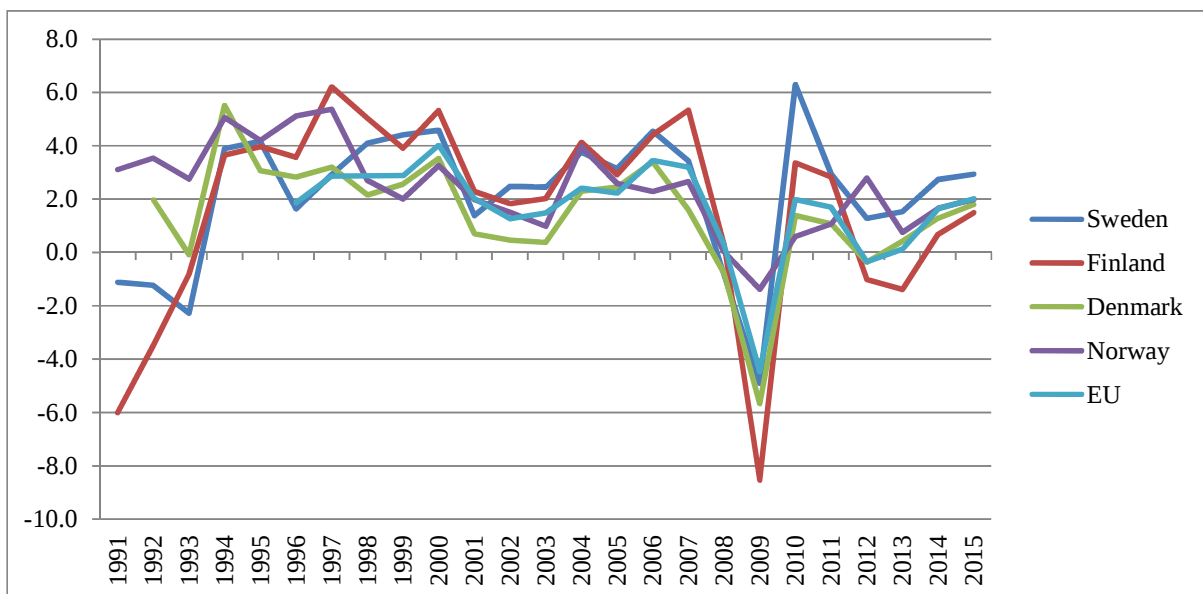
Figure 36: GDP (constant prices, % change)



Sources: Statistics Sweden and NIER

As can be seen from Figure 37, Sweden overcame the crisis of 2008 faster than neighbouring (except for Denmark) and other EU countries, especially in comparison to the member states of the EMU.

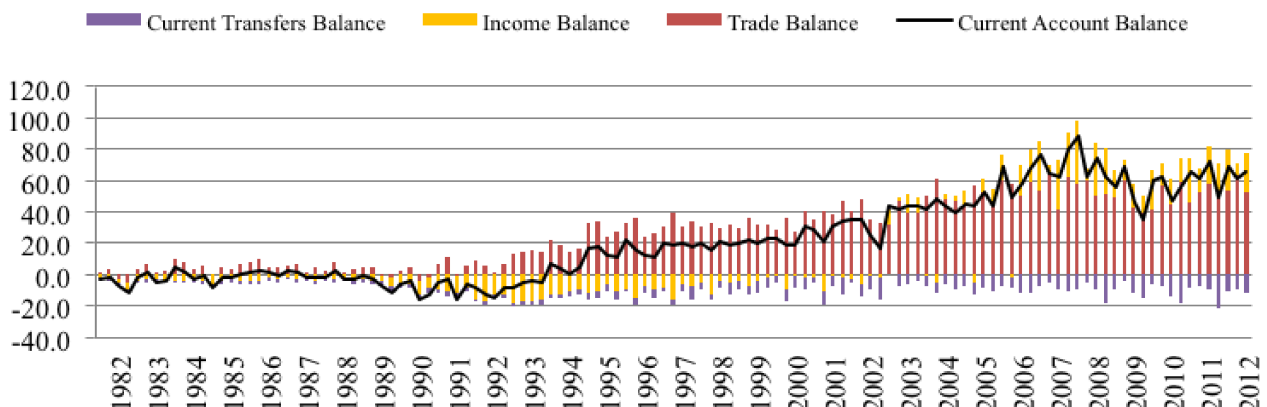
Figure 37: GDP in selected countries (constant prices, calendar-adjusted, % change)



Sources: Eurostat, OECD, IMF, national sources, and NIER

A similar trend can be seen with regards to the current account balance (Figure 38). During the early 1980s, Sweden showed a balanced budget, with small income deficits offset by small trade surpluses. From the late 1980s to the early 1990s, Sweden began to record slight deficits (with a negative absolute peak in the third quarter of 1990, equal to SEK -15.9 billion) mainly due to the increase in income net outflows. Since the mid 1990s, by contrast, the Swedish economy has registered a remarkably solid current account surplus (reaching SEK 89 billion in the first quarter of 2009), stemming from the income balance and trade balance alike. The current transfer balance has continued to remain negative.

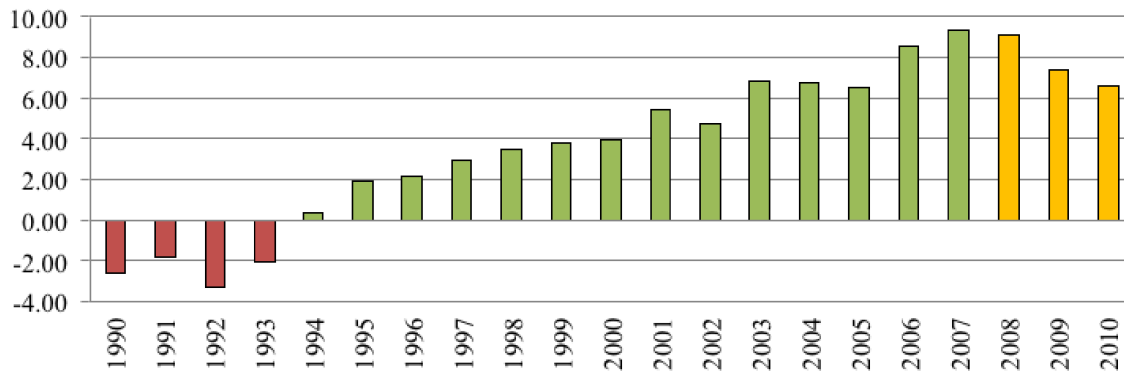
Figure 38: Current account balance of Sweden 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

The onset of the global financial crisis resulted in a slight reduction of the current account surplus. However, it has remained high (above 6% of GDP in 2010, see Figure 39).

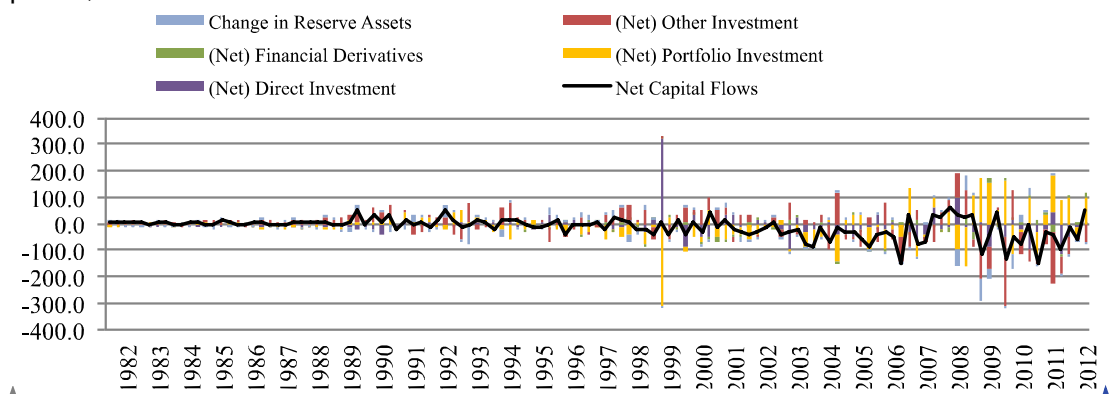
Figure 39: Current account balance of Sweden 1990-2010 (% of GDP)



Source: our elaboration on World Bank statistics (May 2012)

Turning to capital/financial flows, the deficit during the late 1980s and early 1990s was matched by a mix of portfolio and other investment inflows. Symmetrically, after the onset of the global financial crisis, the surplus was matched by an outflow of 'other' investments. However, during the same period Sweden benefitted from a large amount of portfolio investment inflows (see Figure 40), as a result of the flight to safety triggered by the debt crisis in the Eurozone.

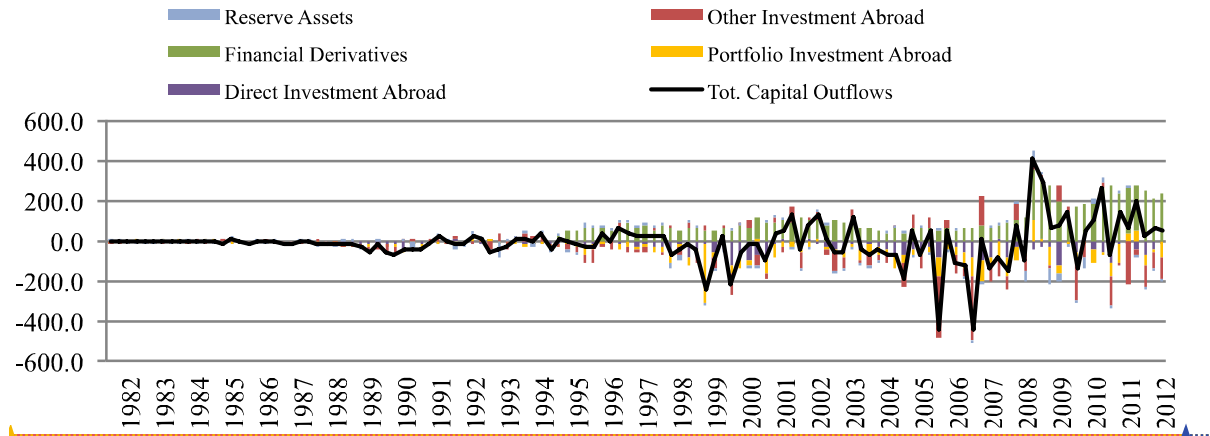
Figure 40: Financial account balance of Sweden 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

The net capital (in)flows can be further split into total capital outflows and total capital inflows. The total capital outflow from Sweden is depicted in Figure 41:

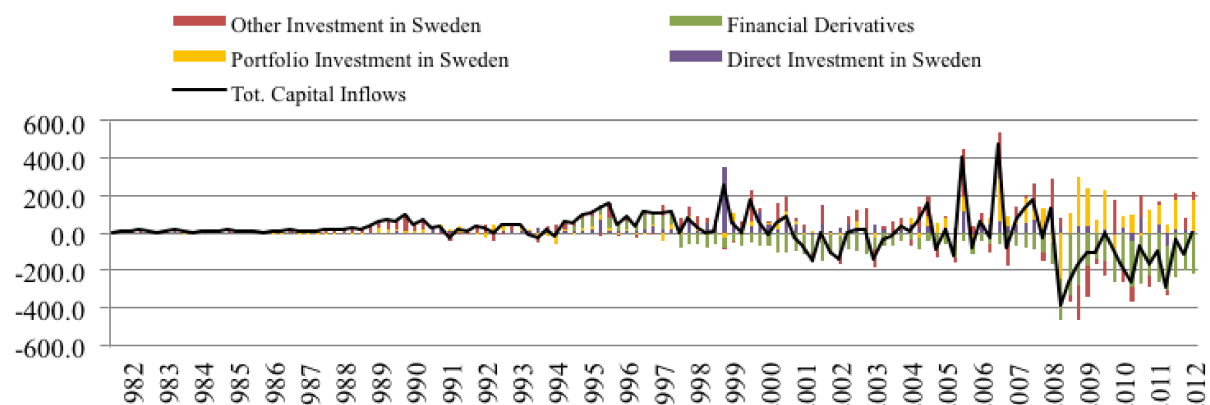
Figure 41: Total capital outflows from Sweden 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

Two features emerge. First, since the mid 1990s, the main positive component of capital outflows has been the amount of financial derivatives. Second, direct, portfolio and 'other' investment outflows have predominantly been negative over the same period. On the whole, total capital outflows remained positive since the crisis of 2008. Similar considerations, albeit with an inverted sign, go for the total capital inflows, which tended to be negative over the same period (see Figure 42).

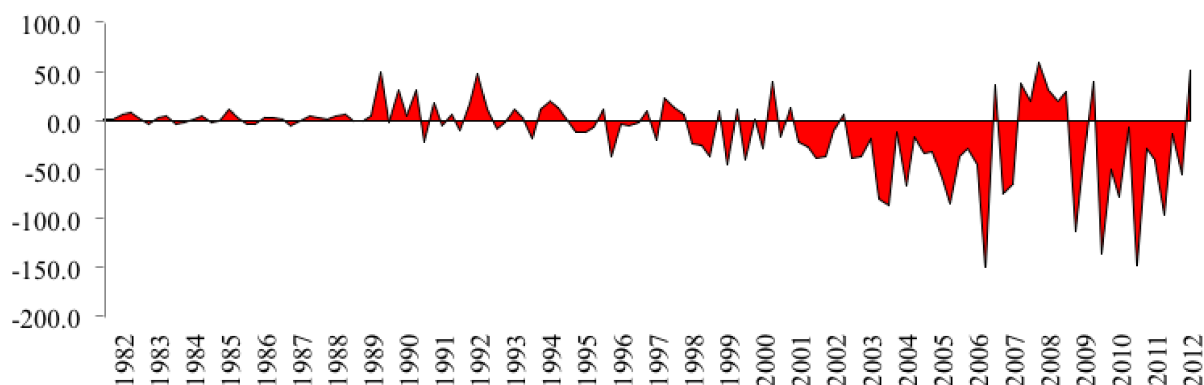
Figure 42: Total capital inflows into Sweden 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

As a consequence, the sign of net capital inflows in Sweden has largely been negative since the early 2000s (see Figure 43).

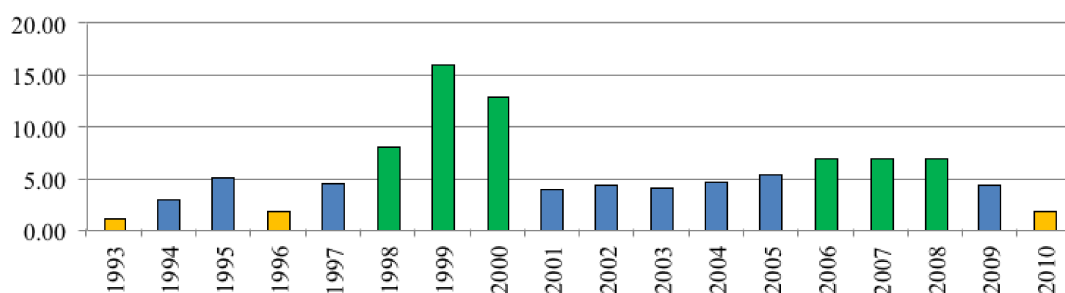
Figure 43: Net capital inflows into Sweden 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

On the whole, the sum of inward and outward foreign direct investments in Sweden, which is usually considered an indicator of the financial market integration, increased over the 1990s (except for 1996) and reached a peak in 1999 (amounting to 16% of GDP), but decreased sharply after the two economic crises in the 2000s (see Figure 44).

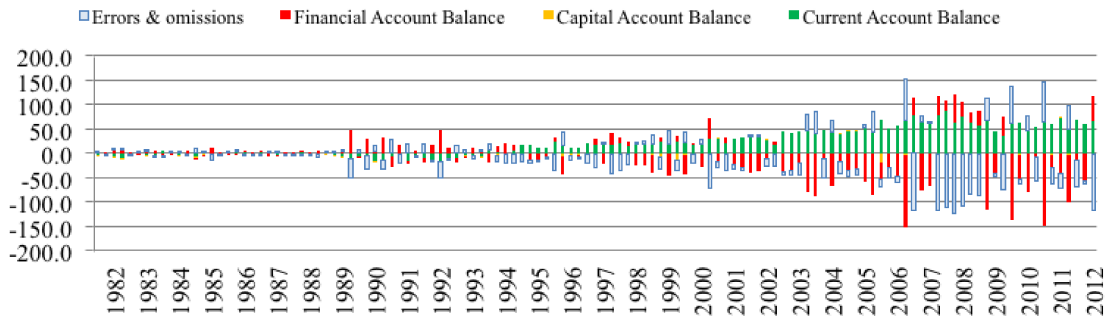
Figure 44: Inward and outward foreign direct investment intensity (annual data, average value, % of GDP)



Source: our elaboration on Eurostat statistics (March 2012)

Finally, the trend in the main components of the balance of payment is reported in Figure 45:

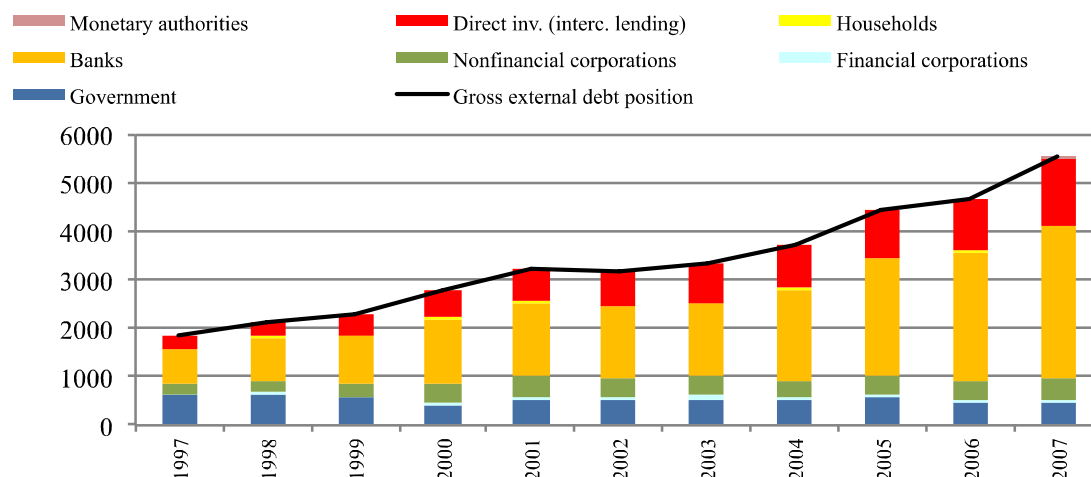
Figure 45: Balance of payments of the Swedish economy 1982-2012 (quarterly data, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

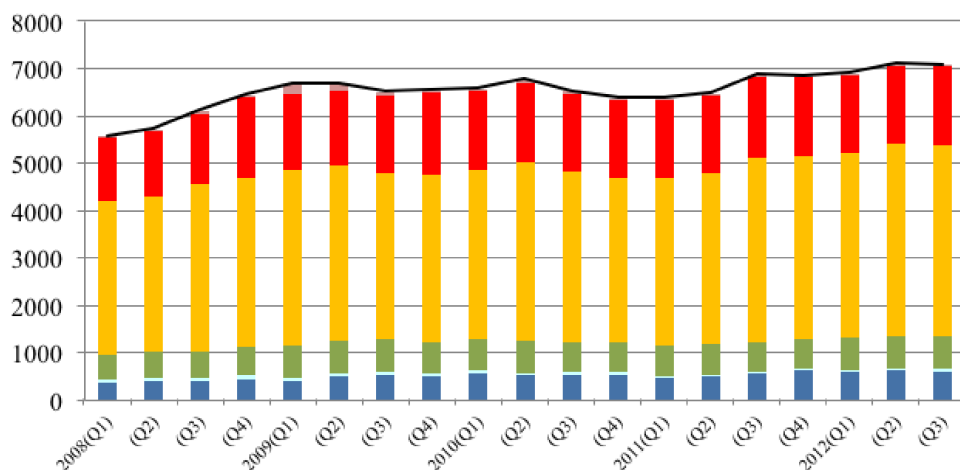
Sweden's gross external debt has increased from around SEK 1,800 billion in 1997 to over SEK 7,000 billion in 2012. Bank debt (SEK 4,037 billion in 2012, equal to 115% of GDP) and intercompany lending (SEK 1,649 billion in 2012, equal to 47% of GDP) have played a central role, whereas non-financial corporate and government external debt have remained fairly steady. Similarly, household and financial corporate external debt has remained negligible (see Figure 46).

Figure 46: Gross external debt position of Sweden by sector 1997-2007 (annually, SEK bio, current prices)



Source: our elaboration on Sveriges Riksbank Statistics (December 2012)

Figure 47: Gross external debt position of Sweden by sector 2008-2012 (quarterly, SEK bio, current prices)

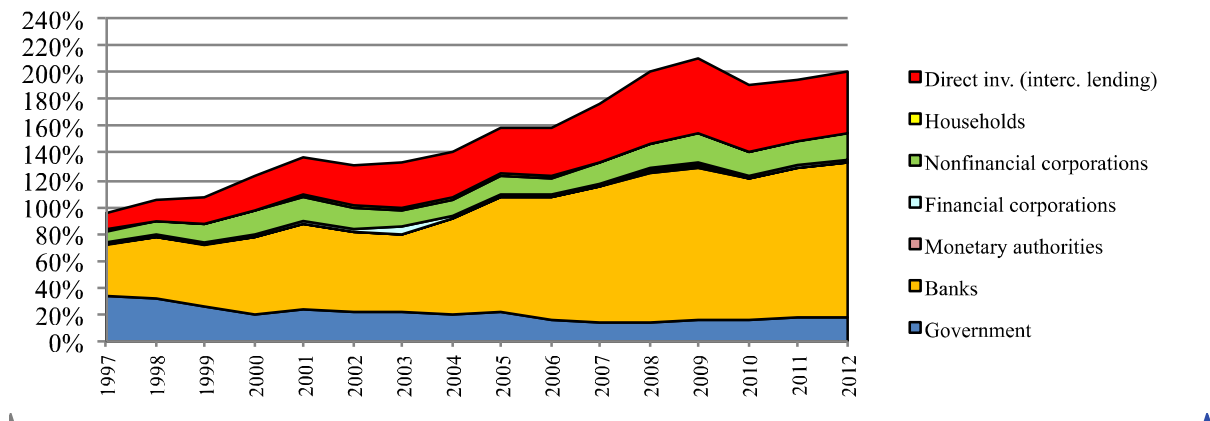


Source: our elaboration on Sveriges Riksbank Statistics (December 2012)

The total gross external debt to GDP ratio has not only remained rather high, but has also increased sharply since the mid 1990s. More precisely, it has increased from 96% of GDP in 1997 to over 200% of GDP in 2012, with a peak of 210% of GDP in 2009 (see Figure 48). Significantly,

during the same period, the Swedish government decreased its external debt position from 33% of GDP in 1997 to 17% in 2012 (with a low of 14% of GDP in 2008).

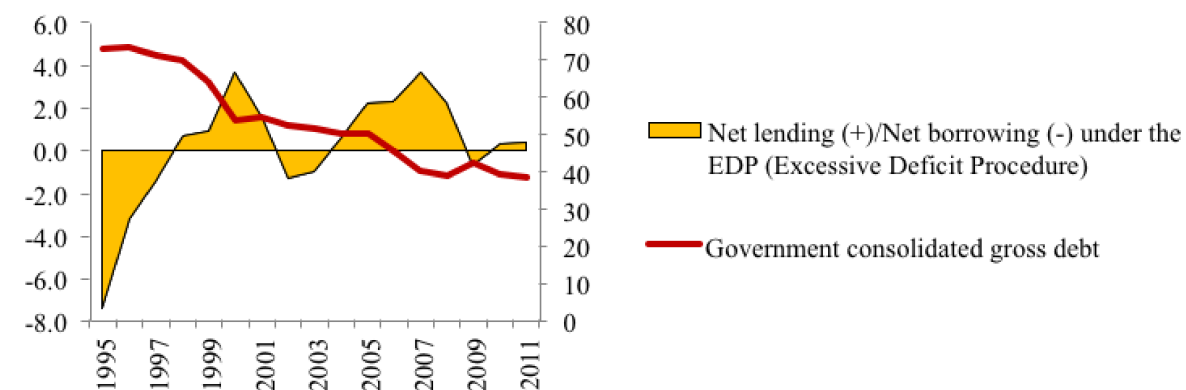
Figure 48: Gross external debt position of Sweden by sector, 1997-2007 (annual, % of GDP)



Source: our elaboration on Sveriges Riksbank statistics (December 2012)

The government debt to GDP ratio has decreased sharply since the end of the 1990s: from 72.8% of GDP to 38.4% of GDP in 2011 (see Figure 49).

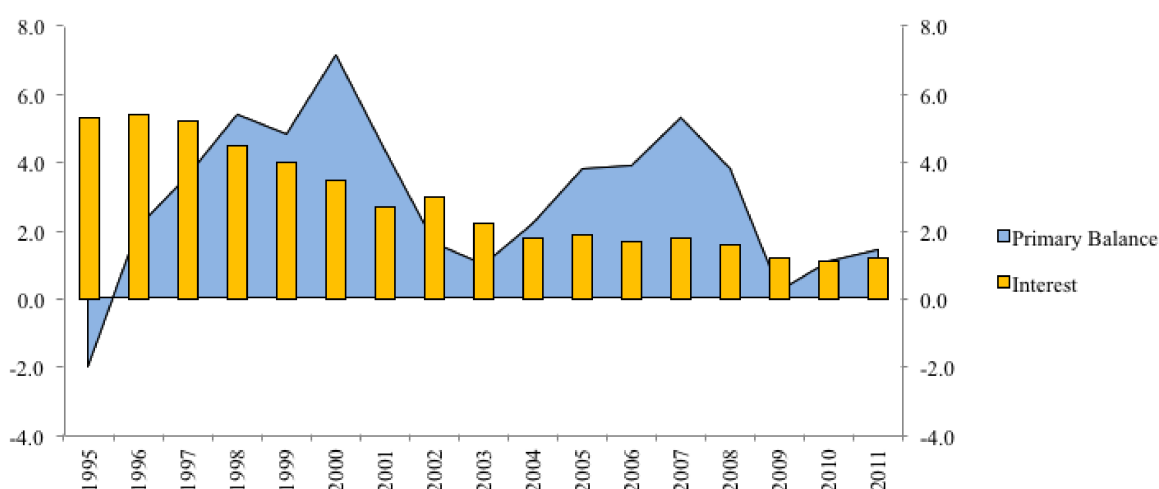
Figure 49: Government deficit (LHS) and debt (RHS) to GDP ratios 1995-2011 (annual data)



Source: our elaboration on Eurostat statistics (January 2013)

In fact, the Swedish government sector has registered primary balance surpluses from the mid-1990s onwards, and the interest payments burden has decreased steadily (see Figure 50). This, in turn, has been allowed by solid current account surpluses recorded by Sweden since 1994.

Figure 50: Primary balance and interest to GDP ratios of the Swedish government 1995-2011 (annual data)

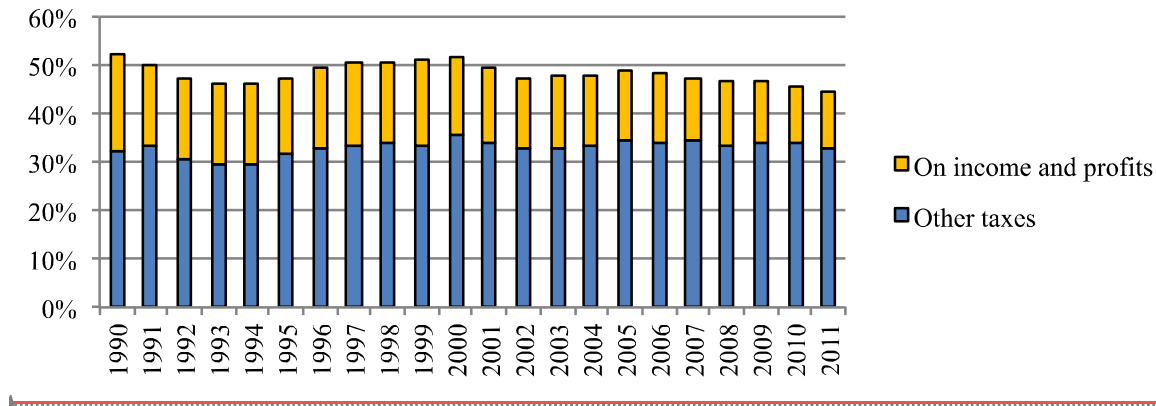


Source: our elaboration on Eurostat statistics (January 2013)

This trend has hardly been impacted by the three economic crises experienced by advanced economies since the early 1990s. Except for 1995-1997, 2002-2003 and 2009, the Swedish government balance has been in surplus (reaching +3.6% in both 2000 and 2006).

When it comes to the fiscal burden, Figure 51 shows that it has been historically high in Sweden, even though there has been a decreasing trend since the 1990s. Accordingly, the tax revenue ratio has decreased from 52% of GDP in 1990 to 44% of GDP in 2011. The decrease has largely been a result of a corresponding decrease in income and profit taxation, whereas the share of other taxes (indirect taxes, property taxes, etc.) has remained fairly steady.

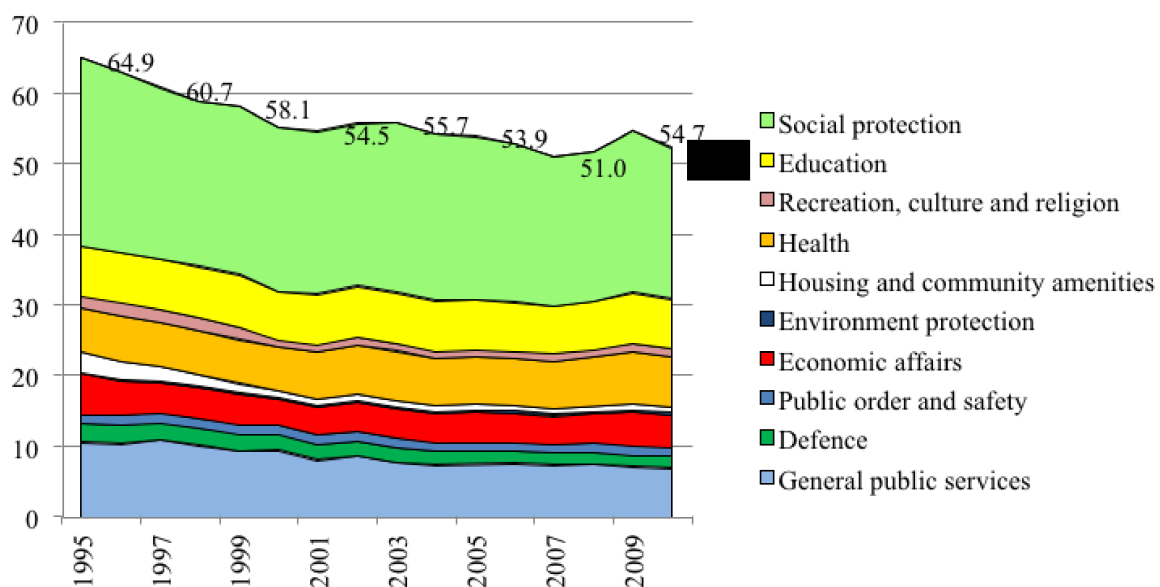
Figure 51: Tax revenues in Sweden 1990-2011 (annual data, % of GDP)



Source: our elaboration on OECD statistics (January 2013)

With regards to government expenditure, data shows a decreasing trend since the middle of 1990s (see Figure 52).

Figure 52: Total government expenditure and its components 1995-2010 (annual data, % of GDP)

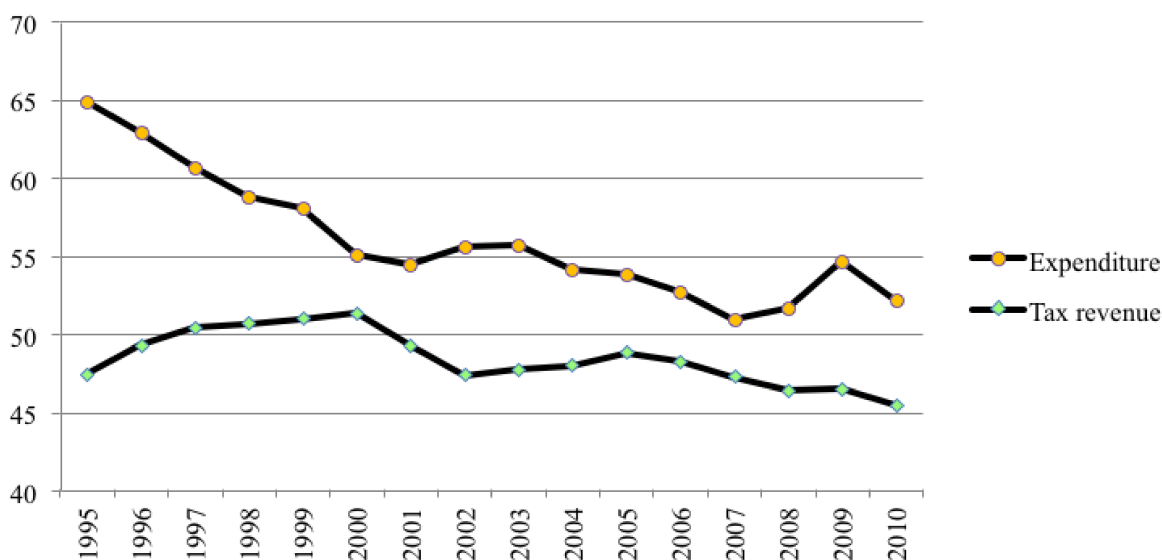


Source: our elaboration on Eurostat statistics (January 2013)

Government expenditure as a share of GDP has been reduced from 64.9% in 1995 to 52.2% in 2011, with a negative peak of 51% in 2008. The reduction in government expenditure has affected a number of areas: social protection (from 26.6% to 21.5%), general public services (from 10.6% to 6.9%), economic affairs (from 5.8% to 4.6%), housing and community amenities (from 2.8% to 0.7%), defence (from 2.5% to 1.6%) and recreation culture and religion (from 1.8% to 1.2%). However, health expenditure has increased from 6.2% to 7.1%. Expenditure on education, environment protection, as well as public order and safety has remained fairly steady (around 7%, 0.2-0.3% and 1.4%, respectively).

In sum, both government expenditure and tax revenues have decreased during the studied period, although the former has shown a more pronounced decrease.

Figure 53: Comparison between total tax revenues and total government expenditure 1995-2010 (% of GDP)



Source: our elaboration on Eurostat statistics (January 2013)

This confirms the gradual reduction of the weight of the government sector in the Swedish economy, although the absolute level still remains high in comparison to other EU countries and the U.S.

3.2 Market-oriented Reforms

As described in Section 2.1, market-oriented reforms started relatively late in Sweden in comparison to other countries. However, when the process was put into motion, it became faster and in many respects more widespread.

The deregulation process was by no means limited to the financial sector. During the last few decades, a range of industries and services have been opened up to competition, either through direct privatisation of state-owned companies, or by allowing profit-maximising companies to enter the market. As can be seen from Table 13, Sweden began this process about a decade after the UK and the US. However, with regards to areas such as taxi, mail, childcare and education, Sweden could be regarded as a 'front-runner'. To some extent this is also the case on the electricity markets (Bergman, 2013). It is therefore not that surprising that Sweden has hosted a number of visits from foreign governments and opposition parties in recent years, wishing to study the outcome of these pro-market reforms.

Table 13: Liberalisation reforms in Sweden, the UK and the US

Market	Sweden	UK	US
Banks	1986, 1991	1970s	1982, 1995
TV	1986, 1991	1955	Never regulated
Radio	1991	1970s	Never regulated
Pharmacies	2009 (p.r.)	Free competition (p.r.)	Never regulated
Aviation	1992	1982	1978
Trains	1990-2010	1993	1980
Tele	1993	1991	1984, 1996
Electricity	1996	1989-98	Partially deregulated 1992
Taxi	1990	Partially regulated	Partially regulated
Mail	1993	2003	Partially regulated
Child care	1992	No competition for s.s.	No competition for s.s.
Schools	1992	No competition for s.s.	No competition for s.s.

Source: Bergman (2013). Notes: p.r. = price regulated, s.s. = state subsidies

The deregulation of the financial sector, as well as the break-up of various state monopolies, has been prominent on a global scale. However, Sweden stands out with the radical shift with regards to the provision of welfare services, which is arguably one of the most visible characteristics of the

Swedish model. Whereas the public sector traditionally could have been seen as an instrument of social transformation (democratic in nature and providing individuals with protection), it now leans more towards that of a service producer subject to similar scrutiny with regards to cost-efficiency as the profit-maximising private sector. A number of market-oriented reforms have been passed in order to increase efficiency in the public sector by allowing private initiatives to operate in parallel.

Within primary education, the previous system was decentralised in 1988 by transferring regulatory power from central government to municipalities and the schools themselves. A US-inspired voucher system ('skolpeng') was introduced in 1992, putting private schools on equal footing with public schools financially. It also gave parents complete freedom to choose schools. Within 10 years, the number of non-public primary schools increased from 60 to 475, and has steadily increased since. A similar trend has taken place in secondary schools (Blomqvist, 2004).

Reforms in the health care sector have resulted in a growing number of quasi-market arrangements, as counties have become able to contract out services to profit-maximising actors. By 2000, 85% of counties in Sweden used private health care providers (accounting for a quarter of all patient visits). Further, the Primary Doctor Reform in 1992 enabled private physicians to 'compete' with public primary care physicians on the same conditions and with the same funding.

Elderly care has undergone a similar transformation towards price-based competition, with an increasing share of elderly receiving care from privately run (often profit-maximising) institutions. The same development has taken place within the provision of childcare, previously seen as a universal right to be provided by the state (ibid). It is still unclear whether these reforms have increased efficiency (Hartman, 2011). However, it clearly appears as if the process has led to growing stratification, particularly in bigger cities (Blomqvist, 2004).

3.3 Privatisation

During the first half of the 20th century, state ownership in Sweden was largely directed towards natural monopolies in infrastructures such as energy and communication. It was also thought that the state should have significant influence over basic and key commodities (such as forestry, mining and steel). During the 1970s, state ownership increased in line with the restructuring of the Swedish industry, with the aim of protecting sectors under economic pressure and to secure employment in certain regions (particularly in the steel industry and ship building).

With a market capitalisation of around SEK 770 billion in 2007, the state still owns a significant share of the Swedish industry. Since the beginning of the 1980s, however, Swedish state-owned companies have been sold to private owners, gradually diminishing the role of the state in a range of sectors. This trend has continued regardless of the composition of the prevailing government: right wing as well as left-wing governments have argued in favour of large-scale privatisation. Whereas the former have been more ideological and pointed towards inefficiencies and lack of profitability in state-owned companies, the latter have tended to highlight 'changing market conditions' and the need to provide state-owned companies with equal opportunities as privately owned enterprises (Munkhammar, 2009). Naturally, the privatisations have also provided hefty lump-sum government receipts which are reported as reducing the budget deficit.

Although a few privatisations took place already in the 1980s, the process began in earnest in 1991, when the government decided to systematically privatise 35 companies, fully or partially. The following companies were affected and raised SEK 23 billion in total: AssiDomän, Celcius Industrier, Cementa, Företagskapital AB, Pharmacia, OK Petroleum, SEMKO, SKD-företagen, Sorbinvest, SSAB, SSPA Maritime Consulting AB, Svalöf AB, Svensk Avfallskonvertering (SAKAB) and Sveriges Geologiska AB (SGAB) (Munkhammar, 2009). The 1990s saw, however, further privatisations. In 1996, the government decided to reduce state holdings in eight companies: AssiDomän, Celcius, Enator, Pharmacia & Upjohn, SAQ Kontroll AB, Svensk Exportkredit, SBL

VAccin and Lantbrukskredit AB. Another privatisation wave took place in 1998 and 1999, and the process continued into the 2000s.

By the end of 2000, state ownership amounted to SEK 155 billion, equivalent of 4.8% of the total market capitalisation on the Stockholm Stock Exchange. At the time, the government was still the single largest shareholder on the stock exchange. By the end of 2006, however, this figure had been reduced to 1% and the government had dropped to number 14 in terms of share ownership. The right-wing coalition government, having come into power in 2006, argued that state-ownership ought to be reduced further. Consequently, shares in Civitas Holdings, Nordea Bank, OMX, SBAB, TeliaSonera and V&S Vin & Sprit were sold to private investors. Table 14 provides an overview of establishments/acquisitions versus privatisations in Sweden since the 1970s. Table A1 (in the appendix) gives a more detailed list of the various sectors affected.

Table 14: Overview of establishments/acquisitions versus privatisations in Sweden

Decade	Establishments/Acquisitions	Privatisations
1970s	SSAB SAKAB Cementa AB SEMKOAB	
1980s	Celsius AB OKPetroleum AB ASSI Grängesbergs Gruvor SGAB	UV Shipping SSAB SSPA Maritime Consulting AB
1990s	Nordbanken Enator Pharmacia VPCAB Telia AB AssiDomän Domänverket NCB Svenska Lagerhus AB	SAKAB SSAB Svalöf Swedish Real Estate Valuation Corp Celsius Cementa AssiDomän OKPetroleum Pharmacia SEMKO Nordbanken Industrikredit AB SBL Vaccin Stadshypotek AB Enator PharmaciaUpjohn SAQ Kontrol VPC AB Företagskapital Svenska Statens Språkresor AB Lantbrukskredit AB Svensk Fastighetsvärdering
2000s	AssiDomän	Nordbanken Celsius AB Telia AB Grängesbergs Gruvor Svenska Lagerhus Svenska Miljöstyrningsrådet Nordea Bank SAKAB TeliaSonera SGAB Kurortsverksamhet

Source: Munkhammar (2009)

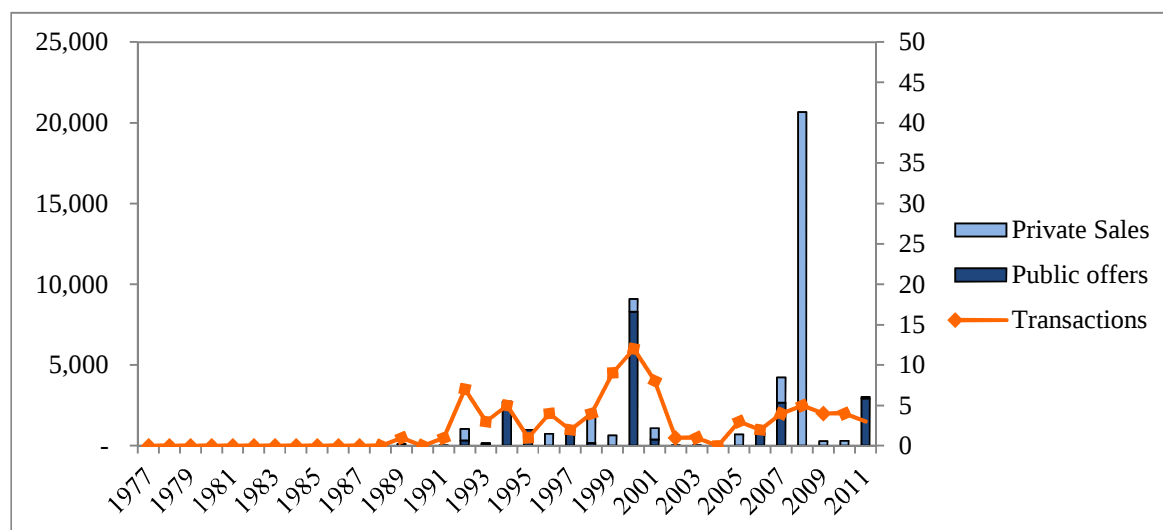
The privatisation process also affected the banking system: more than 30% of the government's shares in Nordbanken were sold between 1995 and 1997. Still, between 1998 and 2000, several privatisations involved energy, gas and water distribution (such as Stockholm Energi, Hässleholm

Energi AB, Kramfors Fjärrvärme AB and Norrköping Miljö och Energi). Year 2000 recorded a historical peak with regards to privatisation revenues. However, about 92% of the total proceeds raised in that year derived from the sale of a 20.9% stake in Telia AB, the leading telecommunications company in Sweden.

Another peak was recorded in 2008, when the government sold its entire stake of 7.99 million shares in the Nordic stock exchange operator OMX for around USD 5 billion. The government also accepted a bid from Pernod Ricard SA for the state-owned Vin & Sprit AB - raising more than USD 8 billion. During the second half of 2008 the government also privatised its real estate company Vasakronan, raising USD 6.88 billion (Privatization Barometer, 2013).

Privatisations during the 1990s and the first half of 2000s mainly took the form of public offers and were characterised by a high number of transactions. By contrast, private sales, which had represented a small part up until then, recorded a peak in 2008. After the peak in 2009 and a low level recorded in 2009-2010, privatisations (in the form of public offers) increased again in 2011 – with a total value having reached USD 49,856 million (see Figure 54).

Figure 54: Privatisations in Sweden 1977-2009: private sales (USD mio, LHS), public offers (USD mio, LHS) and number of transactions (RHS) (annual data)

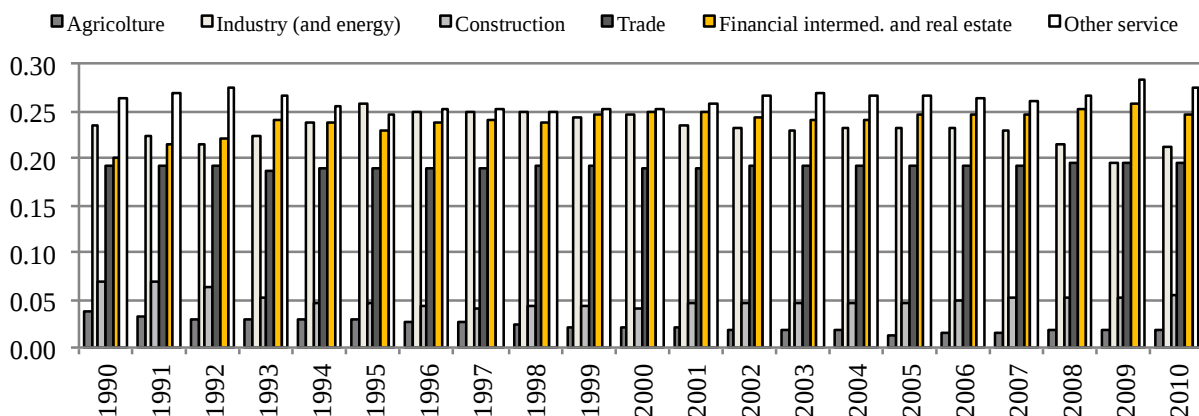


Source: our elaboration on Privatization Barometer data (January 2013)

One might expect that the process of privatisation is linked to the process of financialisation of the economy. In this regard, notice that the Swedish GDP mainly stemmed from the service sector (70.9%) in 2011, even though the weight of the industrial sectors was considerable (27.3%). By contrast, agriculture contributed to just 1.8% of total value.

Figure 55 shows the increasing weight of the financial intermediation, insurance and real estate sector (FIRE) in Sweden during the studied period. In 1990, the FIRE sector was third in terms of gross value added (20% of the total), after industry (24%) and other service activities (26%). The FIRE sector overtook the industry sector during the early 2000s and reached a historical peak (26%) in 2009.

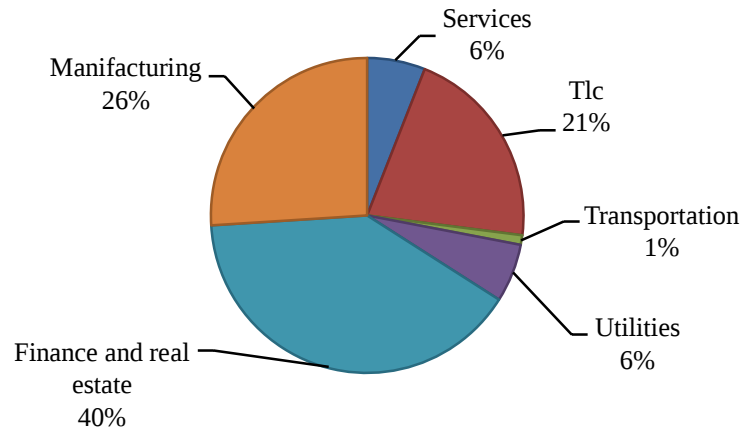
Figure 55: Gross value added by sector in Sweden 1990-2010 (annual data, % of total)



Source: our elaboration on OECD statistics (January 2013)

Figure 56 shows the distribution of privatisation revenues by sector in Sweden until 2011. The FIRE sector is not only the industry whose value added has grown faster, but, on the whole, it has been the main subject of the privatisation process, followed by manufacturing and telecommunication industry ('Tlc'). By contrast, the weight of industry (and especially of manufacturing) has decreased constantly after the peak of 1995, in spite of a relatively high level of privatisation activity.

Figure 56: Distribution of privatisation revenues by sector in Sweden until 2011



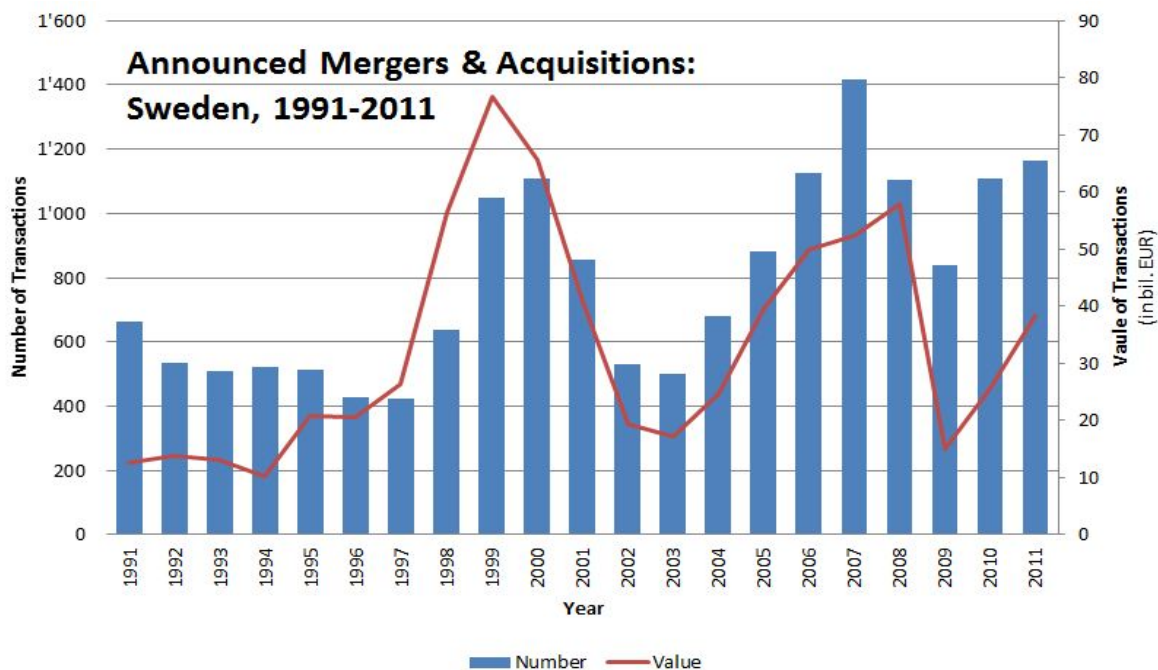
Source: our elaboration on Privatization Barometer data (March 2012)

On the whole, Swedish privatisations accounted for around 3-4% of European revenues and 6% of European transactions, with a total of more than 80 operations between public offers of shares and private sales until 2011.

3.4 Mergers & Acquisitions

Mergers and acquisitions have also become more common in Sweden since the early 1990s. As can be seen from Figure 57, the M&A activity has been particularly prominent during two periods: from the late 1990s to the so-called 'dot-com' crash, and from a recover period of around 2003 to the collapse of Lehman Brothers in September 2008.

Figure 57: Quantity (LHS) and value (RHS, EUR bio) of announced M&A in Sweden 1991-2011



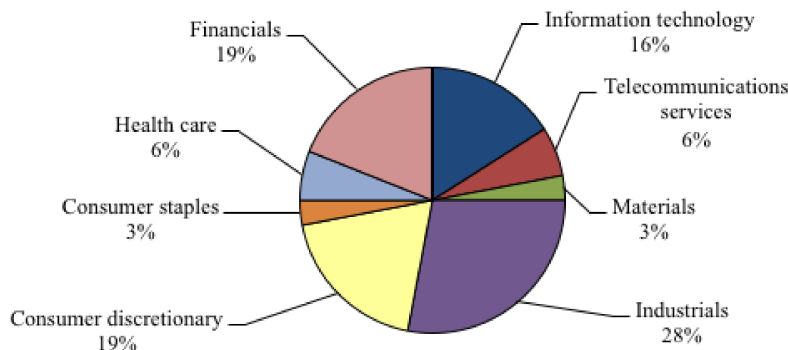
Source: IMAA analysis of Thomson Financial data (January 2013)

The M&A activities reached their historical peaks in 1999 (around 32% of Swedish GDP at the time) and again in 2008 (16% of Swedish GDP). After a sharp contraction in 2009, akin to the contraction that followed the burst of the 'dot-com' bubble in the early 2000s, the transaction value of mergers and acquisitions have begun to increase again. This process echoes the transformation of the Swedish industrial landscape as discussed in earlier sections.

Furthermore, Table A2 in the Appendix shows a list of 'hostile takeovers' (acquisitions against the will of management, shareholders and board of directors of the target company) taking place in Sweden during 1997-2007. As can be seen, the most frequently used tactic used by the target company has been to attack the logic of the bid. Around 56% of attempted hostile takeover targets have used this defence tactic to avoid being acquired (Johansson and Torstensson 2008, p. 3). The other most frequently adopted defence tactics have been 'White knight' and 'Positive public information'. Hostile takeovers were particularly prominent during the periods 1990-2001 and 2006-2007.

The Swedish industrial sector has been the main target for mergers and acquisitions, followed by the consumer discretionary sector, finance and information technology (see Figure 58).

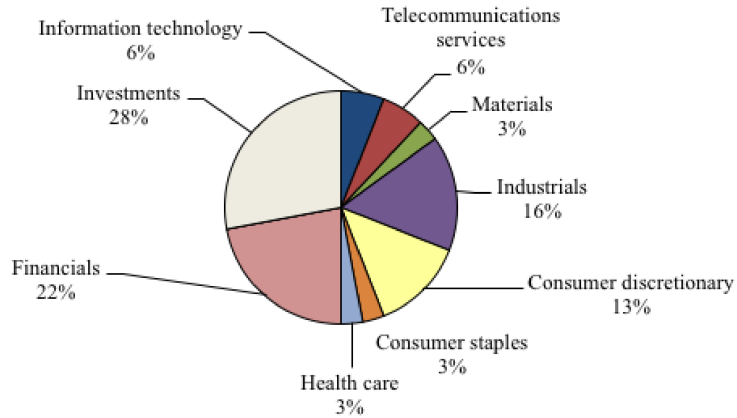
Figure 58: Target industries in Swedish mergers and acquisitions until 2008



Source: Johansson and Torstensson (2008)

Expectedly, the main buyers have been investment (including private equity) companies and financial companies, followed by industrial firms (See Figure 59). As Johansson & Torstensson (2008, p. 47) state, the sector composition of the buy and sell sides points towards 'the same underlying motive as regular mergers and acquisitions'.

Figure 59: Buyer industries in Swedish mergers and acquisitions until 2008



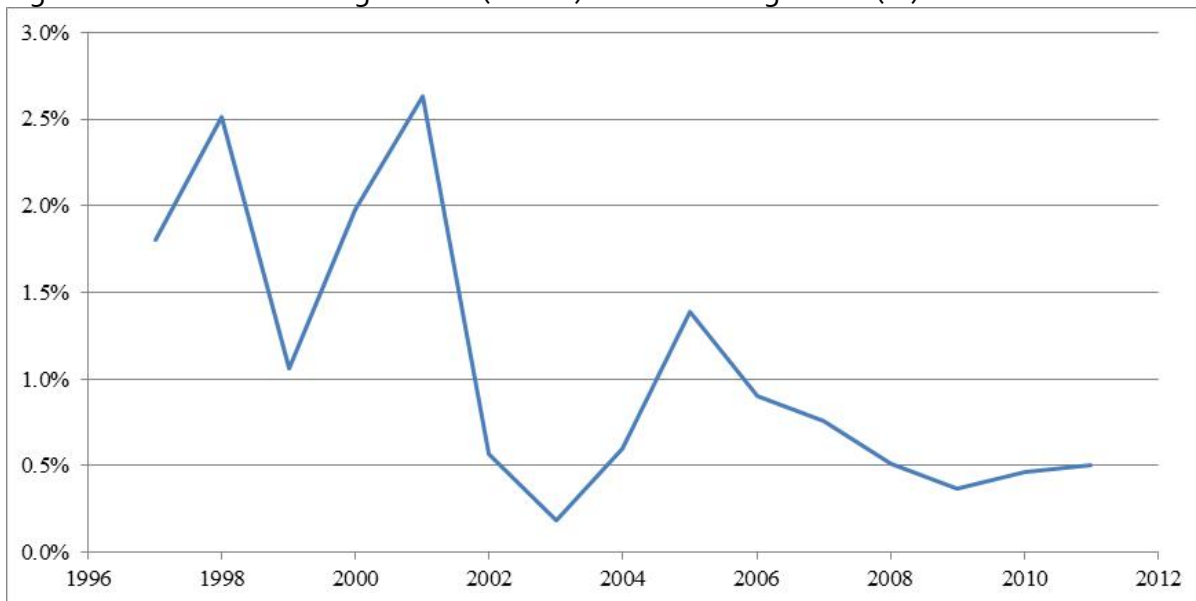
Source: Johansson and Torstensson (2008)

Figure 58 shows that the most part of M&As in Sweden involved industrial sector as the main target, followed by consumer discretionary, financial and information technology sectors. As we would have expected, the most part of buyers were investment (including private equity) companies and financial companies, followed by industrial firms.

3.5 Profitability and Efficiency

The return on average assets (ROAA) in the Swedish banking sector has fallen from around 1-3% during the latter half of the 1990s to 0.5-1.5% since 2002 (Figure 60).

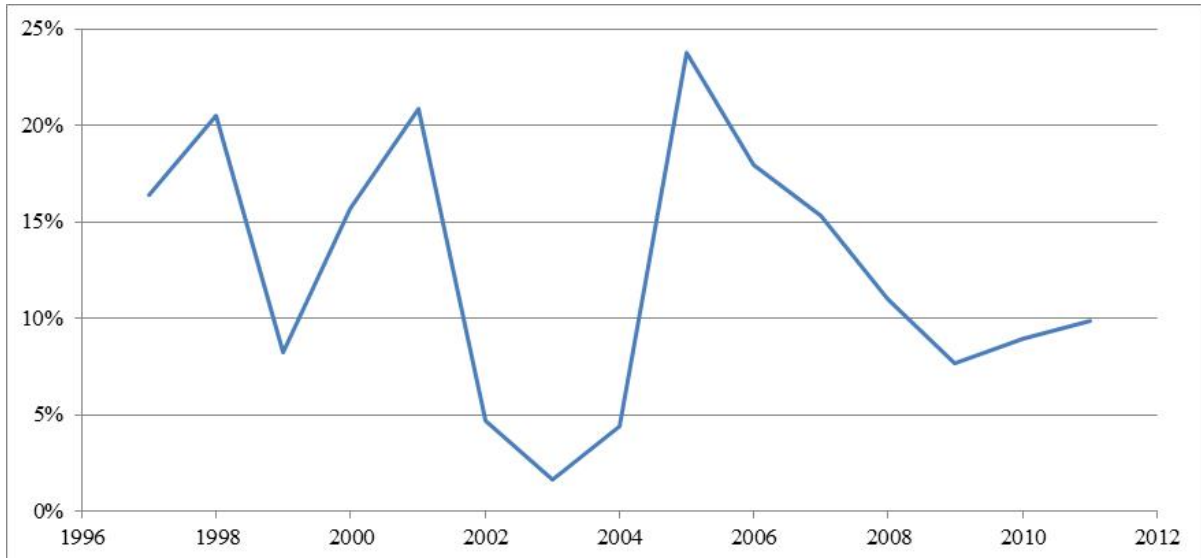
Figure 60: Return on average assets (ROAA) of the banking sector (%)



Source: Bankscope

Figure 61, showing the return on average equity (ROAE), indicate a similar trend. Despite peaks over 20% in 1997, 2001 and 2005, the overall trend has been falling.

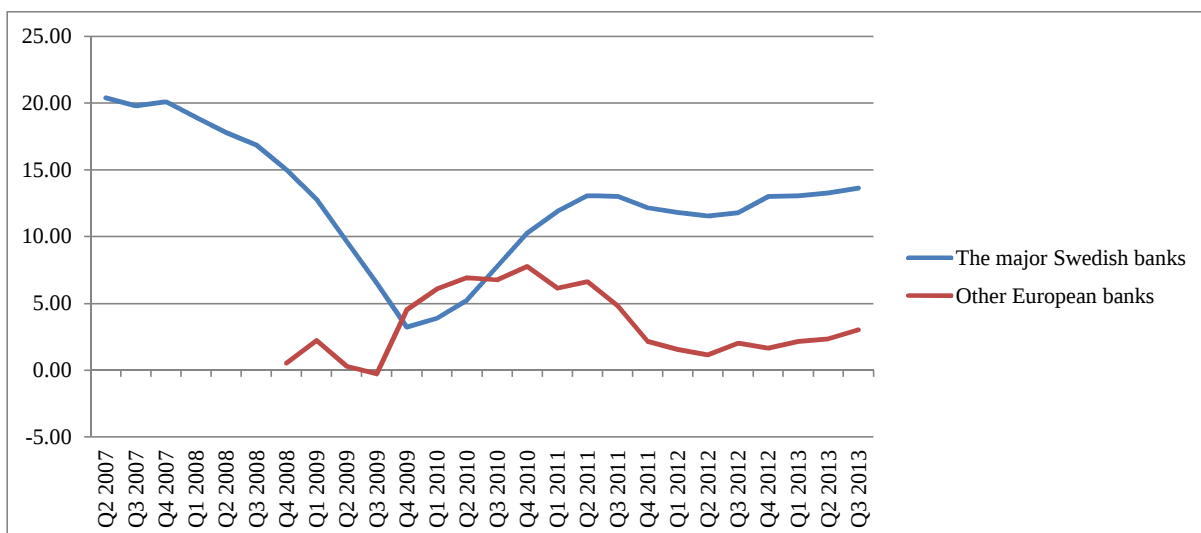
Figure 61: Return on average equity (ROAE) of the banking sector (%)



Source: Bankscope

As Figure 62 depicts, the return on equity of the major Swedish banks fell rapidly from around 20% before the outbreak of the global financial crisis to around 3% in 2009. Since then, however, the Swedish banks have steadily improved their profitability – reaching an average return on equity of over 13% during the third quarter of 2013. This represents a significant decoupling from the major European banks.

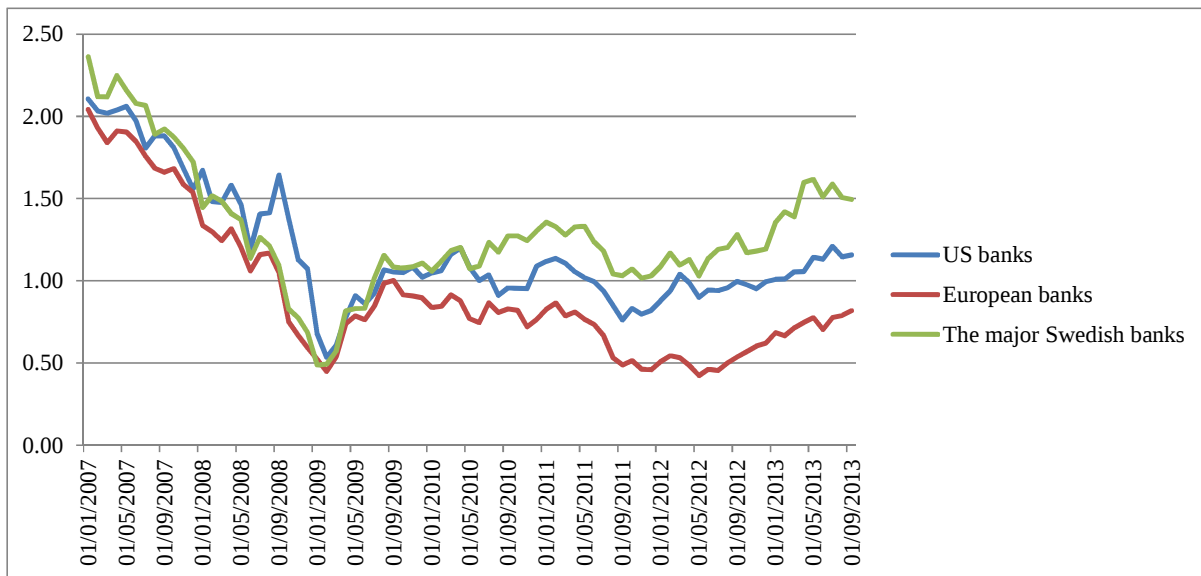
Figure 62: Return on equity (%)



Sources: SNL Financial and Sveriges Riksbank. Note: The blue line refers to the mean value of a group of large European banks.

Low loan losses have been a contributing factor to overall profitability (Riksbank, 2013c). As a result, both the price-to-book ratios (see Figure 63) and the CDS spreads (see Section 4.1) of the major Swedish banks have outperformed those of their European and US peers since 2009.

Figure 63: Price-to-book ratio (%)

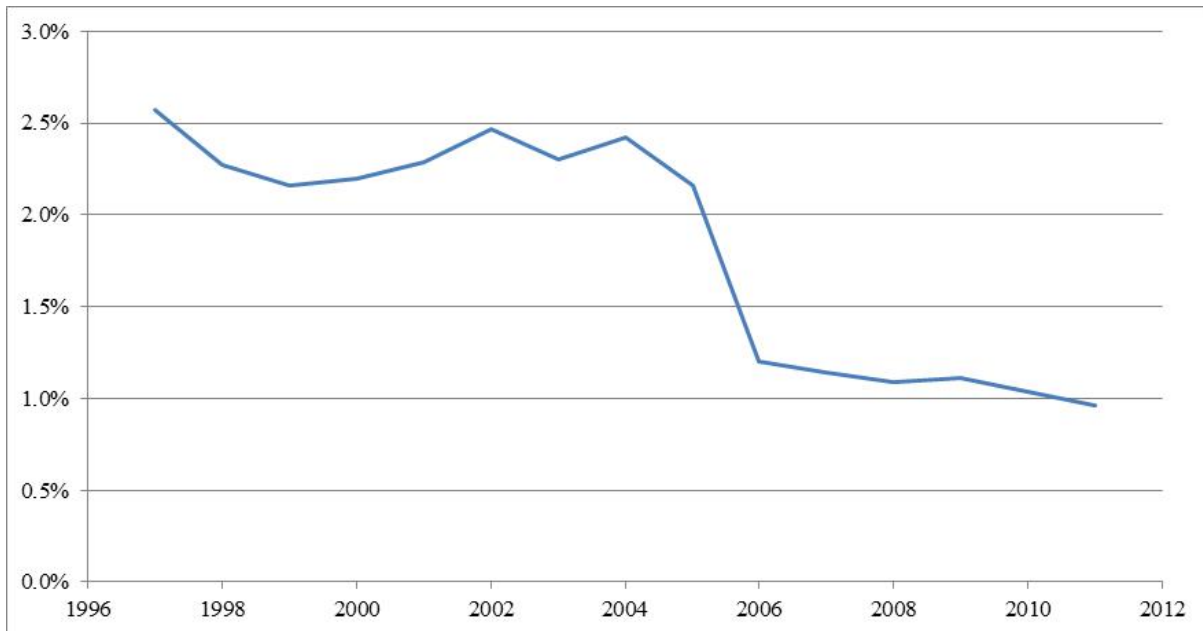


Sources: SNL Financial and Sveriges Riksbank

As Sveriges Riksbank (ibid) points out, the profitability of the major banks is still lower than before the financial crisis.

A number of factors can be attributed to this trend, such as higher capital adequacy requirements following tougher financial regulation and smaller deposit margins as a result of low interest rates. However, the net income margin has had a steadily decreasing trend during almost two decades (Figure 64).

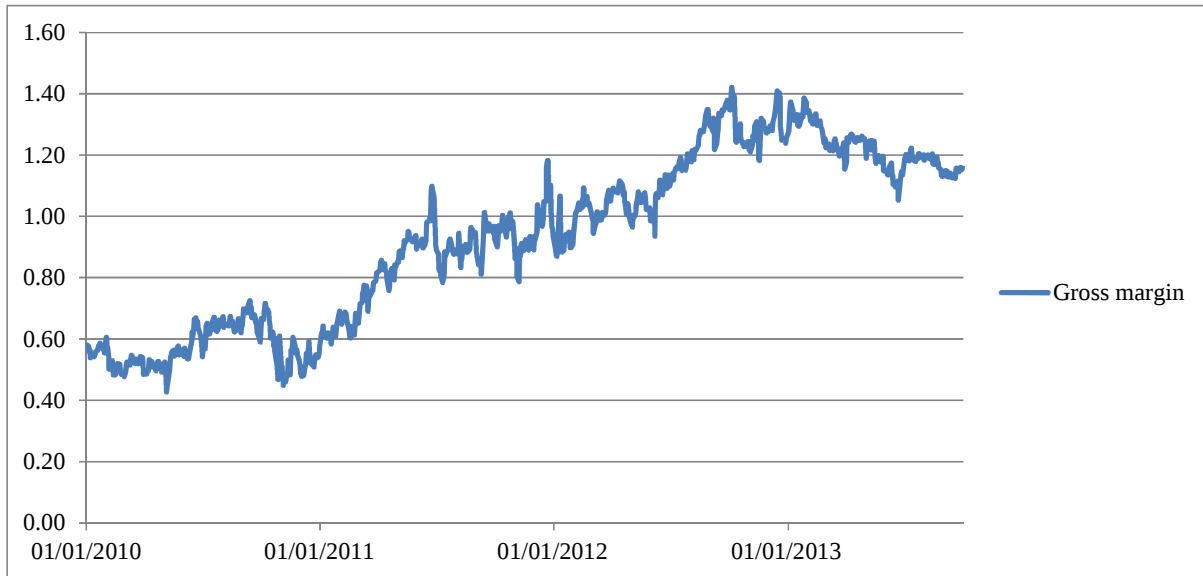
Figure 64: Net interest margin (NIM) of the total banking sector (%)



Source: Bankscope

However, as Figure 65 depicts, the gross margin on new mortgages has increased significantly during the last few years. Sveriges Riksbank (ibid) suggests that a contributing factor can be the new regulations concerning liquidity and capital that have been imposed on the Swedish banks in recent years.

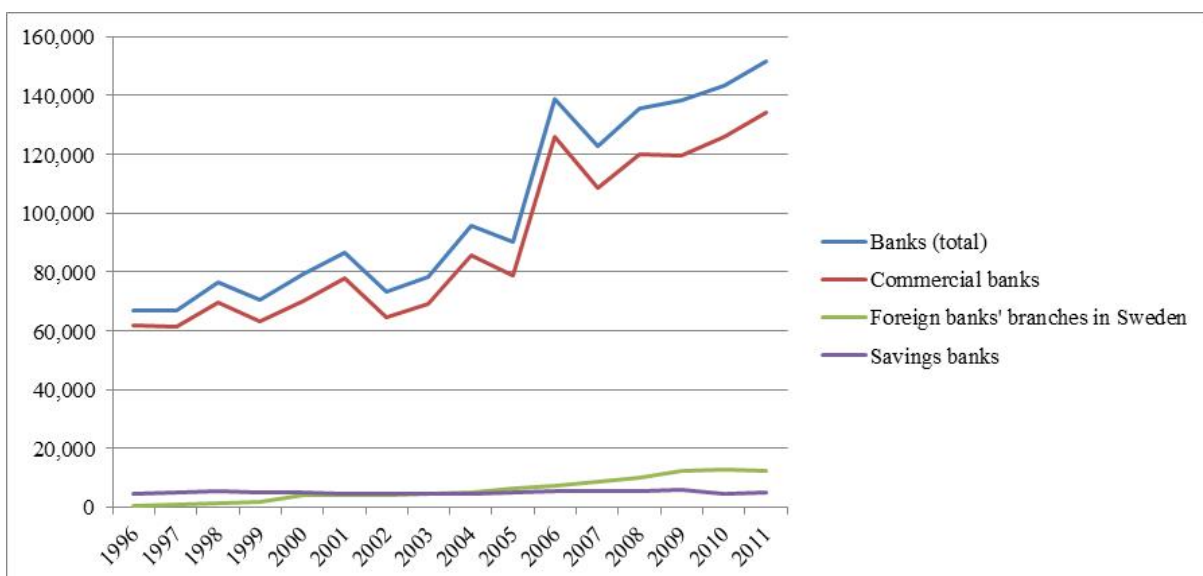
Figure 65: Gross margin on the major banks' mortgages with 3M fixed interest (%)



Sources: Bank reports, Reuters EcoWin and Sveriges Riksbank. Note: The gross margin shows the banks' lending margins minus funding costs.

With regards to the total income in the Swedish banking sector, the large commercial banks stand for the overwhelmingly majority. As Figure 66 shows, the income of foreign banks' branches in Sweden has increased in recent years, but is still proportionally insignificant.

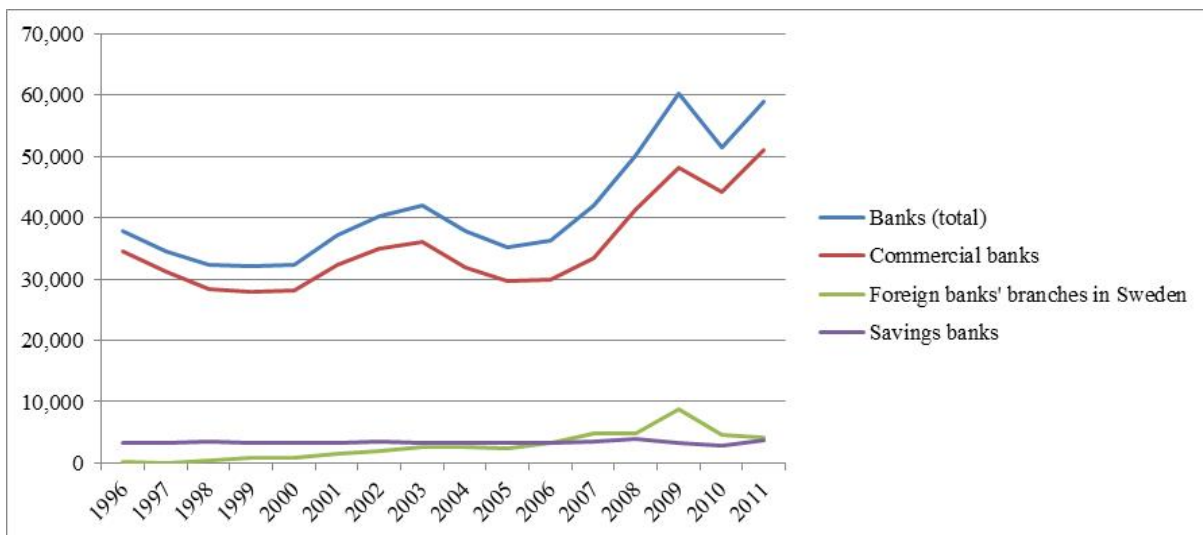
Figure 66: Total income of the banking sector (SEK mio)



Source: Swedish Financial Supervisory Authority

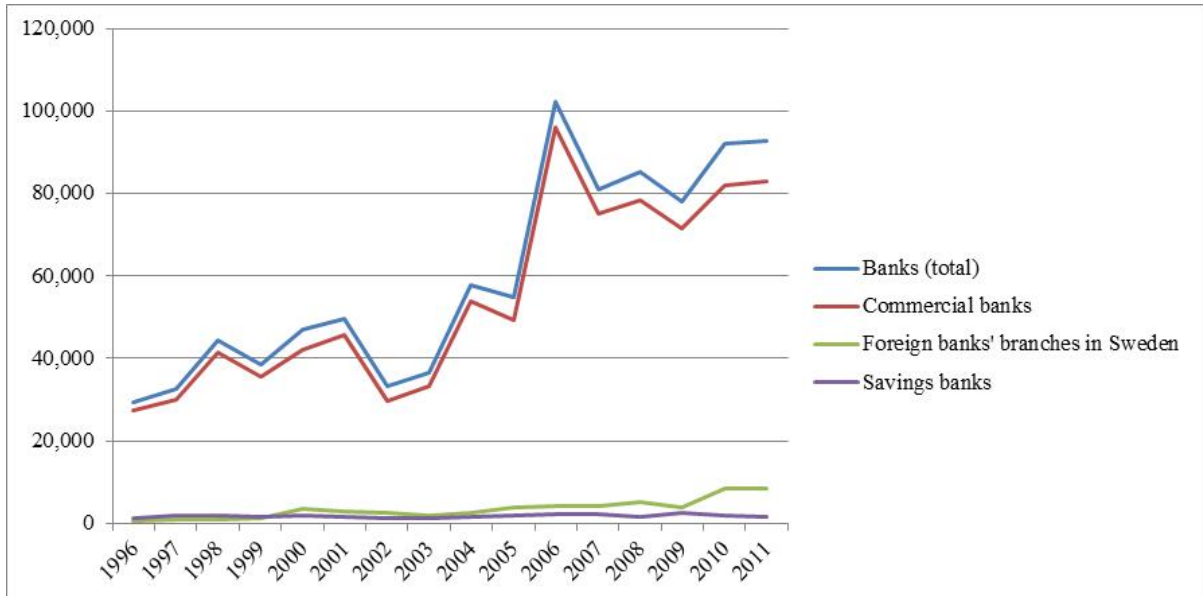
Although the total income has increased fairly steadily since the banking crisis in the early 1990s in nominal terms, Figures 67 and 68 indicate that a clear shift has taken place with regards to the sources of income. Since the early 2000s, non-interest income has increased substantially in comparison to net interest income and now stands for the majority of the total income in the banking sector. Although the global financial crisis prompted a halt in the rapid increase, it has stabilised itself at a high level.

Figure 67: Net interest income of the banking sector (SEK mio)



Source: Swedish Financial Supervisory Authority

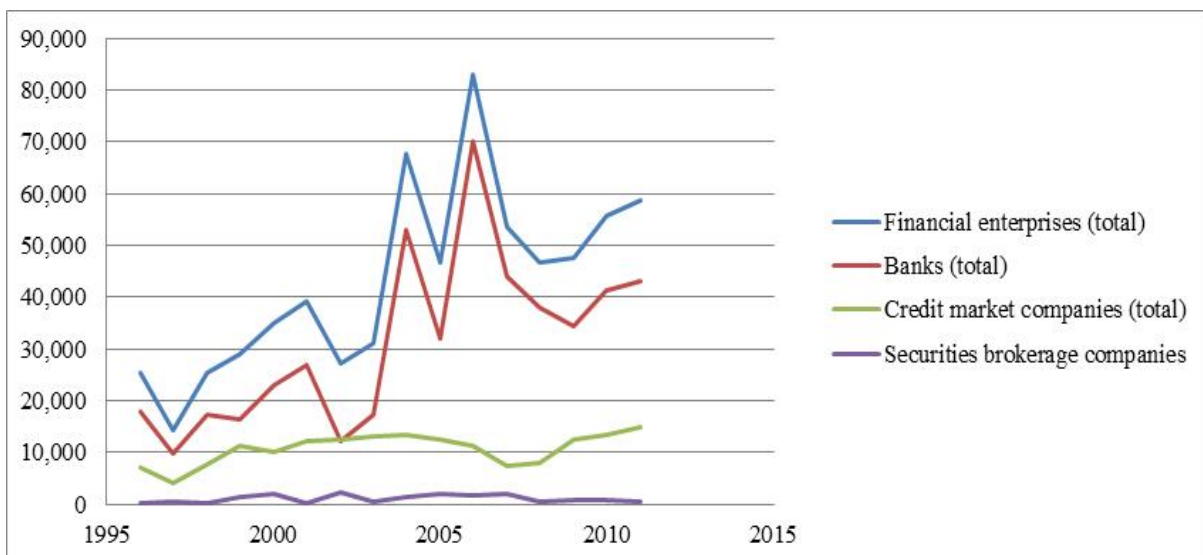
Figure 68: Non-interest income of the banking sector (SEK mio)



Source: Swedish Financial Supervisory Authority

Bank profits, and particularly the profits of the largest commercial banks, make up the vast majority of the profits among financial enterprises in Sweden.

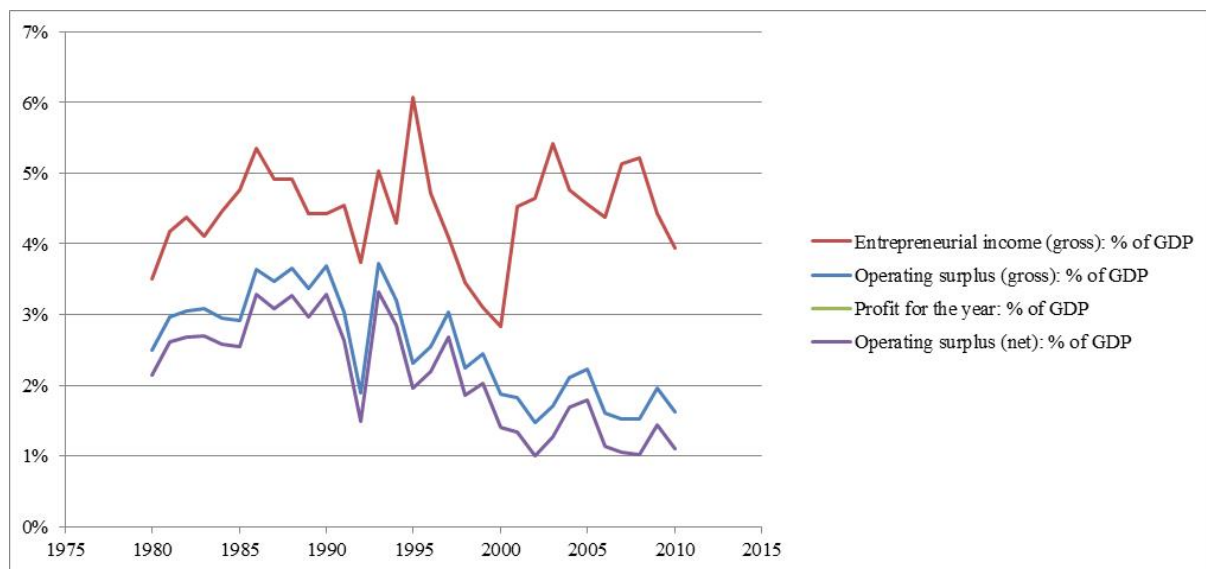
Figure 69: Profit/year (financial enterprises, SEK mio)



Source: Statistics Sweden

However, in relation to GDP, the profitability of financial corporations is fairly insignificant. Gross entrepreneurial income has ranged between 3-6% of GDP since 1980. The operating surplus, however, has gradually decreases from around 3% in the 1980s to 1-2% during 2000s (Figure 70).

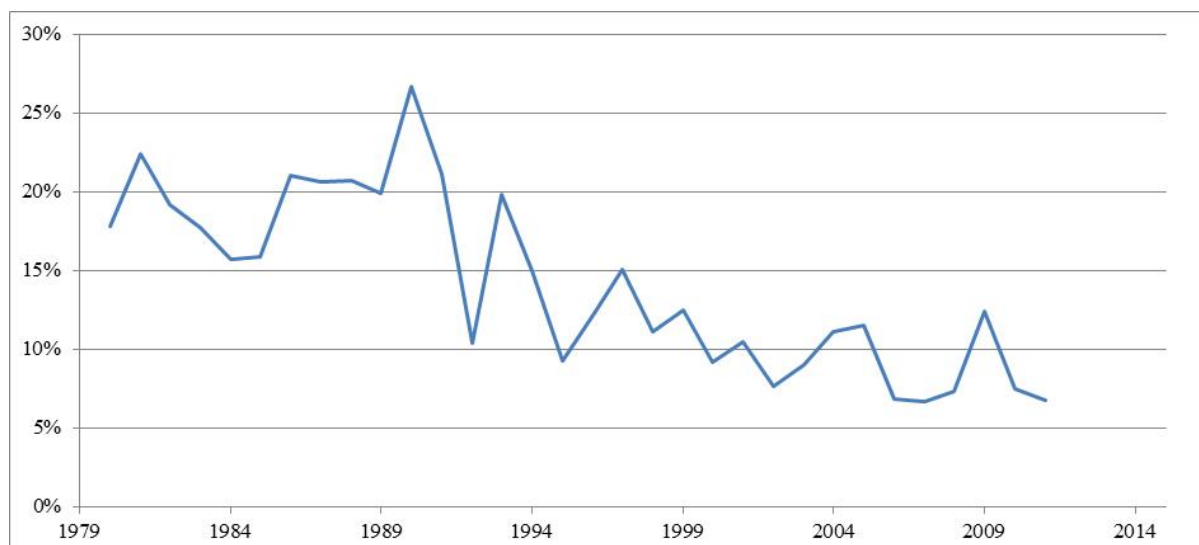
Figure 70: Profitability (financial corporations, % of GDP)



Source: Statistics Sweden

Seen from a different perspective, the net operating surplus of financial corporations as a share of the total economy has gradually decreased from around 20% during the 1980s to around 10% during the 2000s (Figure 71).

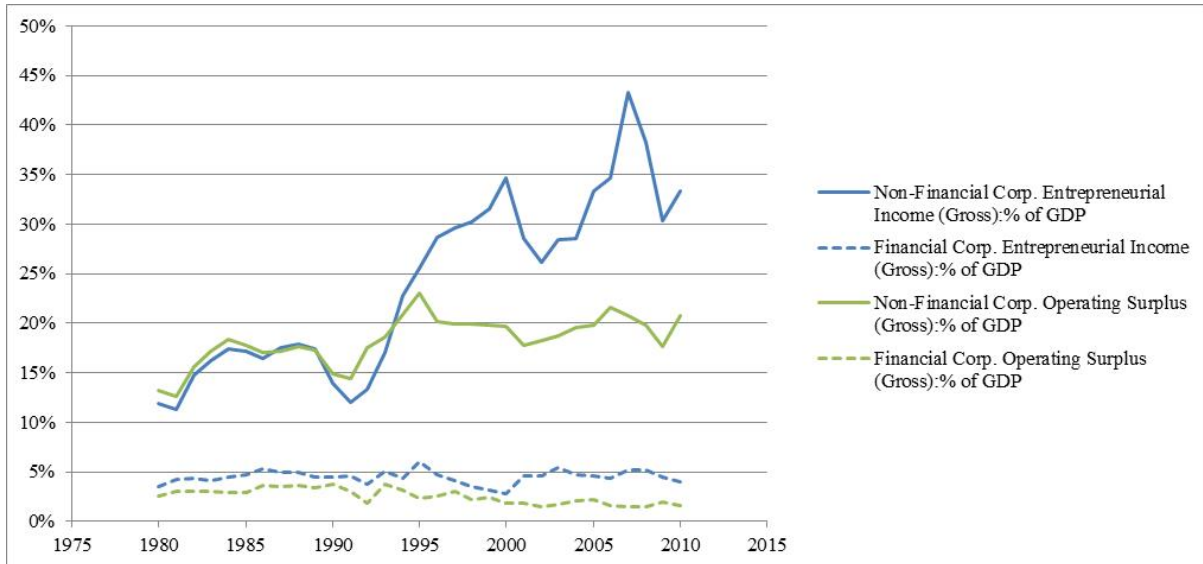
Figure 71: Net operating surplus (NOS) of financial corporations (% of NOS of the total economy)



Source: Statistics Sweden

As can be seen from Figure 72, the entrepreneurial income and gross operating surplus of financial corporations in Sweden has been fairly low and stable since 1980. This is in sharp contrast to the corresponding figures for non-financial corporations, where the gross operating surplus has increased from below 15% to around 20% of GDP, and the entrepreneurial income from a similar level to around 35% of GDP.

Figure 72: Profitability (% of GDP)

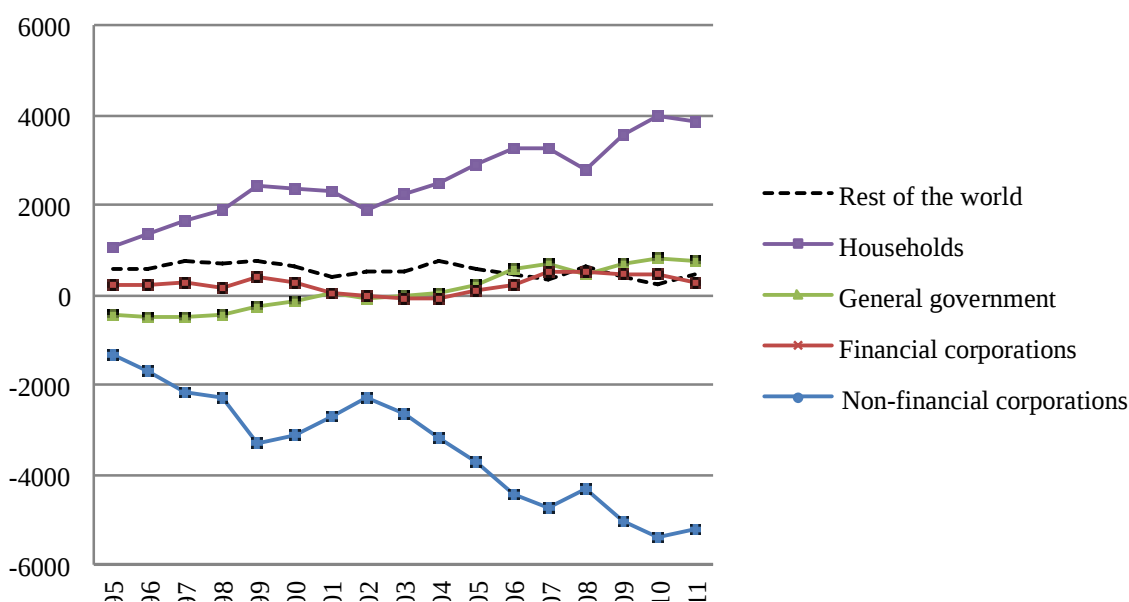


Source: Statistics Sweden

3.6 Sources and Uses of Funds

Figure 73 shows the net financial positions of the main economic sectors in Sweden. During the mid-1990s, the situation was as follows: households were net lenders of financial funds (SEK 1,069 billion), as were financial corporations (SEK 208 billion) and the rest of the world (SEK 563 billion). The main net borrower was the non-financial corporate sector (SEK -1,363 billion), whereas the government sector absorbed the remaining part of funds (SEK -462 billion).

Figure 73: Financial balance sheets by sector in Sweden 1995-2011 (annual data, consolidated, SEK bio, current prices)

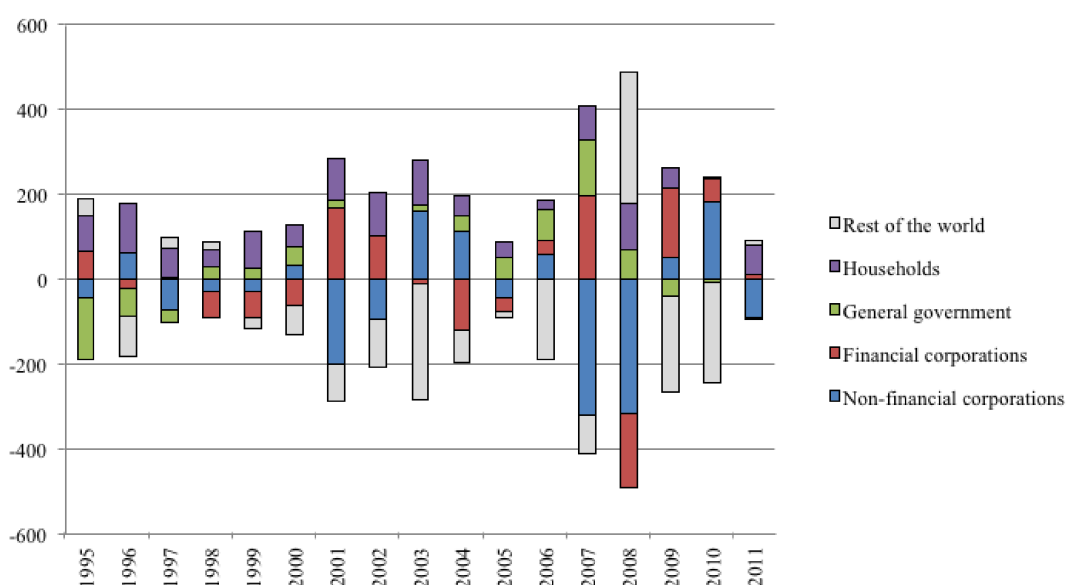


Source: our elaboration on OECD statistics (January 2013)

Since then, households have improved their net financial position (reaching SEK 3,851 billion in 2011). During the same period, the government and financial corporations have also become net lenders (SEK 723 billion and SEK 283 billion, respectively), whereas the rest of the world has maintained its net (although slightly reduced) positive position. Consequently, non-financial corporations remains the only net borrower, having increasing their net indebtedness fourfold, from SEK -1,362 billion in 1995 to SEK -5,220 billion in 2011.

Figure 74 shows net financial flows by sector, confirming the role of net lending by households and net borrowing by non-financial corporations (except for during 2003-2004 and 2009-2010). Since the beginning of the 2000s, the rest of the world recorded financial deficits vis-à-vis Sweden (except for 2008 and 2011), whereas the government accumulated a surplus of financial assets (except for 2009).

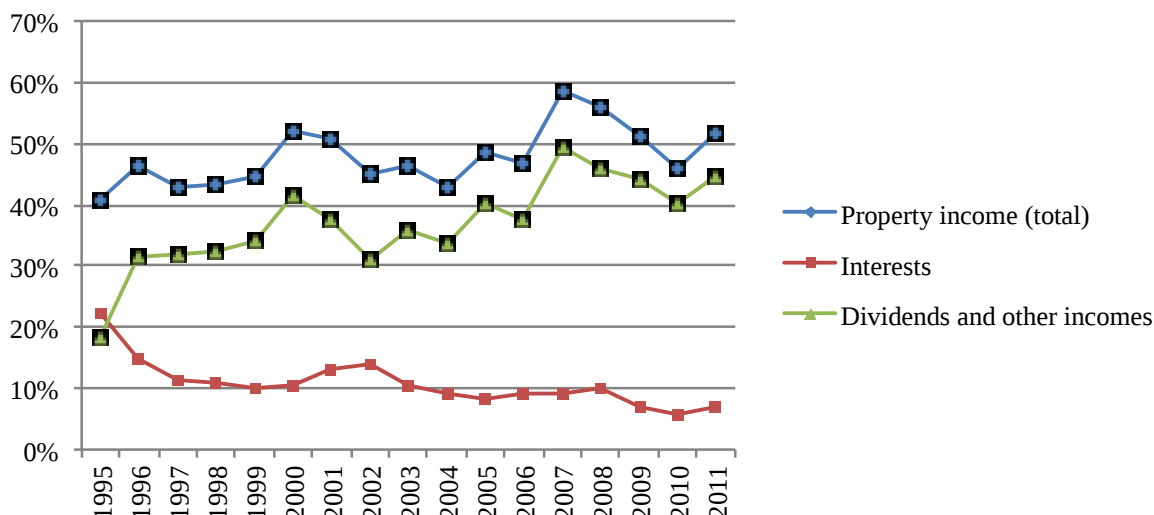
Figure 74: Financial accounts by sector in Sweden 1995-2011 (annual data, consolidated, SEK bio, current prices)



Source: our elaboration on OECD statistics (January 2013)

Figure 75 shows that, throughout the period studied, property income (consisting of interests, dividends and other financial rents) has increased significantly as a share of total resources (from 40.9% in 1995 to 51.4% in 2011, with a peak of 58.5% in 2007). This trend has been driven by an increase in dividend payments and other financial incomes obtained by non-financial corporations, even though interest payments have declined quite sharply. This is not surprising considering the low level of interest rates in recent years. The high proportion of property income obtained by Swedish non-financial corporations is fairly high compared to other countries.

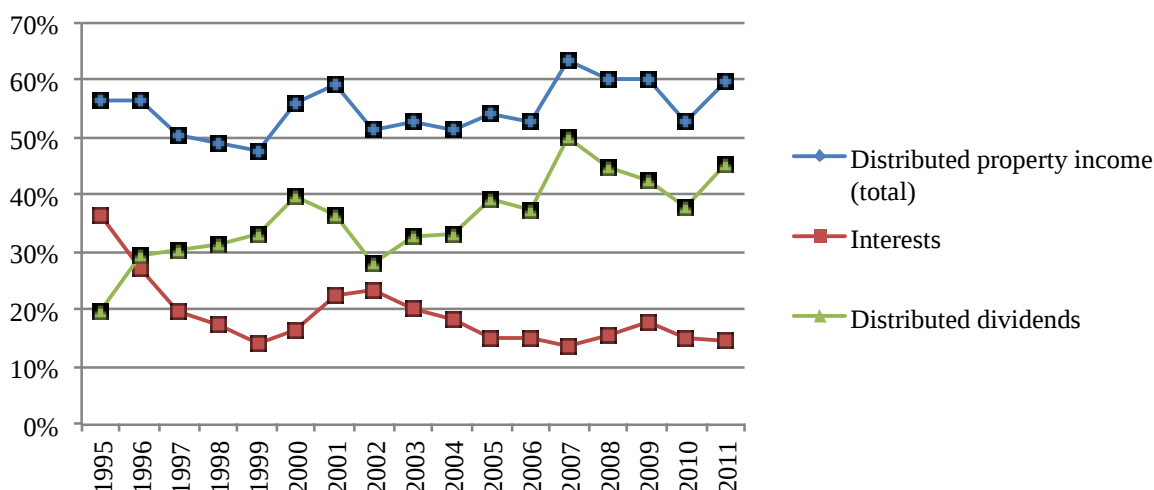
Figure 75: Sources of operating surplus of non-financial corporations 1995-2011 (% of total resources)



Source: our elaboration on OECD statistics (January 2013)

With regards to the use of resources, the share of profits distributed to shareholders by non-financial corporations can be interpreted as an indicator of the increasing shareholder value orientation by management (as increasing dividends can help to keep share prices high). At the same time, retained profits affect investment in capital stock, as they represent an important source of financing (in the presence of non-perfect competitive financial markets).

Figure 76: Uses of resources of non-financial corporations 1995-2011 (% of total resources)



Source: our elaboration on OECD statistics (January 2013)

Figure 76 shows that the share of distributed property income of the total resources has increased slightly since the mid-1990s. The share of distributed income of corporations in terms of dividends has increased sharply, whereas the share of interest payments has declined.

3.7 Housing and Mortgages

In the early 2010s, more than 70% of the Swedish households own their property. Of these, 96% have a mortgage. The number of households with a mortgage is very high from an international perspective, and puts Sweden in the same category as Denmark, Norway and the Netherlands. In 2012, the total loans secured on residential property amounted to SEK 2,874 billion (Svenska Bankföreningen, 2013).

During the last few decades, the Swedish housing sector has been transformed from one of the most regulated in Europe to one of the most market-oriented (Hedin et al., 2012). As Lind & Lundström (2007) note, state engagement is now considerably less pronounced than in the UK and the US, traditionally seen as prominent proponents of market liberalism. However, this radical shift in the housing market can also be seen through the lens of the closely connected mortgage market. Hence, this section aims to describe and analyse the core developments of both.

Up until the 1930s, the Swedish housing sector was relatively free from government intervention. The so-called 'krisprogrammet' (the 'Crisis Programme') of 1933, however, resulted in a radical change towards state support of the sector. In line with the ideology of the Social Democratic Party, the housing policy during the following decades came to be of general, rather than selective, character - with aims including an elimination of the housing shortage, a large scale modernisation, affordable rents throughout and a non-profit maximising housing management. The shift was also motivated by a Keynesian economic thought process (Englund, 1993). Thus, a number of regulations aimed at stimulating the housing sector were introduced during the early 1950s, following the conclusions of a commission of major inquiry into social housing (Sveriges Riksbank, 2014a). This also led to the famous 'miljonprogrammet' (the 'Million Programme') - namely an ambitious plan to create one million new homes between 1965 and 1975. The programme came to be implemented quite literally (Englund, 1993).

However, during the early 1990s, a range of neoliberal housing policy reforms began to be implemented. For example, one of the first things the Moderate Party came to do when seizing power in 1991 was to dismantle the Department of Housing, which had been one of the political pillars of the Swedish welfare system. Hereby, the gradual transformation towards a commoditisation of housing started. The abolishment of the Housing Provision Law, the Housing Assignment Law and the Land Condition Law paved the way for a new system with radically reduced subsidies and allowances (Hedin et al., 2012). Although the Social Democratic Party quickly returned to power, no attempt was made to reverse, or even slow down, the process.

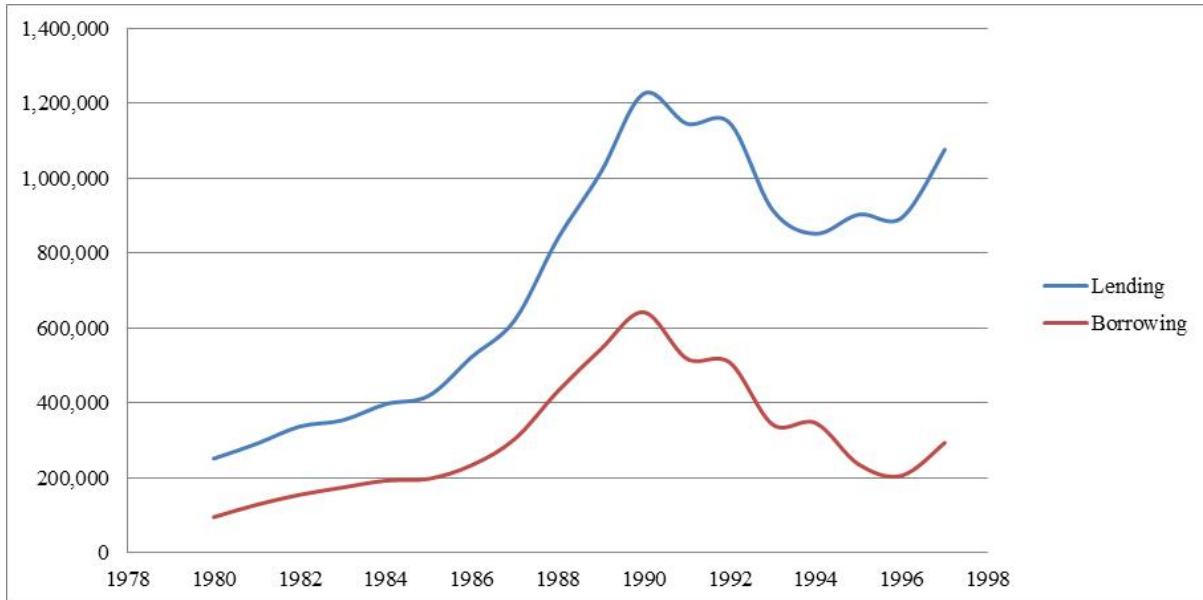
As Clark & Johnson (2009) argue, this structural shift came to have significant consequences in a range of areas: a decline in new construction and a rise in vacancies; an increase in crowded housing conditions; an increase in privatisation and outsourcing of housing planning; an increasing segmentation in terms of gaps between different forms of tenure; the closing of municipal housing agencies and the abandonment of social housing commitments; an increase in profit-maximising public housing companies; and a social polarisation manifested in growing 'supergentrification' and low-income filtering. Homelessness more than doubled in Sweden between 1999 and 2005 (Socialstyrelsen, 2006).

Until the mid-2000s, mortgages were generally funded through the issuance of unsecured mortgage bonds. At the time, commercial banks were primarily geared towards the business sector and were not permitted to issue fixed-rate mortgages with maturities over one year. Long-term mortgages were instead issued by mortgage institutions and housing-finance institutions – mainly savings banks and building societies. The building societies were part of Stadshypotekskassan (the Urban Mortgage Bank of the Kingdom of Sweden), which was capitalised by the government. Interest regulations ensured mortgage rates were set below market interest rates. Strict liquidity ratios, on their hand, regulated the amount of mortgage bonds banks and insurance companies were required to hold on their balance sheets. The government also introduced a range of interest-rate subsidies to households and construction companies in order to encourage the creation of new housing (Sveriges Riksbank, 2014a).

With a limited array of savings alternatives for the households prior to the deregulation process during the 1980s, household savings were thereby channelled back to the mortgage bond market via the banks. The creation of the ATP system and the AP funds (the public pension funds) led to the latter quickly becoming the largest investor in the government and mortgage bond markets. In 1976, the total value of the fund amounted to SEK 100 bio (close to 30% of the Swedish GDP, and around half of the Swedish capital market). At the time, the AP fund owned mortgage bonds amounting to SEK 41 bio, comfortably more than the holdings of the Swedish banks combined (ibid). Thus, government policy before the deregulation process promoted not only the construction of housing, but it also intervened in the functioning of the closely connected mortgage bond market through a range of direct institutional regulations.

As discussed in Section 2.3, the deregulation of the Swedish financial market led to a rapid expansion in credit. Between 1986 and 1990 lending increased by a remarkable 136% (73% in real terms). The largest increase came from those mostly affected by the previous regulatory regime, namely banks and mortgage institutions (174% and 167% respectively). Insurance companies and finance institutions, on the other hand, lost their comparative advantage at the time. A significant portion of new lending went to corporations (an increase by 129%), whereas households stood for an increase of 86%.

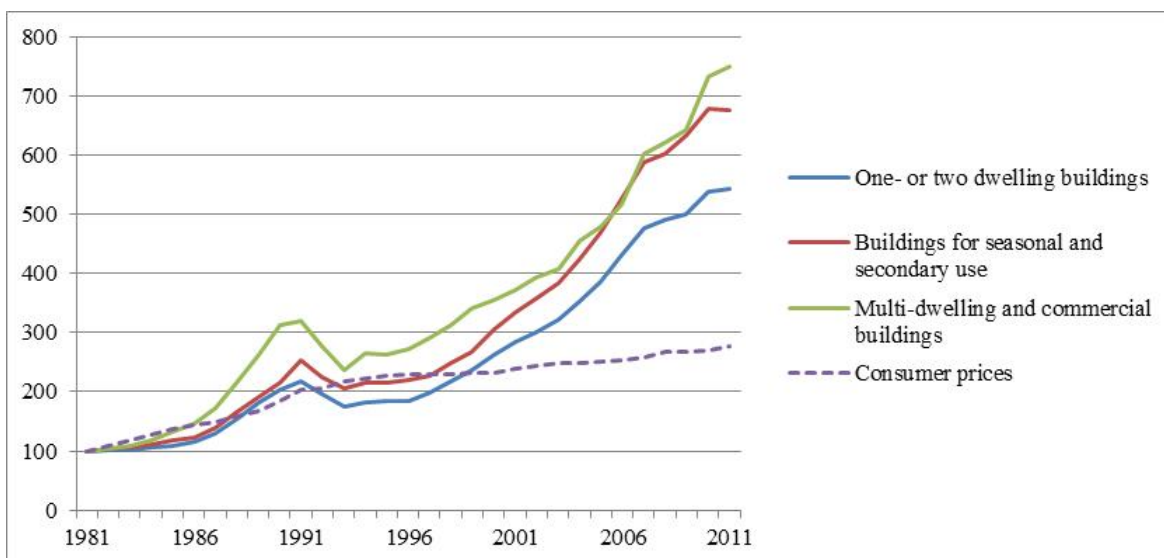
Figure 77: Bank loans (total balance, SEK mio)



Source: Statistics Sweden

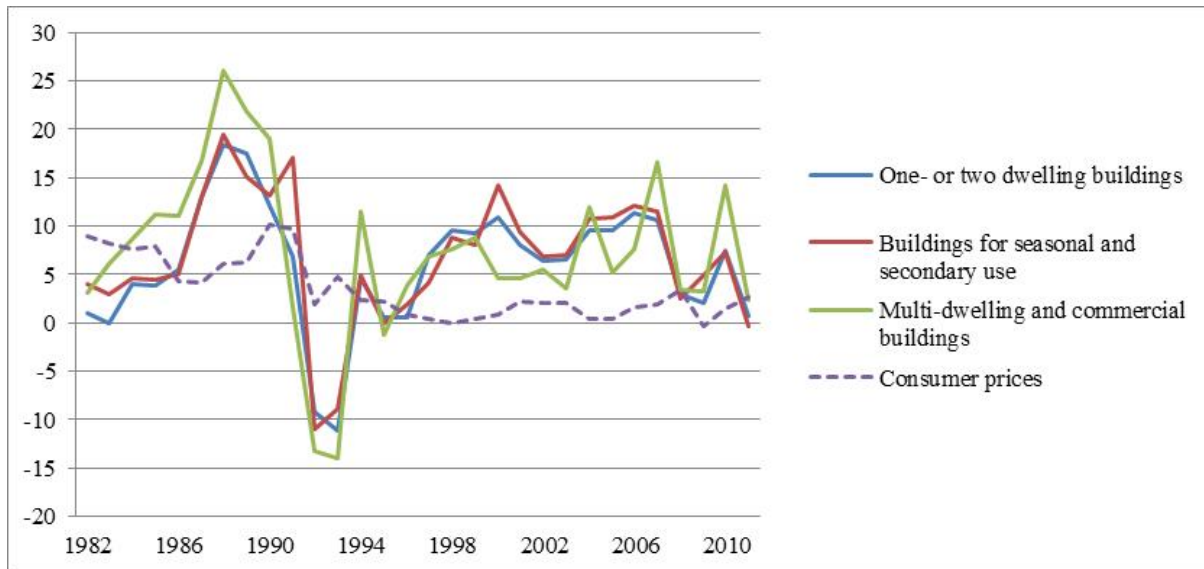
The development of the property market was dramatic during this period (see Figure 78). However, the boom years came to an end during the autumn of 1989, with a large price correction (see Figure 79). By the end of 1990s, the real estate index had fallen by 52% against its peak the previous year.

Figure 78: Real estate price index (1981=100)



Source: Statistics Sweden

Figure 79: Real estate price index (change/year, %)

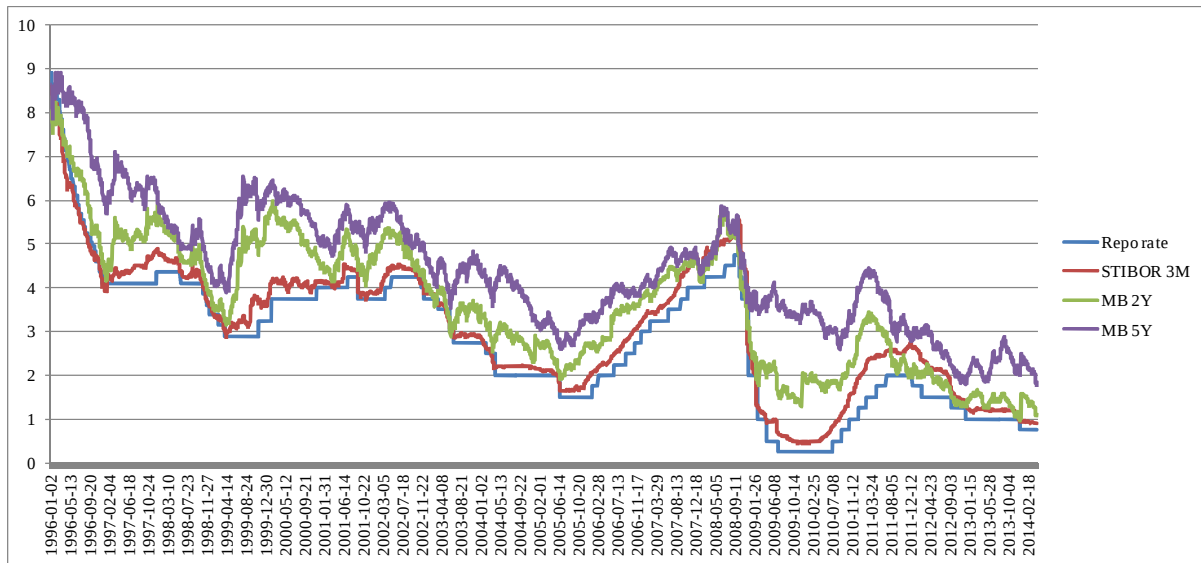


Source: Statistics Sweden

Considering the magnitude of the banking crisis, however, the property and mortgage markets manage to recover relatively quickly. In fact, as can be seen from the real estate price index in Figure 78 above, the increase has been considerably higher than inflation since the mid-1990s. A number of factors can be attributed to the trend in house prices, as well as the increase in mortgages, during this period. On the mortgage demand side, the deregulation process was undoubtedly important, as it solved the credit-rationing situation that had existed previously. Mortgage demand by households had, simply speaking, not been able to be met fully.

Another important factor spurring demand for mortgages has been the downward trend in Swedish interest rates. Since the aftermath of the banking crisis in the 1990s, there has been a fairly steady downward trend in real mortgage rates (after tax), and as Sveriges Riksbank (2014b) states, there is very clear link between low real interest rates, house prices and household debt. As can be seen from Figure 80, mortgage bond yields have fallen from around 9% in 1996 to 1-2% in 2013. Cheaper funding rates have obviously made property purchases more attractive.

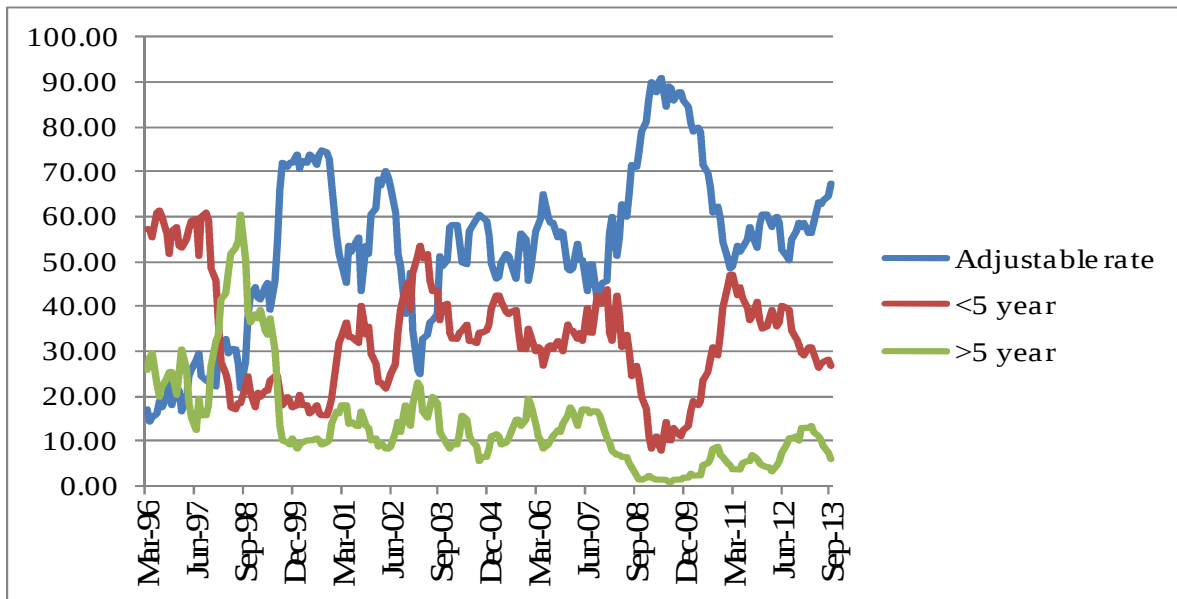
Figure 80: Repo rate, 3M STIBOR, 2Y mortgage bond yield, 5Y mortgage bond yield (%)



Source: Sveriges Riksbank

Historically, fixed-rate mortgages were been prominent in Sweden. This is no longer the case. Due to low inflation, the central bank has kept repo rates relatively – or even very – low, prompting a gradual increase in demand for floating-rate mortgages. This change is noticeable from Figure 81, showing a drastic shift towards floating mortgages from about 10% in the mid-1990s to around 70% in 2013. It is also notable that fixed-rate mortgages have tended to have shorter maturities. Mortgages with maturities over 5 years are now almost negligent. This trend has markedly increased the exposure of households to the volatility of short-term interest rates.

Figure 81: Fixed-rate periods in Sweden for new mortgages (%)

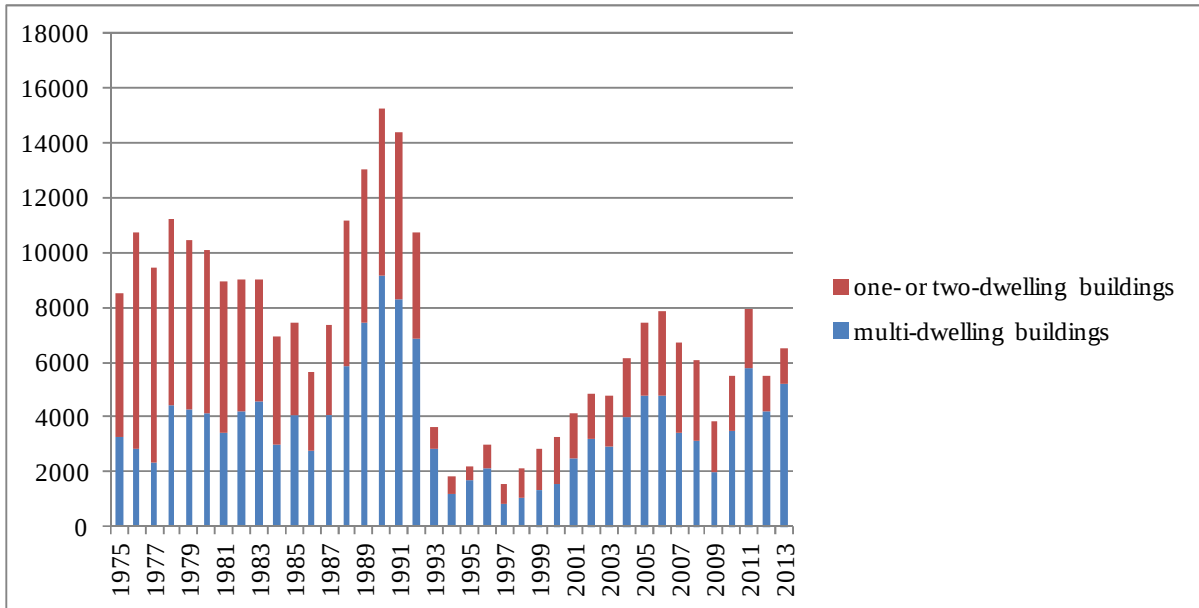


Source: Statistics Sweden

Relatively generous tax rules have also contributed to increasing credit demand. During the 1980s, around 50% of interest expenditure was tax deductible. Although this was reduced to 30%, low after-tax real interest rates have undoubtedly played an important role. Similarly, the property tax reform in 2008 has acted to increase confidence in the property market.

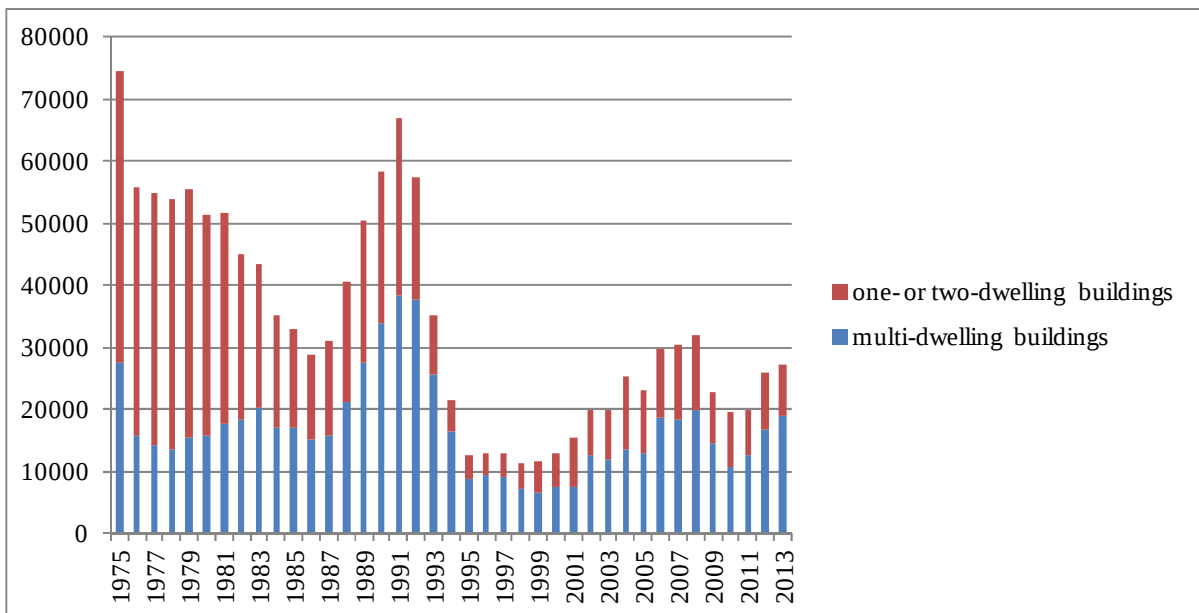
Mortgage demand has also been affected by relatively little new construction and a general property price boom. Housing construction was rapidly halted in the aftermath of the so-called Million Programme in 1975. Since the end of the banking crisis in the early 1990s, construction has been particularly slow (see Figure 82 and Figure 83). For instance, production in new dwellings dropped from 70,000 in 1990 to just around 10,000 in 1997, the lowest since World War II (Hedin et al., 2012).

Figure 82: Dwellings starts in newly constructed buildings



Source: Statistics Sweden.

Figure 83: Dwellings completed in newly constructed buildings



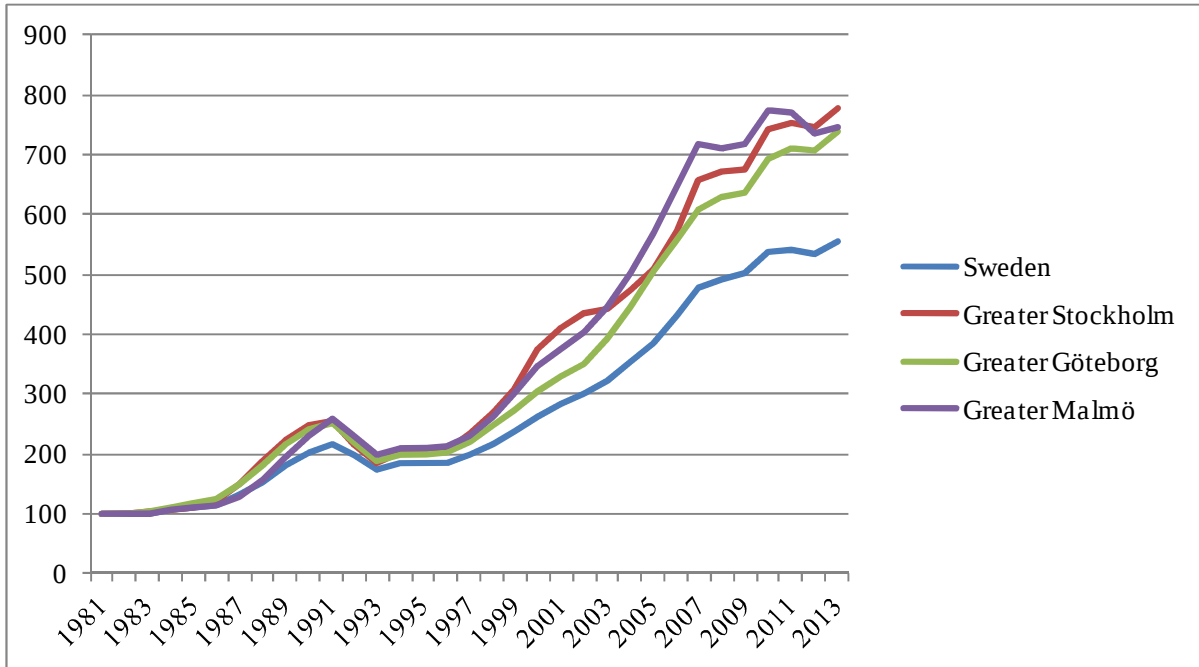
Source: Statistics Sweden.

The housing shortage has contributed to the phenomenal rise in property prices (particularly in the large urban areas) since the market recovered after the banking crisis (see Figure 84). Higher prices (i.e. more collateral) have also enabled existing mortgage-holders to increase their borrowing during the last two decades. Noticeably, Sweden did not experience a major correction

in house prices in conjunction with the global financial crisis. By contrast, prices were higher in 2013 than in 2007 both in the major cities, as well as in Sweden as a whole.

As previously mentioned, the housing policy reforms introduced in the early 1990s remained intact under the Social Democratic governments from 1994 to 2006. The new (and current) conservative government, however, immediately endorsed a range of new market-oriented reforms in the housing sector. In 2007, housing issues were moved to the Department of Finance, and the restriction on municipal sell-outs of public housing was removed. Under the 2008 budget proposition, a range of long-standing aims with regards to housing were erased, including ambitions on equality, social responsibility, high standards, reasonable costs and good living conditions. The new goal for housing became '*a long-term well-functioning housing market where consumer demand meets a supply of housing which corresponds to their needs*'. Further, during the height of the US subprime mortgage crisis (and precisely at the time of the collapse of Bear Sterns in March 2008), a program was introduced to stimulate property ownership, involving credit guarantees for first-time buyers, a property tax reform and privatisation (Hedin et al., 2012).

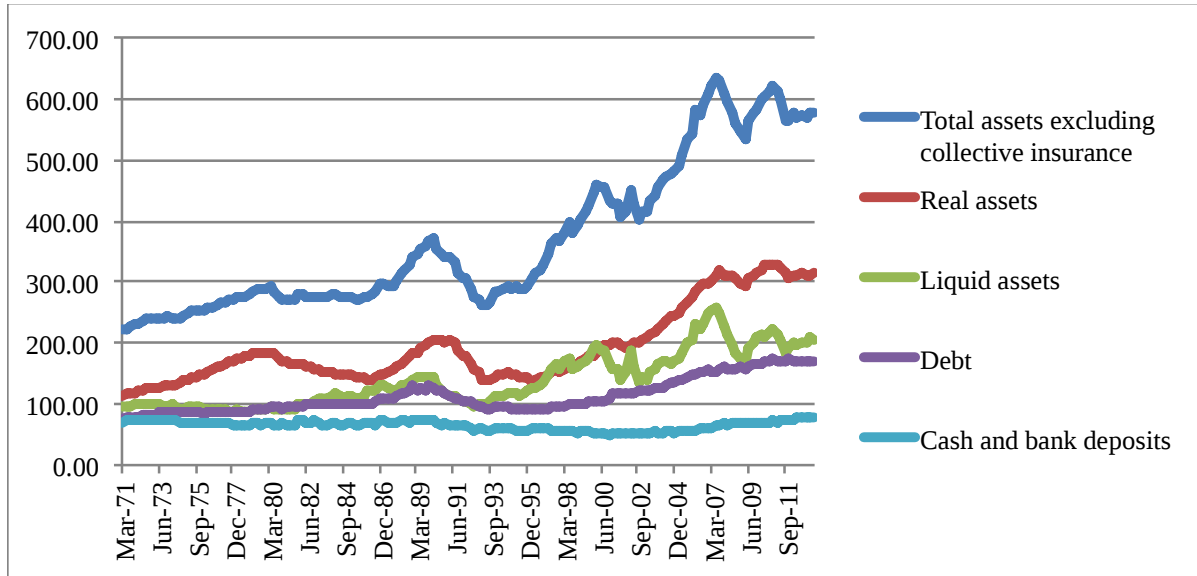
Figure 84: Real estate price index for one- or two-dwelling buildings for permanent living (1981=100)



Source: Statistics Sweden.

Finally, demand has also been spurred by a steady increase in disposable household income. However, as can be seen from Figure 85, household debt (in particular mortgages) has increased considerably faster. From 1970 to 2000, Swedish household had a debt / disposable income-ratio of around 100% (with the notable exception of around 130% prior to the banking crisis). Since the turn of the Millennium, however, this ratio has steadily increased and now stands at around 170%.

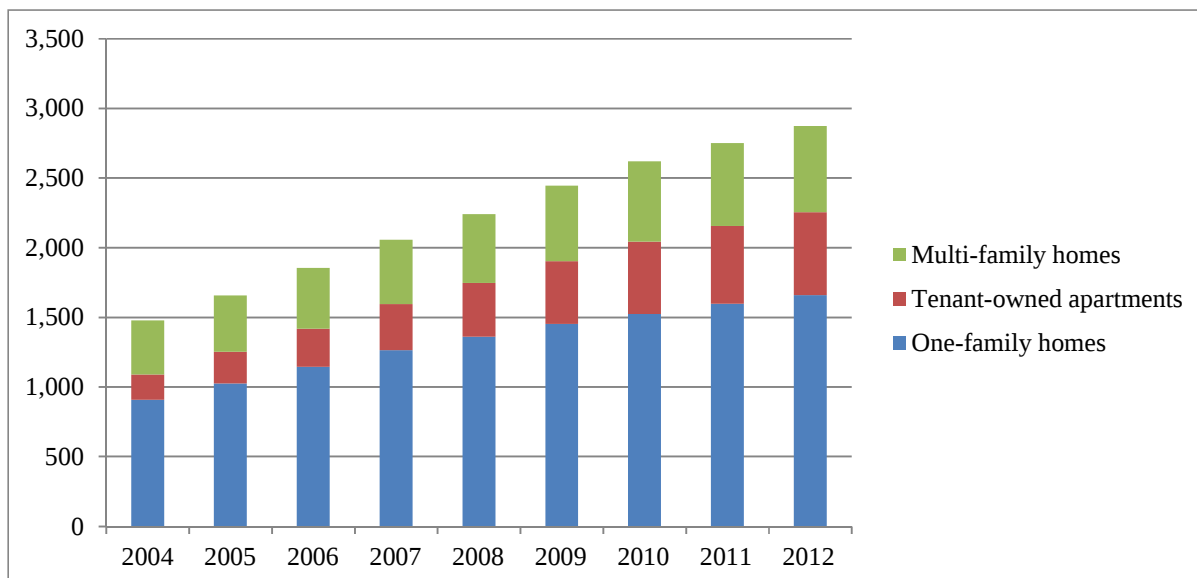
Figure 85: The Swedish households' assets and debt (% of disposable income)



Sources: Statistics Sweden and the Riksbank. Note: Liquid assets refers mainly to cash, bank deposits, bonds, mutual funds and shares. The figures for liquid assets have been revised upwards from the beginning of the second quarter of 2002. Real assets are for example houses.

Today, around two-thirds of the Swedish population own their own property, and around 85% of lending to households is related to housing (Finansinspektionen, 2013).

Figure 86: Residential lending to the public by collateral (SEK Bio)



Source: Statistics Sweden. Note: Lending from Monetary Financial Institutions (banks, mortgage institutions, etc.). Includes all residential lending, both first and second mortgages.

However, it is important to highlight that rents have risen considerably faster than the cost of living in occupancy, let alone inflation, during this period (Bergenstråhle, 2006). As such, this process has benefitted property ownership at the expense of tenants in rental housing. As Hedin et al (2012) point out, tenure neutrality was a cornerstone of the old Swedish housing policy model. This is clearly no longer the case.

Mortgages are, of course, not only driven by demand. The supply of mortgages also matters. Increasing competition with regards to mortgage rates, cash down payments and amortisation requirements has enabled a more 'efficient' mortgage market to emerge after the deregulation process during the 1980s. Mortgage institutions and banks have faced increasingly lower funding costs, and found new funding alternatives. Importantly, a significant portion of borrowing takes place in foreign currency: through the international wholesale markets, and then swapped into Swedish kronor (see Section 4.1).

Previously (until less than a decade ago) mortgages were funded through the issuance of unsecured mortgage bonds. Although an investor, theoretically, had a claim on the underlying assets of the issuing institution, the mortgage bond market was unregulated. A radical change took place with the introduction of the Swedish Covered Bond Act 2004, which paved the way for a transition towards the issuance of covered bonds⁶. As the latter are considered to be attached to considerable less credit risk than unsecured bonds, it enabled mortgage institutions a cheaper funding source - at the same time as the Swedish mortgage bond market came to be considered as a relative safe investment for domestic banks and foreign investors alike. Today, the 'big 4' banking groups account for almost 80% of the mortgage market, whereas there eight institutions in total are permitted to issue covered bonds: Stadshypotek AB (Handelsbanken), SEB, Nordea Hypotek AB, the Swedish Covered Bond Corporation (SBAB), Länsförsäkringar Hypotek, Landshypotek and Skandiabanken.

⁶ The underlying collateral can be loans for housing, loans to commercial properties and loans to agricultural properties within the EEA. Some other assets, such as loans to the public sector, may to some extent also be used. Swedish mortgages, however, stand for the vast majority of the collateral (Riksbank, 2014a).

Since the Swedish Covered Bond Issuance Act came into legislation in 2004, the Swedish covered bond market has more than doubled in size and is currently the fourth largest in the world. By the end of 2013, the outstanding volume amounted to SEK 1,930 billion (around 50% of GDP), more than twice that of the Swedish government bond market, which stood at around SEK 800 billion. The largest bondholders in this segment tend to be domestic banks (21%), insurance companies (28%) and pension/mutual funds. In addition, it has increasingly become an investment outlet for international investors, which now stand for more than a third of the market (Sveriges Riksbank, 2014a).

3.8 Pensions and Household Savings

The mortgage market is by no means alone in having had a major impact on the development on the Swedish financial system during the last few decades, and in the way households have become increasingly connected to it. The 'old' model could be seen as having been driven by artificial demand of mortgage bonds, as the government directly promoted funding of mortgage institutions using mortgage bonds, and by forcing banks and insurance companies to invest in those bonds. Both households' ability to take out loans, as well as mortgage institutions' means of funding these loans, was subject to strict control. The channelling of household funds into mortgages in the 'new' model is more indirect, as it often takes place via pension funds and mutual funds. It should therefore come as no surprise that household pension and mutual fund saving has increased more in Sweden than in other comparable countries during the recent decades.

Pension insurance was introduced in Sweden as early as 1913. The system consisted of two parts: a fee-based pension (financed through fees based upon taxable income) and an income-tested (publicly provided) supplementary pension (Edebalk, 2003). Hereby, Sweden became the first country in the world to pass a law that guaranteeing a universal old-age pension.

However, the pension was not sufficient to survive on and subsequent policy reforms in the 1930s and 1940s led to the introduction of the flat rate and universalist 'Folkpensionen' ('people's pension') in 1948, and later the 'Allmänna Tilläggspensionen' (ATP) in 1960 (Första AP-fonden, 2013).

During the early 1990s, the old system came to be perceived as unsustainable, with its assumptions of considerably lower life expectancies, a steadily growing labour force and a real growth rate of 4%. The deep recession following the banking crisis, leading to a significant fall in the contribution rate, prompted a debate about an urgent – and radical – reform of the pension system. The new system, passed by Parliament in 1994, had four goals: a fair treatment of

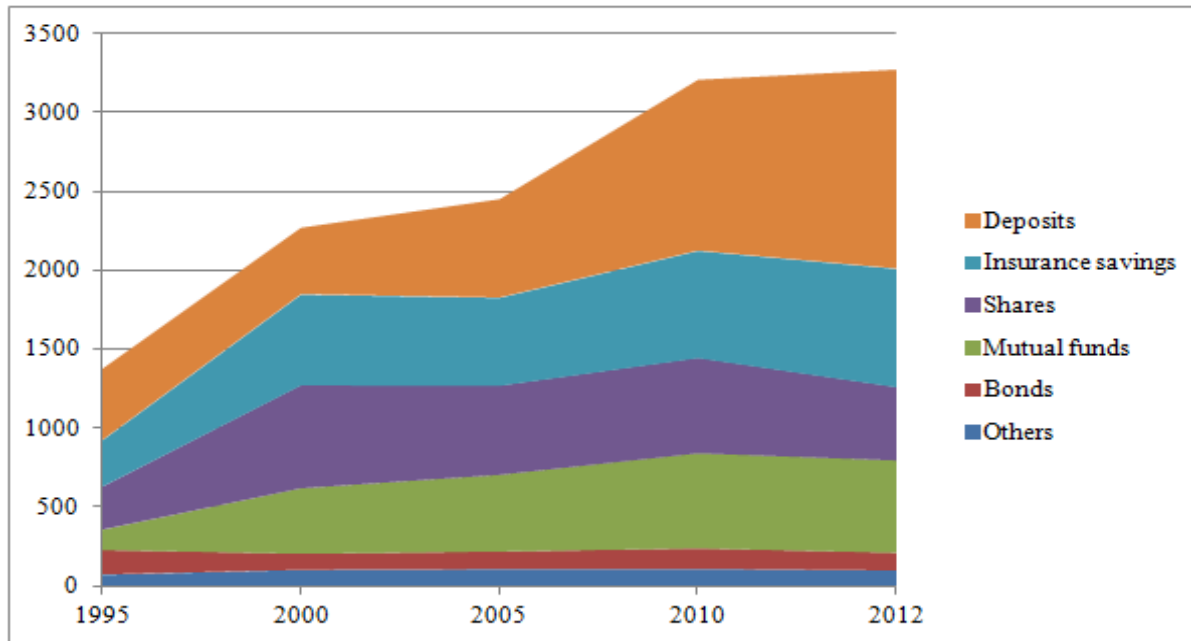
persons with different contribution histories, a transparent redistribution, long-term financial stability and an aim to create financial saving managed by private financial institutions (Palmer, 2000). It was based upon three pillars: First, the guaranteed People's Pension was changed into a basic and means-tested Guarantee Pension. Second, the ATP system (which provided full benefits for those having worked full-time for 30 years on the basis of the 'best' 15 years) was replaced an Income Pension, which was based upon a 16% contribution of individual annual earnings. The third component was the Premium Reserve System ('Premiereservsystemet', PRS), built upon savings from 2.5% of individual annual earnings. Here, pension savers were urged to select their own portfolio of up to 5 unit trust funds from hundreds available with varying risk profiles.

The new model separates the capital accumulation phase from the annuity phase in institutional terms. A separate body, the Premium Pension Authority (PPA), was set up in 1998 to act as a 'clearing house' during the investment phase (when the individuals select and 'trade' their investments) and during the annuity phase (when, being retired, individuals are provided the funds). The new Swedish pension system has no guarantees with regards to the rate of return, nor are there any additional regulations with regards to the funds allowed to act as outlets for the individuals' investments. Although there is a public fund for 'non-choosers' (that holds a mixed portfolio of bonds and domestic and foreign equities), there is no doubt that the new system has had an overall tendency to transfer risk from state and employers to the individual. Pension saving has hereby been transformed towards a kind of active portfolio and risk management by the individual, with an increasing dependency on the performance and volatility of the financial markets. The incentives to save privately have increased, as have the requirements to gain financial literacy (Belfrage & Ryner, 2009). Indeed, as pointed out by Belfrage (2008), the Swedish pension reform is extremely risk-privatising also by European standards.

The financial assets of Swedish financial households have increased steadily since 1995, amounting to SEK 3,273 billion in 2012. From a share of around 50% during the 1980s, the share of deposits showed a gradual decline during the 1990s. Since 2006, however, deposits have begun to increase – amounting to 39% in 2012. Bond savings during this period decreased both in

relative and absolute terms. Insurance savings have been fairly stable (slightly above 20%) whereas the proportion of shares – due to their more volatile nature – has varied. Figure 87 depicts the financial assets of Swedish households during 1995-2012.

Figure 87: Household financial assets, 1995-2012 (SEK bio)



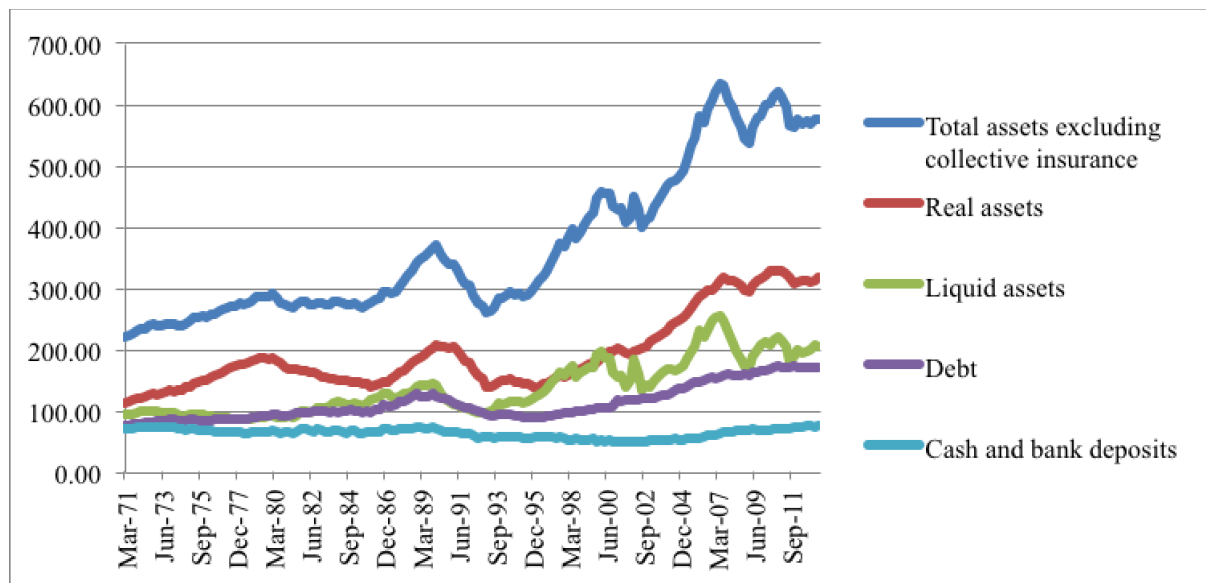
Sources: Banks in Sweden, p 10, Finansinspektionen.

The largest share increase, in terms of savings, has taken place in the mutual funds segment (from around 9% in 1995 to close to 18% in 2012). In 2012, around three-quarters of the Swedish population invested in mutual funds (excluding the Premium Pension). Mainly as a result of the new pension system, almost all adult Swedes are exposed to mutual funds directly or indirectly. Already in the 1980s, fund saving was stimulated as a result of favourable tax rules as well as the strong stock market performance following the deregulation.

In 2012, around half of the mutual funds' assets consisted of equities, whereas a quarter was interest rate funds. The remaining part was made up by mixed funds (19%) and hedge funds (around 5%).

Figure 88 shows the Swedish households' assets and debt as a percentage of disposable income since the early 1970s. As can be seen, a steady increase in asset holdings can be seen starting from the aftermath of the Swedish banking crisis. However, it has to be noted that both 'real assets' and 'liquid assets' are of volatile nature.

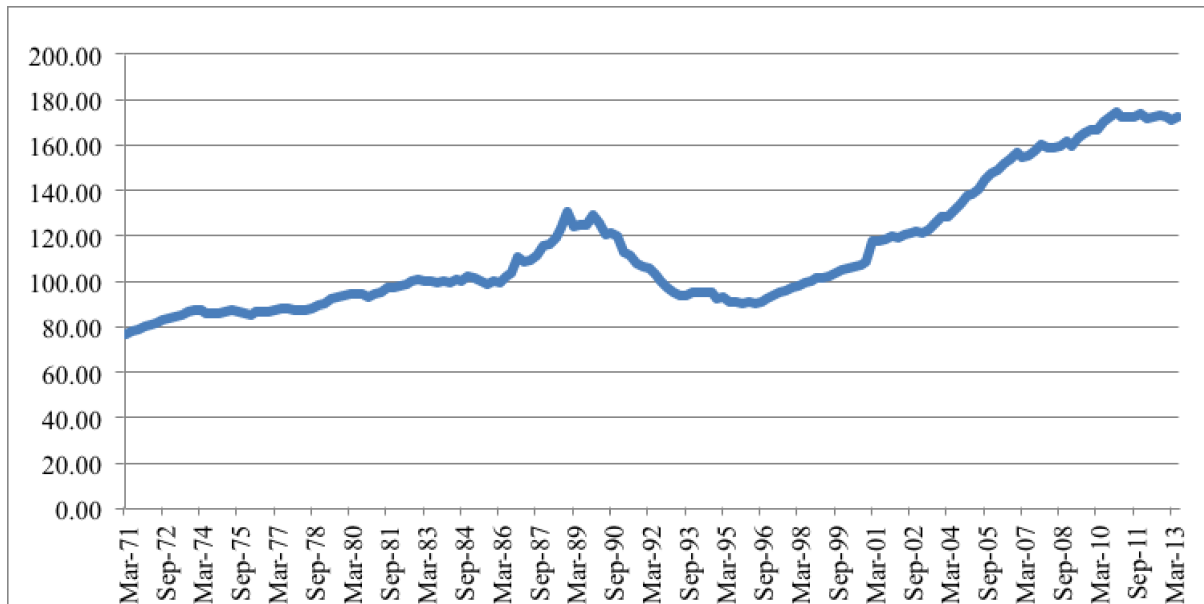
Figure 88: The Swedish households' assets and debt (% of disposable income)



Sources: Statistics Sweden and Sveriges Riksbank

With regards to the debt ratio as a percentage of disposable income (see Figure 89), it is notable that the ratio surpassed the peak during the banking crisis during the mid-2000s. However, despite the global financial crisis, the debt ratio has continued to increase and currently stand at around 170% of disposable income.

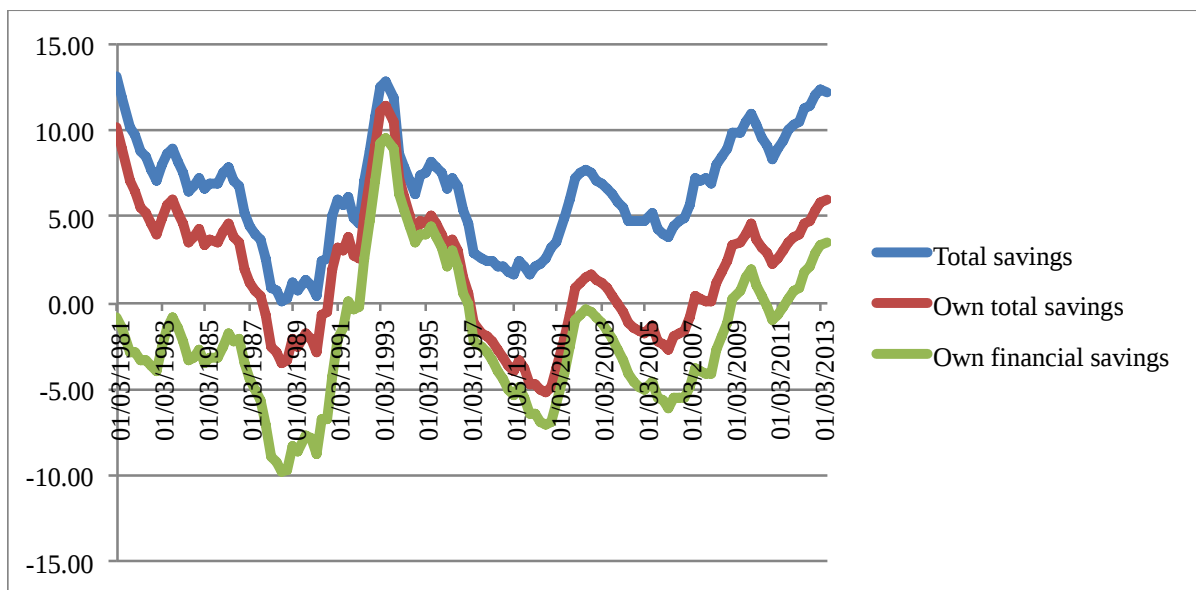
Figure 89: The Swedish households' debt ratio (total debt as % of disposable income)



Sources: Statistics Sweden and Sveriges Riksbank

The total household savings ratio as a percentage of disposable income has varied between zero (prior to the Swedish banking crisis) and 12% since the beginning of the 1980s. Currently, it stands at around the same level (12%) as during a previous peak in 1993.

Figure 90: The Swedish households' savings (% of disposable income)



Sources: Statistics Sweden and Sveriges Riksbank. Note: Total saving includes collective saving in occupational saving schemes; funds in premium reserve pension scheme, own financial saving and the households' real saving. Total personal saving excludes collective insurance saving, but includes real saving. Own financial saving is total savings excluding collective saving and real saving.

3.9 Wages and Income Distribution

Sweden does not have a legislated minimum wage. In fact, income distribution and equality need to be seen in the light of the solidaristic wage strategy that prevailed under the Swedish model. In terms of Swedish corporatism, the Swedish model had three important features.

The first feature was the centralised wage bargaining system, which was characterised by a very high level unionisation among workers generally, coupled with strong unions on both the employees (LO) and the employers' (SAF) side.

The second feature was the 'solidaristic wage strategy' – namely an inherent desire to achieve and sustain full employment without creating inflationary pressures. This also suited the employers as it promoted industrial peace and wage restraint.

The third feature was the prevalence of the government in actively implementing labour market policies to smooth the transformation in industry, for instance through employment exchanges, retraining schemes, wage subsidies and measures to enhance labour mobility. It is important to note that the collective bargaining process in itself was highly self-regulated and not subject to government intervention. As such, the 'Rehn-Meidner model' acknowledged the existence of market failures, and the trade-off between inflation and full employment (Marshall, 1996). The model, which came to be central to the economic policy agenda of the Social Democratic Party, was created by the two LO economists Gösta Rehn and Rudolf Meidner in the early 1950s (LO, 1951). Whereas the Swedish model more broadly was referred to as a synthesis between capitalism and socialism, the Rehn-Meidner model could more specifically be seen as a 'third way' – by rejecting monetarism and questioning Keynesianism.

A solidaristic wage policy was at the heart of the model. People doing identical work ought to be rewarded equally, regardless of the profitability of the company. This would put pressure on firms and sectors with low profit margins, and stimulate a structural change. Firms and sectors

generating excess profits as a result of the policy would expand. However, with a restrictive economic policy and the promotion of labour market mobility, the policy overall would prevent a wage drift in the booming sectors and thus not be inflationary. Hence, the Rehn-Meidner model did not strive to wage equalisation in general, but aimed to achieve four goals simultaneously within economic policy: full employment, low inflation, economic growth and even income distribution (Erixon, 2002).

This model was, however, largely replaced in the early 1990s. Several factors point to the demise of the former institutional mechanism, and the re-emergence of a system based upon decentralised bargaining. First, the inflation record was poor, with economic stagnation and increasingly uncontrolled inflation becoming the norm in the 1970s. Second, the unionisation structure became increasingly fragmented. The importance of blue-collar unions decreased at the expense of a significant increase in white-collar trade union membership in both the private and public sectors, which led to a growing inter-union rivalry. On the whole, white-collar unions were in opposition of reduced wage differentials between blue-collar and their own workers. Third, the era was characterised by an increasing ideological polarisation. Finally, the deregulation process during the 1980s, particularly with regards to capital flows, put significant international constraints upon domestic wage-negotiating strategies. Not surprisingly, the employers' unions began to demand more flexibility in the wage negotiation process.

As such, the Agreement on Industrial Development and Wage Formation (also known as 'Industriavtalet', or the Industrial Agreement) of 1997 marked the most important innovation in wage bargaining relations since the Saltsjöbaden Agreement of 1938, when LO and SAF accepted voluntary restraint on their resort to industrial action.

The new system introduced private mediation, and came to act as a model for other sectors of the labour market. At the heart of the agreement was a consensus view that the Swedish industry – highly dependent on exports within a deregulated EU market - needed to remain competitive and profitable in order to achieve full employment. Taxation should thus become more aligned with international standards to stimulate work, education and enterprise; research and

development should be encouraged; and education should be geared towards the needs of the industry (Elvander, 2002).

It could thus be argued that the wage strategy has fewer characteristics today that would make it seem 'solidaristic'. This shift has taken place in tandem with a range of market-oriented reforms affecting individuals and households as discussed in previous sections (such as housing and pensions). However, the reform process has not only enabled (financial) markets to emerge in previously 'sacred' areas, but also required individuals and households to make choices according to new mechanisms. Public health care and other social services are examples where the financialisation process has penetrated the daily lives of today's Swedes. The education sector provides another telling example: the number of privately run 'free schools' have exploded from 91 in 1991-92 to 741 in 2010-11. Today, around half of secondary schools in Sweden are (often profit-maximising) free schools.

The changes in the housing and mortgage markets have led to higher indebtedness and increasing exposure to the short-term volatility of the financial markets. The pension and insurance reforms, likewise, have made every Swede a player in the financial markets – further exposing individuals to risk and uncertainty. This process has both encouraged and required widespread financial literacy.

The standard of living for Swedish households is high, and has continued to rise during the 2000s. However, the increase has not been significant across the population, and differences have increased. Whereas Sweden remains one of the most equal countries in the world, income equality has surged rapidly during the last two decades. In fact, Sweden occupies the top spot when it comes to growth in *inequality* between 1985 and the late 2000s. This is highlighted below by the key finding from a recent study by the OECD (2011):

Table 15: Inequality in Sweden (Key findings by OECD)

✓	Sweden's richest 1% of earners saw their share of total pre-tax income nearly double, from 4% in 1980 to 7% in 2008. When capital gains were included, income shares of the top percentile reached 9% in 2008. During the same time, the top marginal income tax rate dropped from 87% in 1979 to 56% in 2008.
✓	The rise in inequality was driven first and foremost by widening gaps in market income sources: gross earnings, self-employment income as well as capital income all became more unequally distributed. The earnings gap between the 10% best and least paid full-time workers has increased by nearly a fifth since 1980.
✓	As in other Nordic countries, capital income played a larger part in increasing inequality as it has become more concentrated over time. Since the mid 1980s the share of capital income increased by some 2% for the population as a whole. It actually decreased by 1% for the poorer 20% but the share increased by 10% for the richest 20% of Swedes. Capital income explains more than 13% of total income inequality, up from 8% in the mid 1980s.
✓	Societal change — more single and single-parent households, more people with a partner in the same earning group — accounts for a rather moderate part of the increase in household earnings inequality (about a quarter). The widening dispersion of men's earnings was more important. At the same time, higher employment rates for women helped reduce household earnings inequality by around the same amount.
✓	Income taxes and cash transfers in Sweden are very effective in reducing inequality. The redistributive effect, however, declined sharply in the recent decade: from close to 40% in the 1980s and 1990s to some 30% in 2008.
✓	The downward trend in redistribution was largely driven by the reduced role of benefits: transfers as a share of household income dropped from 27% in 1995 to 16% in 2008. At the same time, the redistributive effect through taxes remained stable as a result of two opposing trends: somewhat reduced income-tax rates and a higher progressivity.
✓	At around 20% of GDP, Sweden is the highest spender on public services such as education, health or care among the OECD (average 13%). These services help reduce inequality by 23% which is more than in most other countries.

Source: OECD, 2011.

The increasing social stratification during this period is prominent across the board. The economic standard for gainfully employed persons (aged 20-64) increased by 41%, while those not gainfully employed had an increase of 9%. In 2011 the economic standard for those not gainfully employed was 58% of those who were gainfully employed. In 1999 the corresponding figure was 75%. The youngest persons (<20) have experienced better developments than the oldest persons (>75): an increase of 46% and 26% respectively. Further, foreign-born persons did

not have as large an increase as Swedish born persons. Adult (>20) foreign-born persons saw their economy grow 27%, compared to 41% for Swedish born persons. Income has increased at all income levels but the increase is significantly larger for those with the highest incomes. Income increased by 55 % for the richest 10%, whereas the poorest 10% had an increase of just 21%. The percentage of the population with a 'low economic standard' increased from 8.4% in 1999 to 14.4% in 2011. For singles with children this share has increased from 11% to 31 %.

Roine & Waldenström (2008), studying the top income shares in Sweden during 1903-2004, find that most of the decrease in top income shares prior to 1980 took place during the first half of the 20th century, i.e. prior to the expansion of the Swedish welfare state. In fact, the decreasing share of the various top percentiles shows a fairly similar trend to that of rest of Western Europe. From 1980 onwards however, there appears to be a clear break in comparison to other countries. Whereas top-income shares have increased significantly in Anglo-Saxon countries, the development in Continental Europe has been considerably more stable. Sweden stands out insofar as the top income shares resemble that of Anglo-Saxon countries if realised capital gains are included, but that of Continental Europe if left out of the equation. The authors suggest that an explanation for this could be that *'Sweden over the last 20 years has become a country where it is more important to make the right investments than to earn a lot to become rich'* (ibid, p. 366). The results are also in line with their study on wealth concentration. Here, the authors demonstrate a clear break in the long-term equalisation of wealth around 1980, with a current trend towards increasing inequality (Roine & Waldenström, 2009).

4 Recent Developments and Conclusions

4.1 Sweden: A New Safe-Haven?

As this report has shown so far, the financialisation process in Sweden has to a large extent coincided with deregulation more generally, and a transformation towards a more widespread reliance on market-determined price mechanisms has been embraced. As a result, the Swedish model no longer exists in its old form. Or, perhaps to be more precise, many of the characteristics of the Swedish model have been exposed to overwhelmingly market-friendly reforms and changed as a result thereof.

Whether or not this has been a successful transformation naturally becomes an issue within political economy. In terms of economic growth, the recent decades have not been as successful as the hay-day of the Swedish model. However, in a European comparison, Sweden has performed well – yet with the result of increasing social stratification.

It should therefore not come as a surprise that the perception of Sweden from the perspective of financial market participants also has changed during this period. Sweden might have been widely admired for its economic performance during the decades prior to the start of the deregulation process. However, this was a period when the country was rather isolated from foreign economic interests. The currency and banking crisis during the early 1990s added to the labelling of Sweden as a volatile and unpredictable country, which was subject to high potential returns but also to significant risks. Since then, however, both the government and the central bank have been geared towards 'pleasing' the markets, not least the international financial markets.

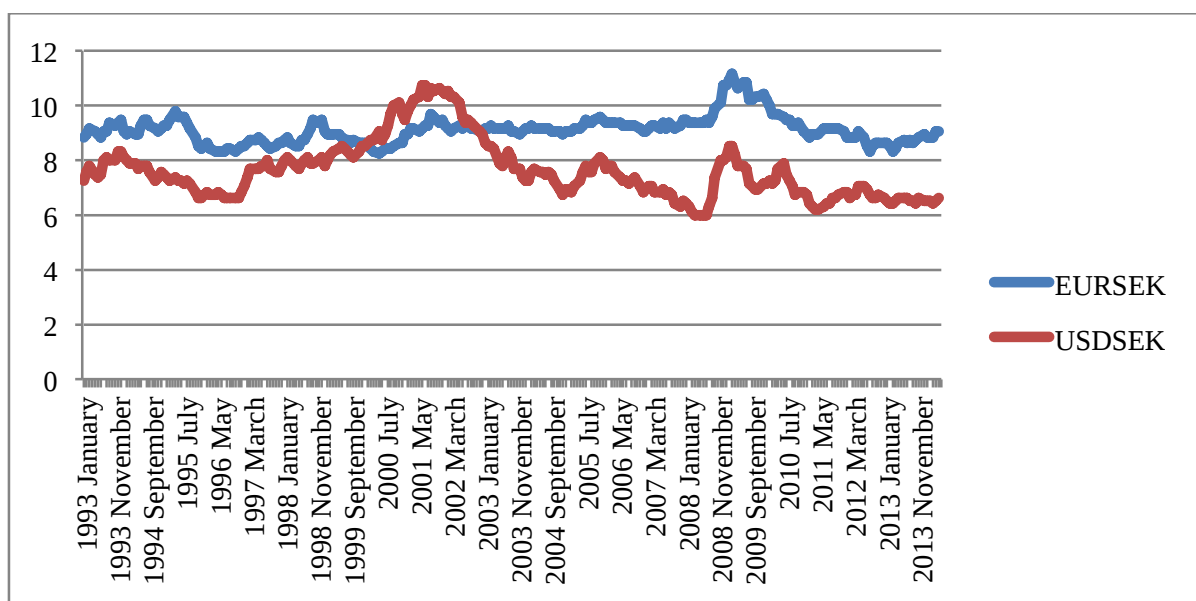
Whereas the Swedish financial markets came to be identified with volatility and crises during the 1980s and 1990s, the picture that emerges after the global financial crisis and the Eurozone crisis becomes remarkable different. Here, Sweden appears to have weather the storms well – to the

extent that the country, at least colloquially, sometimes has been referred to as a new 'safe haven'. In order to qualify for such a status, evidence ought to be present suggesting an appreciation of the currency at times of global financial uncertainty, coupled with decreasing government bond yields – in relation to those of comparable countries. In other words, Sweden should perform more like Germany and Switzerland.

Empirical evidence does not yet provide overwhelming support that such a shift has taken place. However, underlying fundamentals do suggest that Sweden could become a contender for a safe haven status, as recent episodes have indicated.

Since the floating of the krona in 1992, the Swedish krona has tracked the euro 'fairly' well (see Figure 91). The currency has seen large swing against the US dollar, but these can largely be attributed to the changes in the EURUSD exchange rate. Nonetheless, the 'dot-com' crisis around 1999-2001 had a more negative effect on EURSEK than on EURUSD, indicating that Sweden experienced an 'exodus' in line with general market uncertainty. The reaction to the Lehman bankruptcy was similar, and even amplified.

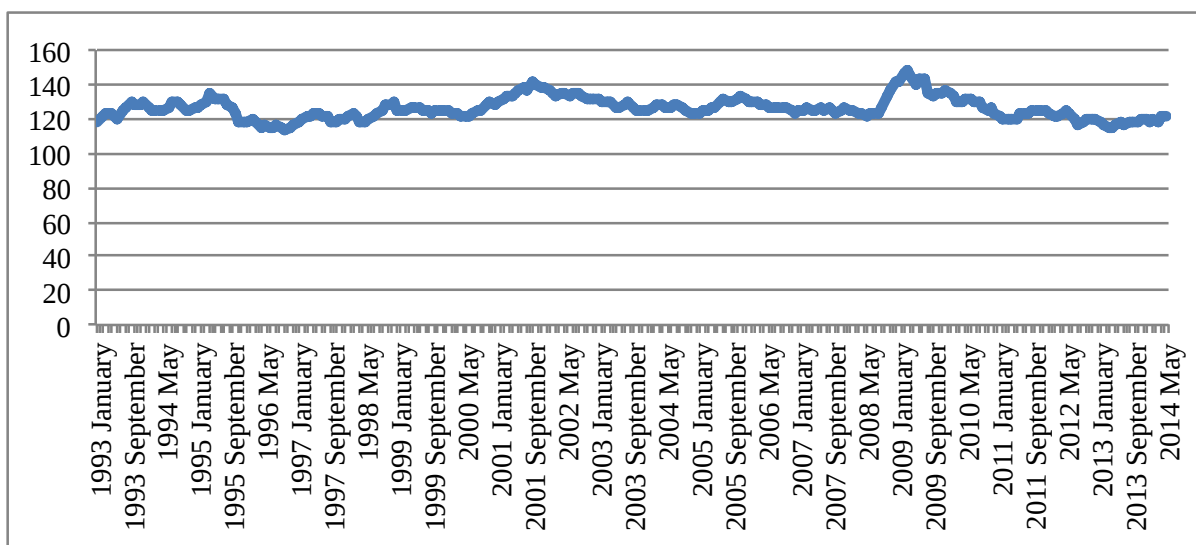
Figure 91: EURSEK and USDSEK (monthly averages)



Source:

However, the reaction to the Eurozone crisis was quite different. It resulted to a general slight to safety both towards currencies *outside* the currency area (such as the U.S. dollar and the Swiss franc) and *within* the Eurozone (for instance to Germany, as discussed further below). On the whole, the Swedish krona appreciated as a result of the Eurozone crisis, as illustrated by the TCW index⁷ in Figure 92:

Figure 92: SEK TCW index (monthly average)



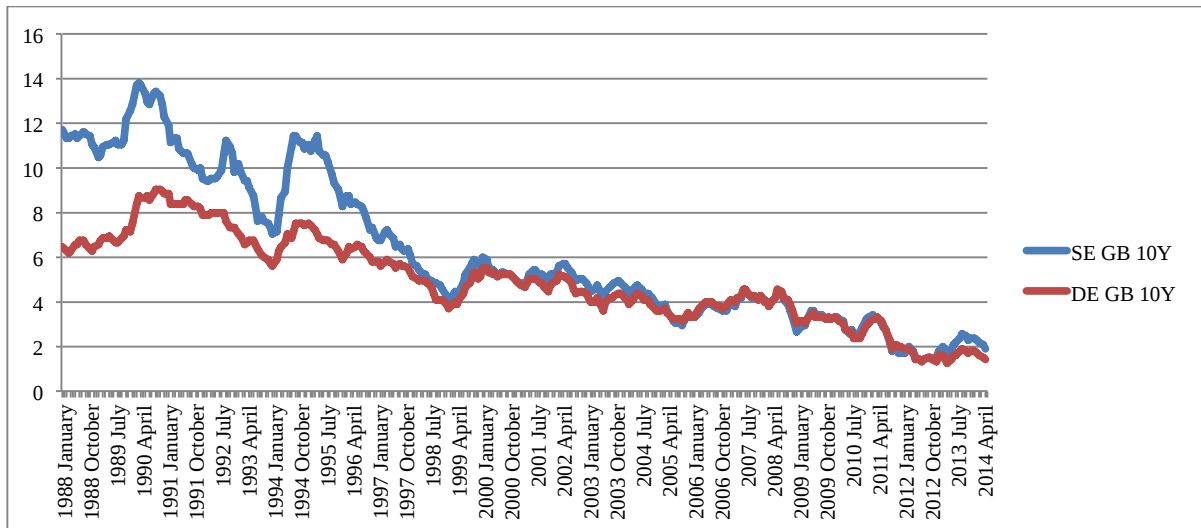
Source:

Sveriges Riksbank

To qualify as a safe-haven, Swedish government yields should also begin to converge vis-à-vis countries with such a status, notably that of Germany. Here, the pattern is more evident. Between 1987 and the launch of the euro, the Swedish 10-year government bond yield spread over Germany gradually decreased from around 500 bps to close to zero, with a temporary spike during the aftermath of the currency crisis in the early 1990s (see Figure 93).

⁷ The TCW index (Total Competitiveness Weights) is a way of measuring the value of the krona against a basket of other currencies. The TCW index has 18 November 1992 as its starting date when the index equals 100. The TCW is a geometric index and its weights are based on the average aggregate flows of processed goods for 21 countries. The weights take account of exports and imports, as well as third-country effects. Current weights: USD 11,63%, ATS 1,71%, BEF 3,55%, CAD 1,16%, CHF 2,74%, DEM 22,28%, DKK 5,60%, FIM 6,69%, FRF 7,15%, GBP 11,56%, ITL 6,05%, JPY 5,20%, NOK 5,58%, NLG 4,24%, AUD 0,27%, ESP 2,48%, GRD 0,27%, IEP 0,77%, NZD 0,14%, PTE 0,93% (the Riksbank).

Figure 93: 10Y Swedish and German government bond yields (monthly averages, %)



Source: Sveriges Riksbank

Then, the spread began to increase and remained positive until May 2005 (with a peak of 63 basis points in October and November 2003). During June 2005 to April 2008, the government bond yields were broadly in line. However, since the global financial crisis, the spread has been positive as well as *negative*. In particular, the uncertainty in 2011 regarding the future of the Eurozone led to a rush to Swedish government bonds – prompting talk of Sweden having achieved a safe haven status.

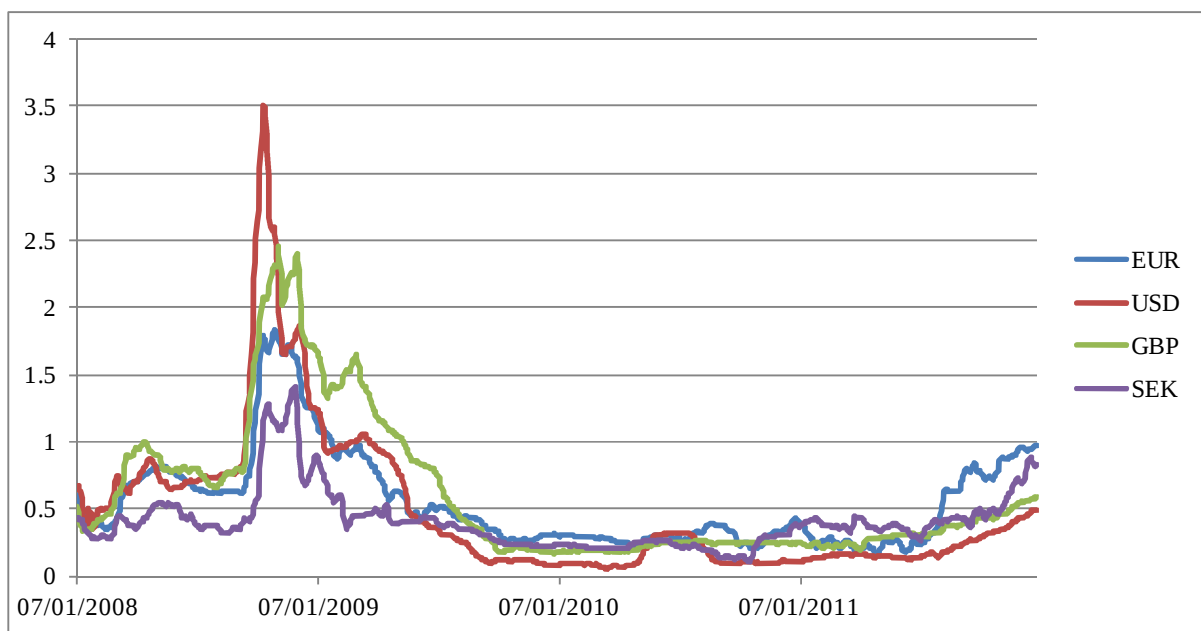
However, the global financial crisis was also a *banking* crisis. In order to study Sweden in terms as a potential safe haven during recent years, we need to have a closer look at the interaction between the banking sector and other financial indicators.

The LIBOR-OIS spread has widely been used as 'barometer of fears of bank insolvency' (Thornton, 2009), reflecting the risk that the borrower defaults (credit risk) and the ease with which the bank can raise funding (liquidity risk). Theoretically, the LIBOR could be decomposed into three components: the compounded current and expected future risk free interest rate (i.e. the central bank repo rate), credit risk and liquidity risk. Previously, the T-bill rate has been used

as a proxy for the short-term risk free interest rate. More recently, however, the emergence of the overnight index swap (OIS) market has enabled observers to quantify the market expectation of the short-term central bank repo rate paths. Thus, whereas the OIS equals the first component, the LIBOR-OIS spread should (absent the susceptibility to manipulation of course) reflect the perceived creditworthiness of banks and their ability to access liquidity for a particular maturity in a particular currency. Naturally, the LIBOR panels do not include all banks. However, they normally consists of the largest banks active in the currency in question, in other the major domestic banks as well as large universal banks.

Figure 94 shows the 3M money market risk premia from 2008 to 2011. LIBOR and OIS are used for USD; STIBOR (Stockholm Interbank Offered Rate) and STINA (Stockholm Tomnext Interbank Average) for SEK being the Swedish LIBOR-OIS equivalents; EURIBOR (Euro Interbank Offered Rate) and EONIA (Euro Overnight Index Average) for EUR; and LIBOR and SONIA (Sterling Overnight Interbank Average Rate) for GBP.

Figure 94: Libor-OIS spreads 2008-11 (%)



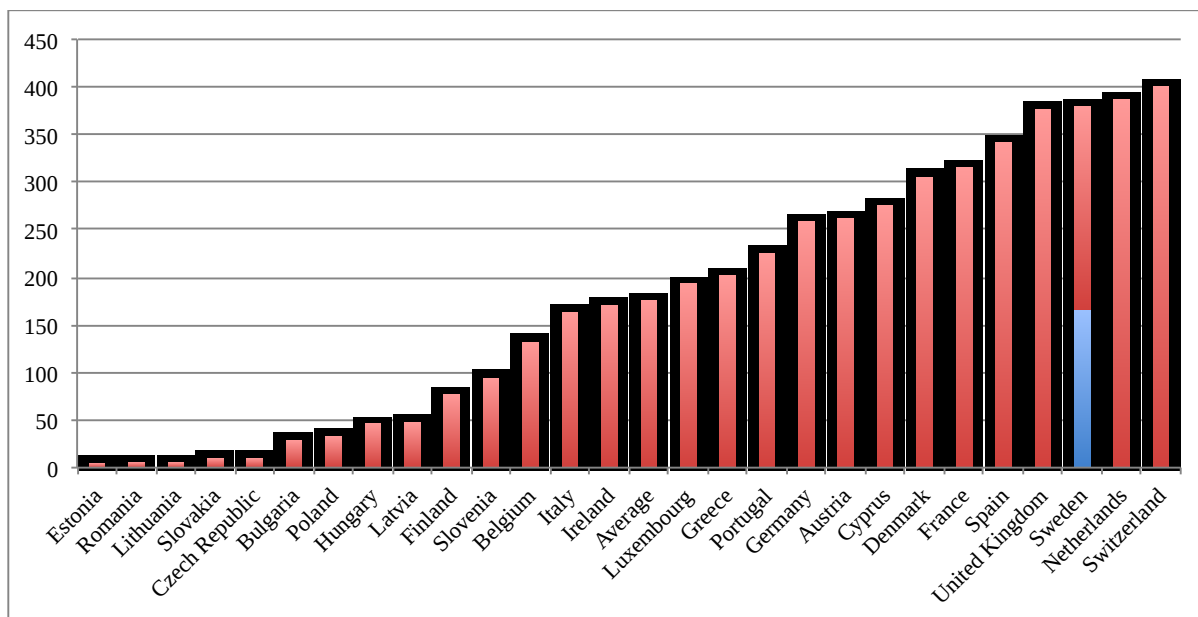
Source: Reuters

The STIBOR panel at the time consisted of 6 banks: the big four Swedish banks plus Den Danske Bank and RBS (the latter left the panel in 2012). As can be seen for the graph, the STIBOR-STINA spread was hardly affected by the initial turmoil of the global financial crisis, not even after the collapse of Bear Sterns in March 2008, which caused major uncertainty in the global money markets. The Lehman bankruptcy in September 2008, however, led to an immediate spike in the STIBOR-STINA spread by around 100 bps and suggested a breakdown of the first stage of the monetary transmission mechanism.

Nonetheless, the impact was considerably smaller than risk premia for major currencies, such as the sterling and the U.S. dollar. Likewise, the improved sentiment in the global markets in 2009 had a fairly rapid impact on the Swedish risk premium, with the major currencies showing a lag closer towards the more 'normal' levels seen before the outbreak of the crisis.

Swedish banks also faced specific difficulties in raising USD in the Eurodollar markets, like their peers in the rest of Europe. They had namely used the financial markets to fund more than half of their assets (see Figure 95).

Figure 95: The banks' assets in relation to GDP (December 2013, %)



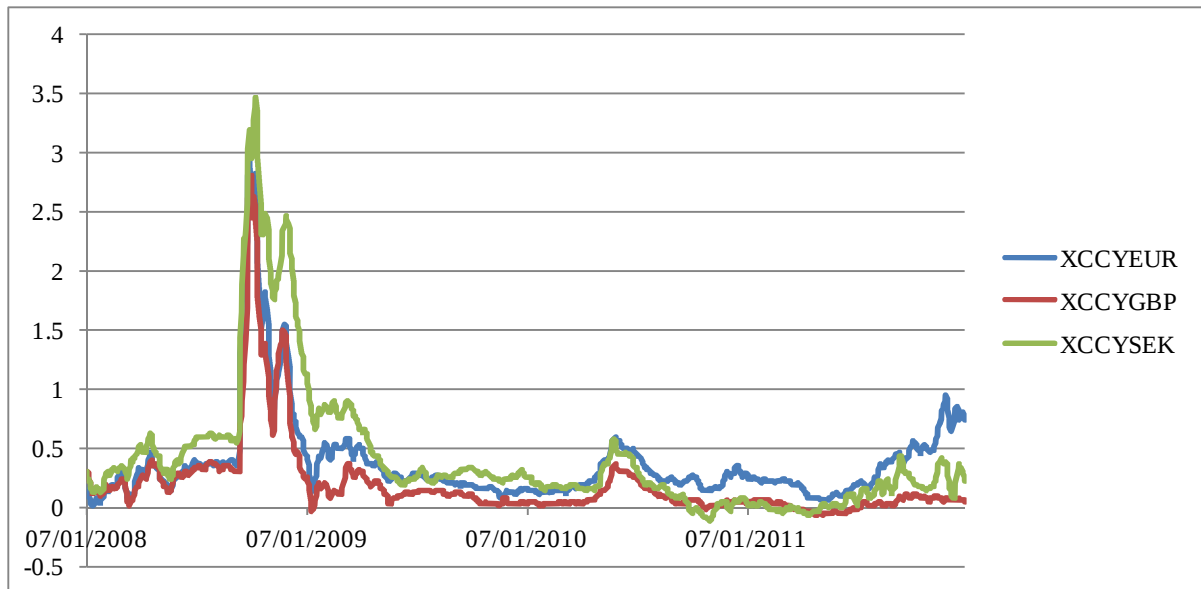
Sources: ECB, the European Commission, the Swiss National Bank and Sveriges Riksbank. Note: In banking assets are included all of the assets of the national banking groups, that is both foreign and domestic assets. The blue bar

shows the four major banks' assets abroad in relation to Sweden's GDP. The data for Switzerland is from December 2012.

Funding in currencies other than SEK had increased during the previous decade and now made up 60% of total market funding (Sveriges Riksbank, 2011). Swedish banks were thus facing a serious 'USD funding gap' (Kaltenbrunner, Lindo, Paineira & Stenfors, 2010). This led to a rush towards the USD money markets. However, as this avenue closed fairly quickly, the focus turned towards the FX swap and cross-currency swap markets which remained open throughout the crisis. However, the demand for U.S. dollars led to an unprecedented deviation of the covered interest rate parity (CIP), which was usually measured against the LIBOR. The deviation came to be systematic, which partly reflected the understating of real borrowing costs by LIBOR-banks, but also the relentless demand for the currency European (including Swedish) banks were in desperate need of: the U.S. dollar. However, only the Federal Reserve could print U.S. dollars, and temporary reciprocal currency arrangements in the form of foreign exchange swap lines were established with the Federal Reserve in order to channel dollars to banks in other jurisdictions (Baba & Packer, 2009; McGuire & von Peter, 2009). In December 2007, swap lines were set up with the European Central Bank and the Swiss National Bank. After the collapse of Lehman Brothers, a range of other central banks was included in the swap network – including the Riksbank.

Prior to the global financial crisis, the CRS spreads had been close to zero – indicating that the CIP held. The impact of the crisis is staggering, particularly during Q4 2008. Figure 96 depicts the 3M CRS spreads for SEK, EUR and GBP, as measured against the USD using an inverted scale – and can be interpreted as follows. The week after the collapse of Lehman Brothers, Swedish banks were prepared to pay a premium of 350 basis points to borrow USD at LIBOR for 3 months in return for lending SEK at STIBOR.

Figure 96: 3M XCCY (CRS) spreads for SEK, EUR and GBP as measured against the USD 2008-11 (inverted scale, %)



Source: Reuters, author's own calculations

Apart from participating in the swap network of the Federal Reserve, the Riksbank introduced a range of other extraordinary measures to alleviate stress in the Swedish banking system (Elmér et al., 2012; Sveriges Riksbank, 2012). Between October 2008 and July 2009, the repo rate was cut by 450 basis points in total – to an all time low of 0.25%. The Swedish economy, being heavily dependent on the export industry, was particularly affected by the downturn in international economic activity as a result of the global financial crisis. The Swedish GDP fell by close to 4% during the last quarter of 2008, and by a further 5% during 2009 (Elmér et al., 2012).

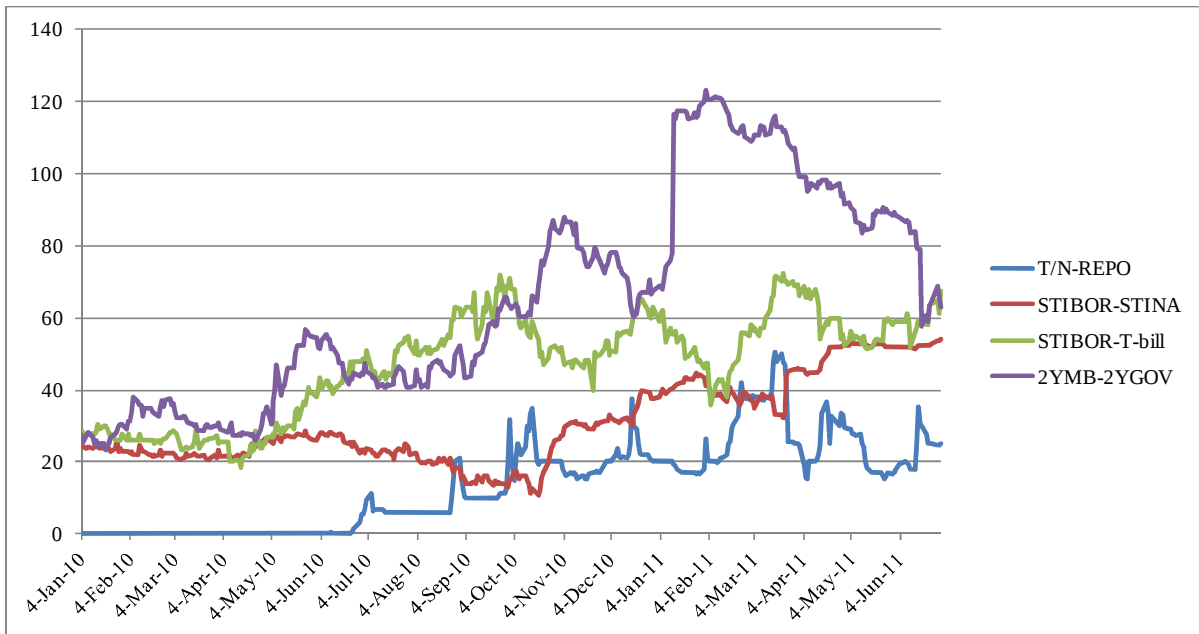
The Riksbank began to offer loans in SEK with maturities up to three and six months, and later offered three fixed rate loans with a 1-year maturity of around one year, totalling SEK 296.5 billion. The fixed and variable loan volume in SEK amounted to approximately 9% of GDP. The intention of the Riksbank was that these measures would reduce the spread between the record low repo rate and the market rates actually charged by households and companies (ibid).

The Eurozone crisis from mid-2010 came to result in wider EURIBOR-EONIA spreads (as the EURIBOR panel mainly consisted of banks within the Eurozone). However, a peculiar 'bump' can also be seen in the STIBOR-STINA spread from mid-2010 to mid-2011, when it unexpectedly

surpassed the European risk premium (see figure 94). This can, however, be explained by factors relating the central bank policy. The Swedish financial markets had namely begun to show signs of recovery during 2010, and access to market funding had once again become possible. The economy as a whole was strong: the GDP increased by a whopping 6.1% in 2010 and the unemployment rate began to fall. The reaction by the Riksbank was to gradually phase out the extraordinary schemes it had introduced during the earlier parts of the global financial crisis. Monetary policy was tightened and, most importantly, the final outstanding fixed-rate term loan to banks that expired in October 2010 was not renewed.

Problematically, even though the markets appeared to be in better shape than previously, it was a far cry from the environment that had existed prior to the crisis. The behaviour had changed more permanently as interbank gentlemen's agreements had eroded and been replaced by risk aversion and reliance upon central bank support. As a consequence, domestic banks experienced a difficult adjustment period and struggled to access liquidity in SEK through the traditional interbank market. Figure 97 depicts the impact in more detail.

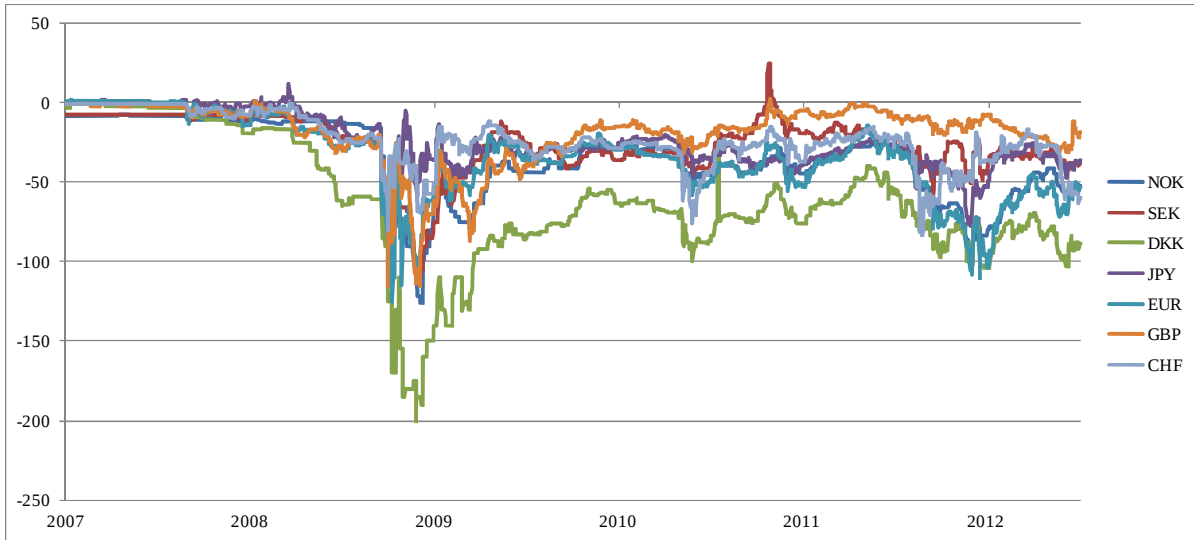
Figure 97: Various SEK risk premia Jan 2010 - July 2011 (bps)



Source: Reuters, author's own calculations

The sudden phasing-out of the central bank loans had a considerable impact on several domestic money market indicators. First, the tomnext interbank rate (a one-day loan beginning tomorrow) began, for the first time, to deviate systematically from the repo rate set by the Riksbank. Hence, the 3M STINA (which was fixed against the T/N STIBOR rather than the repo rate) was no longer an accurate measure of the risk-free rate. Second, credit spreads in the mortgage bond market increased significantly – not so much because of credit fears in the mortgage market as such, as due to liquidity concerns. In sum, demand for liquidity began to affect longer maturities, including STIBOR-STINA spreads. This peculiar episode can also be seen in the cross-currency markets. As stated before, the global financial crisis led to a systematic deviation of the CIP as measured against the USD. The USDSEK CRS spread, like all other major currencies against USD, turned negative. Figure 98 depicts the 1Y CRS spreads for a range of currency from 2007 to mid-2012. Indeed, the demand for SEK towards the end of 2010 was substantial enough to push the USDCRS spread into *positive* territory for the first time. Consequently, the SEK liquidity squeeze should not be seen as a squeeze on Swedish *banks*, but on Swedish (and foreign) banks ability to raise *SEK liquidity*.

Figure 98: 1Y CRS spreads against USD 2007-2012 (bps)

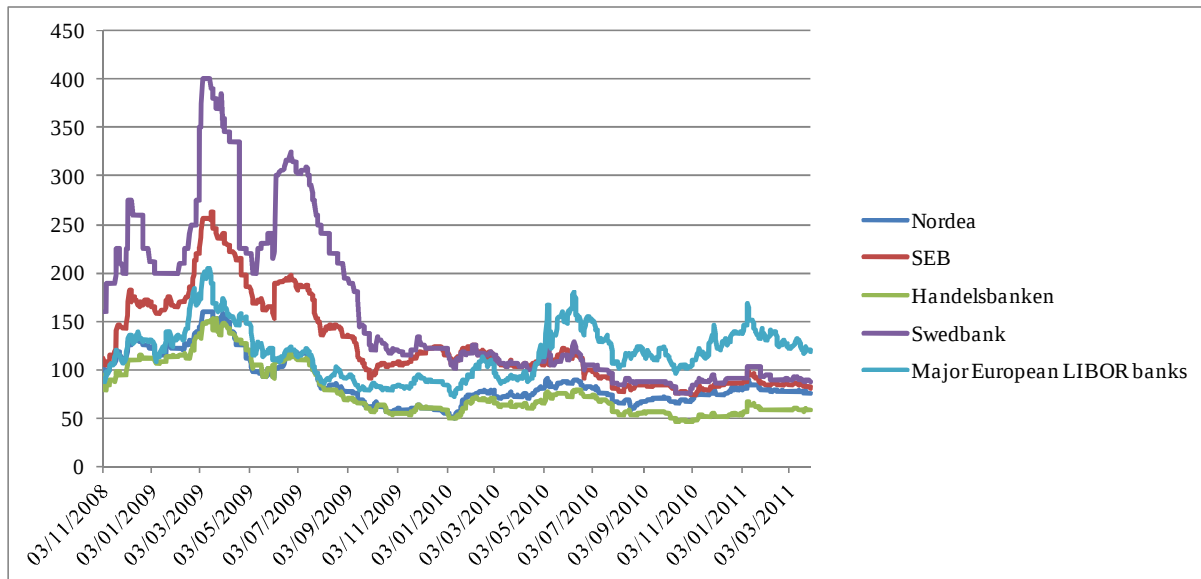


Source: Reuters

To sum up, the Swedish banking system fared better than its peers during the financial crisis, as evidenced by the various risk premium measures (such as LIBOR-OIS and CRS spreads). The peculiar episode in 2010-11 showing conflicting tendencies (*increasing* STIBOR-STINA spreads coupled with *decreasing* CRS spreads) should be seen in isolation, and does neither provide evidence for, nor against, suggestions that Sweden has received a safe-haven status in recent years.

However, another, different, financial indicator suggests that Sweden could be grouped among 'safe' countries: namely the credit default swaps (CDS) market. The CDS market could be seen as a measure of perceived creditworthiness of a particular 'entity' by the market, rather than by, for instance, credit rating agencies. Figure 99 depicts the 5 years CDS spreads for banks from the aftermath of the collapse of Lehman Brothers up until the early period of the Eurozone crisis.

Figure 99: 5Y bank CDS spreads (bps)



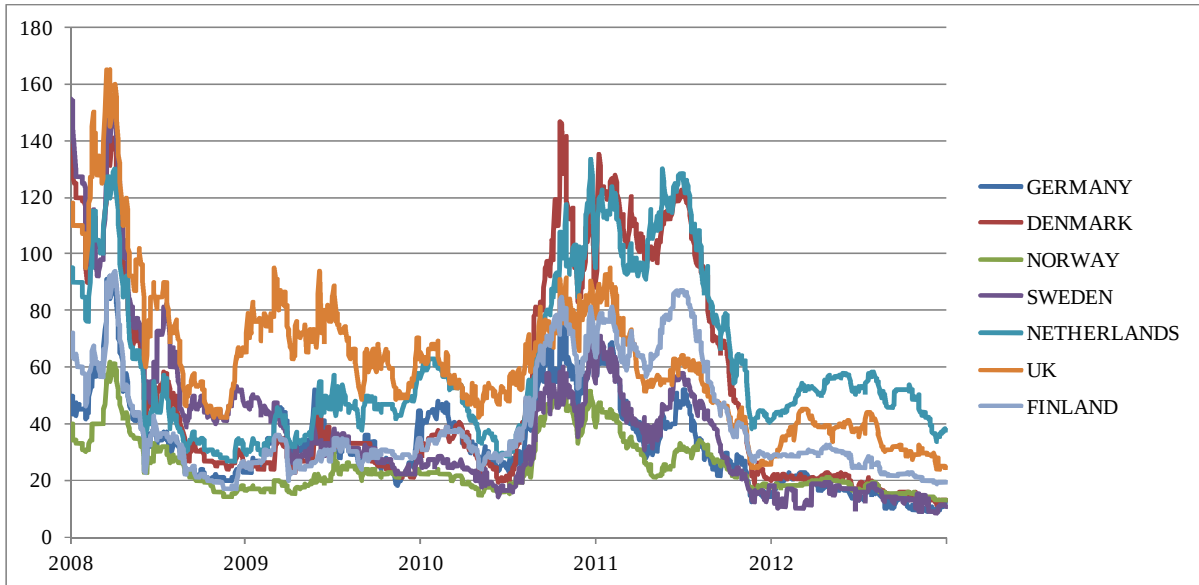
Source: Datastream, author's own calculations

Here, the CDS spreads of the big four Swedish banks are compared against the average of the large European LIBOR-panel banks: Barclays, HSBC, Lloyds, RBS (UK); BNP, Crédit Agricole, Société Générale (France), Deutsche bank, Westdeutsche Landesbank (Germany), Crédit Suisse, UBS (Switzerland) and Rabobank (the Netherlands). Hence, the proxy does not include non-European banks, or banks domiciled in countries most affected by the Eurozone crisis. As can be seen, the CDS spreads for all banks increased sharply post-Lehman Brothers. Swedbank and SEB were particularly hard hit, with their CDS spreads rising above 400 and 250 bps respectively in March 2009. Nordea and Handelsbanken, on the other hand, fared slightly better than their European peers. The exposure of Swedish banks (in particular that of Swedbank and SEB) to the Baltic countries became a major concern towards the end of 2008, with the CDS spreads of the two banks showing another set of spikes during the summer of 2009. SEB and Swedbank had expanded aggressively into the three neighbouring countries. At the time, 80% of the Estonian, 60% of the Latvian and 55% of the Lithuanian markets were dominated by SEB and Swedbank with their subsidiaries and branches. The Baltic countries absorbed 15% of the total lending by Swedbank, whereas the corresponding figures for SEB was 13% and Nordea 3%. Consequently, Swedbank had credit losses amounting to 19 billion SEK during the first three quarters of 2009, of which 60% were related to losses in the Baltic countries. The credit losses by SEB were smaller (9 billion SEK). Nonetheless, 75% came from the Baltic region (Sveriges Riksbank, 2010b).

The extraordinary monetary policy measures introduced by central banks across the globe managed to reverse the decline in perceived creditworthiness of banks, resulting in a significant fall in CDS spreads during 2009. Spreads continued to fall until the advent of the Eurozone crisis in 2010, when the perceived creditworthiness of all the big four Swedish banks surpassed those of the large European banks.

Another indication of how Sweden fared during the Eurozone crisis can be given by the sovereign CDS-spreads. As has already been well documented, the peripheral Eurozone countries (Greece, Portugal, Spain, Italy and Ireland) were badly hit, resulting in surging CDS spreads. Consequently, the 'core' Eurozone countries (Germany, Finland, Austria and the Netherlands) became safe havens with the currency area, often showing offsetting dips in their government bonds yields as those of the peripheral countries rose. Figure 100 depicts the 5Y CDS spreads for the Kingdom of Sweden and selected European sovereigns. All have to some degree been portrayed as 'safe havens' during the Eurozone crisis with Germany, Finland, the Netherlands and Austria (not shown) generally been regarded as the 'core' Eurozone countries.

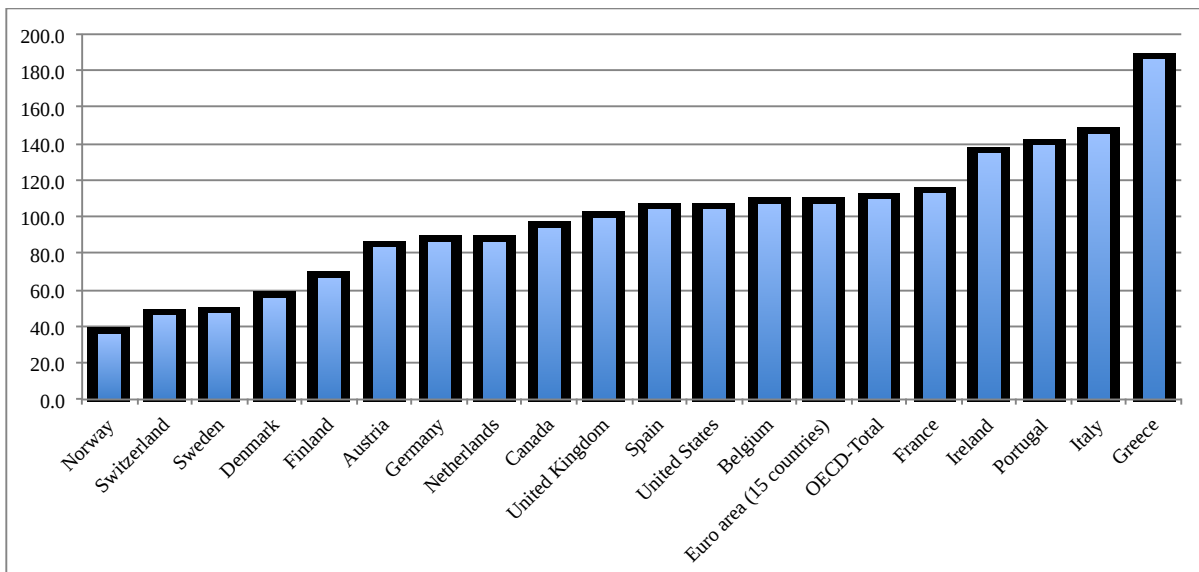
Figure 100: 5Y sovereign CDS-spreads (bps)



Source: Datastream

As can be seen from Figure 100, since mid-2009, Sweden has outperformed most other European countries in terms of sovereign CDS spreads.

Figure 101: Government debt (% of GDP)



Source: OECD

To conclude, Sweden was severely hit by the global financial crisis. However, the country recovered remarkably quickly. As Bergman (2011) points out, this may be due to two important factors. First, Sweden entered the global financial crisis with strong public finances. Second, unemployment did not rise as much as during previous recessions. Some of the reasons for this can be traced back to the Swedish banking crisis during the early 1990s, after which a new fiscal framework was put in place resulting in a budget surplus, rather than deficit, bias. Perhaps paradoxically, the Swedish banking crisis served as a platform for a range of policy changes that in many respects came to 'protect' Sweden during the global financial crisis and the Eurozone crisis. To put differently, the term 'Best in Class' (frequently used in Sweden to illustrate the country's high position in global welfare league tables) now suddenly came to be applied to terms such as 'budget surplus' (see Section 3.1) and 'low government debt' (see Figure 101 above) – attracting considerably more interest from the international financial markets. Thus, Sweden might not have become a 'safe haven' just yet, but seems to do everything right in order to sooner rather than later gain such a status.

4.2 'Best in Class': The Swedish Financialisation Paradox

As this report has shown, the financialisation process in Sweden began in earnest in during the 1980s. Once put in motion, the process gained pace rapidly and has profoundly changed the Swedish society. Seen through the lens of the eight features of financialisation as outlined in the introduction, some of the transformations can be summarised as follows.

First, Sweden began to deregulate its financial system fairly late. However, the process was fast and ultimately transformed the country from one of the most regulated to one of the least regulated OECD countries.

Second, having had an underdeveloped financial market prior to the deregulation process, a range of financial instruments was introduced that came to change the financial landscape domestically.

Third, as a result, several SEK-denominated financial markets quickly became not only large domestically, but some of the largest in the world.

Fourth, the deregulation and financialisation process quickly led to an extension of credit and the Swedish banking crisis during the early 1990s.

Fifth, although the share of the FIRE sector has not dramatically increased during the period, the banking sector has grown substantially and remains highly concentrated. The ownership structure of the Swedish industry, previously regarded as the 'motor' of the Swedish model, has been transformed radically as a result of the deregulation process. Foreign ownership has increased dramatically, partly as a result of the industry having been 'pre-packaged' for takeover prior to the deregulation.

Sixth, a number of features of the Swedish model were gradually replaced, or significantly, exposed to market mechanisms. The reforms, widely supported by the government and an independent inflation-targeting central bank, have increased inequality and insecurity. Budget surpluses and low government debt have aided the country in becoming a safe haven during recent international turbulence.

Seventh, market oriented reforms have not only encompassed the financial sector, but also previously 'sacred' areas such as housing, education, child and elderly care.

Eighth, Swedish culture can truly be said to have become more individualistic, rationalistic and market orientated. The pension reform is a telling example of how risk management and financial literacy has penetrated the daily life of Swedes. Likewise, the housing and mortgage markets have exposed transformed, and now expose households to increasing levels of short-term interest rate volatility.

Sweden, and in particular the financialisation process in Sweden, thus portrays itself as a paradox. How could such a radical reform agenda be implemented without much opposition politically (given the hegemony of the Social Democratic Party) or popularly (given a largely homogenous population having grown accustomed to and prided itself of the Swedish model for several generations)?

As this study highlights, the paradox appears to be rooted in two deeply embedded misperceptions about the old Swedish model among (foremost non-Nordic) observers: that the model was characterised by an intrusive, and thus market-unfriendly, state apparatus; and that the model *itself* was a pure invention of the Swedish Social Democratic Party.

However, when these two myths are revealed, Sweden becomes portrayed not so much as a country that suddenly has abandoned the 'state' in favour of the 'markets', but as a culture that historically has been distinctively consensus-based, pragmatic and also rather individualistic. Seen from this perspective, financialisation has been embraced widely not as a perceived end-

goal in itself, but as a pragmatic choice in an on-going ambition to maintain economic growth, full employment and individual freedom in an increasingly globalised world. In other words, the Swedish model contained a number of features that, when put to the test at particular junctions in time, proved unusually fertile for grains of financialisation. Seven points are notable along these lines:

First, Sweden has gone from being (and still remains) a country with one the highest levels of equality in the world, to having the highest rate of increase in inequality. However, the Swedish ideal leans closer towards an equal opportunity for all, not the levelling of differences *per se*. Throughout history, Sweden could be regarded as individualistic in the sense that informal contracts (such as families, charities and small communities) have been (and still are) regarded with suspicion. Instead, the state has been provided the role providing the necessary individual security. This alliance between the individual and the state implies that the latter is expected to provide everyone with a *first* opportunity, not a second opportunity like in, for instance, the Anglo-American model. Thus, the concept of the 'Big Society' (as defined by the UK Conservative Party) could not be further removed from the old – or the new – Swedish model. 'Free schools' and the outsourcing of health care services to privately-run institutions have (until very recently) been met with fairly little resistance. This should not be interpreted as a growing adversity towards the state as such. Rather, it exemplifies the overall belief in market mechanisms and efficiency as long as quality and security is assured.

Second, in contrast to popular belief, there is not a very strong tradition in Sweden of state intervention in market-mechanisms as such. Instead, the market has been supposed to deliver economic growth, in itself necessary to achieve full employment. The export industry, not the public sector, was after all seen as the 'motor' of the Swedish model. Employment, in turn, has not only been seen as a right, but also as an 'obligation' or 'calling' in its Lutheran sense of work ethic. Wide-encompassing education programmes and work schemes were thus implemented not only to achieve full employment, but also to deal with the individual stigma of being without a job and thus not contributing to society.

Third, the comprehensive tax system has generally been seen as a mechanism that can be relied upon, and not meant to 'penalise' the rich. In fact, corporate tax has traditionally been low in order to maintain competitiveness in the corporate sector and thereby to achieve and sustain full employment. The bank nationalisations in the early 1990s should not be seen as political attempts to control the banks, but as to hinder further concentration in the sector.

Fourth, many of the foundation stones of the Swedish welfare state existed prior to the 1930s. The Swedish Social Democratic Party did not 'create' it, but managed to capitalise it, strengthen it and internalise it to a large success. The Swedish Social Democratic Party was always predominantly 'pro-growth' and 'pro-market', making the radically different policies after the 1980s relatively compatible with the party's value system. Despite ultimately being in the position to deliver 'carrots and sticks' during wage negotiations, the government avoided meddling with the market-determined wage bargaining processes between the large trade unions for the employees (LO) and the employers (SAF). The solidaristic and conflict-free wage strategy, however, ironically became a victim of its own success, needing to confront an increasingly fragmented union structure following growing service and public sectors.

Fifth, the export industry was the backbone for the Swedish economy. Globalisation, European integration, technological change and the removal of foreign exchange and capital controls made it untenable for the industry to remain insular. Further deregulation was therefore seen as unavoidable to maintain competitiveness. Although Sweden *seemed* like bank-based system, the industry was largely controlled by powerful domestic families through investment companies. Hereby, long-term stability was ensured. The deregulation process led to a remarkable balance shift, with foreign ownership of stock market rapidly increasing from around 5% to 40%. However, although the ownership structure has changed radically, the corporate governance structure (i.e. the control) has, due to the unique system of voting rights differentiation, shown fairly little change.

Sixth, the adoption of inflation targeting and a more independent central bank in the aftermath of the banking and currency crises in the early 1990s should not be seen as a careful shift in

ideology and policy strategy. Instead, it was a pragmatic adjustment away from the high inflation stigma that was widely perceived to be bad for business – and hence bad for employment. The banking crisis (fuelled by a credit bubble immediately after the deregulation process) quickly paved the way for a new consensus-based agenda against budget deficits and unsustainable government debt. As a result, Sweden recovered quickly from the global financial crisis and the Eurozone crisis. Sweden has, involuntarily but inevitably as a result of its policies, transformed itself towards a safe haven for investors and speculators alike.

Seventh, the radical pension reform not only made the Swedish population highly exposed to the direction and volatility of the financial markets, it also encouraged a broad based financial literacy both implicitly and explicitly. The working population (past, present and future) were turned into investors and risk managers. The Swedish financialisation process has also penetrated into a vast array of daily routines previously alien to market processes, with the liberalised housing, education and health care systems being the most prominent examples. Again, this might appear is in stark contrast to the 'old' Swedish model. The 'new' Swedish model is, however, not Anglo-Saxon - despite its superficial similarities.

To sum up, Sweden has arguably been liberalised faster than any other developed country during the recent decades. The financialisation process has not only been prominent, but has also been fuelled by a market-embracing and market-promoting state apparatus. Therefore, instead of regarding the transformation of the Swedish model as a paradox, we should perhaps begin to look at the country from a different perspective: namely as the *ideal* country for financialisation.

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Appendix

Table A1: Privatisation in Sweden since the early 1990s

Year	Company name	Sector	%	Method of sale
1989	SSAB (Svenskt Stål AB)	Manufacturing	18.7	PO
1991	Telub Service AB	Manufacturing	100	PS
1992	Barnängen	Manufacturing	100	PS
1992	Bertmark Media AB	Manufacturing	100	PS
1992	SSAB (Svenskt Stål AB)	Manufacturing	48	PO
1992	Svensk Avfallskonvertering AB	Utilities	90.1	PS
1992	Timab	Services Industry	100	PS
1992	Cityvarvet AB - Floating Dock	Manufacturing	100	PS
1992	Swedish Ordnance	Manufacturing	50	PS
1993	Celsius Industrier AB	Manufacturing	75.1	PO
1993	SKD - Företagen	Services Industry	100	PS
1993	Dafa Norr	Services Industry	100	PS
1994	AssiDomän AB	Manufacturing	49	PO
1994	Stockholm Stads Dataservice	Services Industry	100	PS
1994	Pharmacia AB	Manufacturing	32.5	PO
1994	Dialog	Services Industry	100	PS
1994	Stadshypotek	Finance & Real Estate Industry	55	PO
1995	Nordbanken Holding AB	Finance & Real Estate Industry	34.5	PO
1996	Addum Industri AB	Services Industry	100	PS
1996	Swebus Gruppen AB	Transportation Industry	100	PS
1996	Securum Hotels Hld - Holiday Inn	Services Industry	100	PS
1996	Securum Hotels Hld - Kew Retail	Services Industry	100	PS
1997	SBL Vaccin AB	Services Industry	100	PS
1997	Nordbanken Holding AB	Finance & Real Estate Industry	16.9	PO
1998	Enator AB	Services Industry	25	PO
1998	Hässleholm Energi AB	Utilities	100	PS
1998	Skavsta Airport	Transportation Industry	90.1	PS
1998	Stockholm Energi	Utilities	100	PS
1999	GP&C Sweden AB	Manufacturing	100	PS
1999	Kramfors Fjärrvärme AB	Utilities	25	PS
1999	SAQ Kontroll AB	Services Industry	100	PS
1999	Saab Factory Malmö	Finance & Real Estate Industry	100	PS
1999	Posten AB - Sorting Terminals	Services Industry	100	PS
1999	Kalmar Energi AB	Utilities	50	PS
1999	VPC	Finance & Real Estate Industry	75	PS
1999	St Görans Sjukhus AB	Services Industry	100	PS
1999	Norrköping Miljö and Energi	Utilities	49	PS
2000	LEFAB	Utilities	50	PS
2000	Celsius Industrier AB	Manufacturing	24.9	PS
2000	Sigtuna Energi	Utilities	100	PS
2000	Brista Kraft AB	Utilities	50	PS
2000	Arvika Energi AB	Utilities	100	PS
2000	Länshälsan	Services Industry	100	PS
2000	Telia AB	Telecommunications	20.9	PO
2000	Scandlines AB	Transportation Industry	100	PS
2000	Uppsala Energi	Utilities	100	PS
2000	Starman	Telecommunications	60	PS
2000	Eniro AB (Telia)	Services Industry	50.9	PO
2000	Norrköping Miljö and Energi	Utilities	51	PS
2001	Sävsjö Energi AB	Utilities	50	PS
2001	Haninge Bostäder	Finance & Real Estate Industry	100	PS

2001	Telia Finland Oy	Telecommunications	100	PS
2001	Katrineholm Energi AB	Utilities	100	PS
2001	Ungrid	Services Industry	100	PS
2001	Eniro AB (Telia)	Services Industry	24.4	PO
2001	Norrtälje Energi AB	Utilities	100	PS
2001	Postgirot AB	Finance & Real Estate Industry	100	PS
2002	Kungsbacka Energi AB	Utilities	100	PS
2003	Venantius AB-Housing Loan	Finance & Real Estate Industry	100	PS
2005	Rezidor Hotel Group AB (SAS)	Services Industry	25	PS
2005	Infracity AB (Vasakronan AB)	Finance & Real Estate Industry	100	PS
2005	AssiDomän AB	Manufacturing	100	PS
2006	Rezidor Hotel Group AB (SAS)	Services Industry	58.3	PO
2006	Rezidor Hotel Group AB (SAS)	Services Industry	10	PS
2007	TeliaSonera	Telecommunications	8	PO
2007	Centrum Kompaniet i Stockholm AB	Finance & Real Estate Industry	100	PS
2007	Stockholms Hamnntreprenad	Transportation Industry	100	PS
2007	SweMaint AB	Transportation Industry	100	PS
2008	OMX	Finance & Real Estate Industry	6.7	PS
2008	Vin & Sprit AB	Manufacturing	100	PS
2008	Parkab Övervakning AB	Services Industry	100	PS
2008	Vasakronan	Finance & Real Estate Industry	100	PS
2008	Astrid Lindgrens Värld AB	Services Industry	90	PS
2009	Svenska McDonald's Development	Trade Industry	10	PS
2009	Stockholm Läns Landsting AB-	Services Industry	100	PS
2009	Carnegie Investment Bank AB	Finance & Real Estate Industry	100	PS
2009	Max Matthiessen Holding AB	Finance & Real Estate Industry	100	PS
2010	Pharmacy Company Sweden 2 AB	Trade Industry	100	PS
2010	Göteborgs Gatu AB-Consulting B.	Transportation Industry	100	PS
2010	Jernhusen AB-Sundbyberg – prop.	Finance & Real Estate Industry	NA	PS
2010	Karlskrona Stuveri AB	Manufacturing	51	PS
2011	Nordea Bank	Finance & Real Estate Industry	6.30	PO
2011	Dombron Intressenter AB	Finance & Real Estate Industry	50	PS
2011	Arbetslivsresurs AR AB	Services Industry	100	PS

Source: Privatization Barometer (January 2013)

Table A2: Hostile takeovers in Sweden 1997-2007

Year	Target	Acquiring company		Deal	Increased Bid	Defence tactic
1997	ICB Shipping	Frontline	A-list ^(a)	No	Yes	Attack the logic of the bid, legal measure, white squire, positive information
1998	Liljeholmen	Duni	O-list ^(b)	No	No	White knight
	Näckebo	Drott AB	A-list	No	Yes	Financial restructuring
1999	BTL	Stinnes	A-list	Yes	No	Attack the logic of the bid
	Dahl	EQT och Ratos	A-list	Yes	Yes	White Squire
	Martinsson	Atle	OTC-listan	Yes	Yes	Attack the logic of the bid
2000	Allgon AB	LGP Telecom Holding AB	A-list	No	No	Attack the logic of the bid, white squire
	Balder	Drott AB	O-list	Yes	Yes	Blow fish
	Scania	Volvo	A-list	No	No	Attack the logic of the bid, white squire, positive information
	Entra	Tieto Enator	O-list	Yes	No	Attack the logic of the bid
2001	Eniro AB	Seat Pagine Gialle S.p.A	O-list	No	No	Blow fish, attack the logic of the bid
	Matteus	ABAragon FK AB	O-list	No	Yes	Attack the logic of the bid
	Platzer Fastigheter AB	Fastighets AB Tornet	A-list	No	No	White knight
	Ångpanneföreningen AB	Sweco AB	A-list	No	Yes	Attack the logic of the bid
	Lindab AB	Lindab Intressenter	A-list	Yes	Yes	Attack the logic of the bid
	Netwise AB	Trio AB	O-list	No	Yes	Positive information
	Mediteam	Meda	O-list	No	No	Blow fish
2002	Munksjö	Smurfit Holding	A-list	Yes	Yes	Passive
	JP Nordiska	Kaupthing	O-list	Yes	No	Attack the logic of the bid
2003	Mogul	Adera	O-list	Yes	No	Passive

2004	Pandox AB	APES Holding AB	O-list	Yes	Yes	Blow fish, positive information
2005	Skandia	Old Mutual	A-list	Yes	No	Attack the logic of the bid, legal measure, positive information
	Cloetta Fazer AB	Oy Karl Fazer AB	O-list	Yes	No	Positive information
2006	Semcon	JCE	O-list	No	No	Attack the logic of the bid, financial restructuring
	Cybercom	JCE	O-list	No	No	Legal measure, positive information, white squire
	Capio	Opica	O-list	Yes	Yes	Attack the logic of the bid, legal measure, financial restructuring, blow fish, positive information
	Scania AB	MAN AG	Large Cap	No	No	Attack the logic of the bid, Positive information (white knight)
2007	Academedi AB	Bure AB	Equity Small cap	No	No	Attack the logic of the bid
	KMT AB	Nordstjernan AB	Small cap	Yes	No	Attack the logic of the bid
	Lindex AB	KappAhl Holding AB	Large Cap	No	No	White knight
	Securitas Direct AB	ESML Intresssenter AB	Large Cap	Yes	Yes	White knight? (Pennant Capital Management)
	Gant Company AB	Procastor S.A	Mid Cap	Yes	Yes	Attack the logic of the bid, Positive information

Source: Markus Johansson and Martin Torstensson, Master thesis within Finance, Jönköping International Business School, May 2008 (available on the web)

(a) A-list: company with minimum three years of activity; minimum market capitalization of 300 million SEK; minimum 2,000 shareholders

(b) O-list: company with sufficient financial resources over the next 12 months (after the first day of trading); minimum 500 shareholders

Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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Published in Leeds, U.K. on behalf of the FESSUD project.