



RIKSREVISIONEN
The Swedish National Audit Office

RiR 2009:26 Summary

State Guarantees in the Financial Crisis

Summary

Starting points for the Audit

The bankruptcy of Lehman Brothers in the US in September 2008 sent shockwaves throughout the global financial system. Swedish banks were also affected, making it harder for businesses to obtain credit on reasonable terms. In an extraordinary move, the Government and Parliament fast-tracked legislation to increase guarantee limits from SEK 800 billion in the summer of 2008 to just over SEK 3000 billion in spring 2009. The most important guarantees covered banking credits and export credits.

The Government's basis for these decisions and its status reports to Parliament on these extensive commitments are the subject of this audit.

The audit aims to assess whether the Government has ensured:

- that the guarantee terms are reasonable in relation to costs incurred by the state;
- that there is supporting data to assess state exposure to future costs;
- that there is open and transparent status reporting to Parliament.

It should be noted that the National Audit Office audit is not considering the impact of state guarantees on the financial sector or the economy as a whole.

National Audit Office Conclusions

On guarantee terms and fees

Fees charged for bank guarantees and deposit insurance are likely to cover the expected costs incurred by the state. The terms and restrictions introduced by the Government help minimize costs and increase the prospects for recovery of any losses.

The guarantee terms and pricing for export credits and borrowings for export credits applied by the Export Credits Guarantee Board and the Swedish Export Credit Corporation are in accordance with the risk incurred by the state in providing the guarantees. The processes in place for the agency and the company to assess risks and ensure adequate funding to cover any losses are working well. A more prolonged recession, however, might seriously impact on results for both the Export Credits Guarantee Board and the Swedish Export Credit Corporation.

The overall assessment of the National Audit Office is that the guarantee terms are helping to minimize costs to the state of providing the guarantees and increasing the prospects for recovery.

On the Government's assessment of exposure to future costs

The National Audit Office finds that there was no overall assessment of the economic risks to the state when the Government sought Parliament's approval for the very substantial guarantee commitments. In the critical situation prevailing between October 2008 and January 2009, it is understandable that decisions needed to be made quickly and in part based on incomplete supporting data.

In the year since crisis measures were introduced, however, the Government has not taken sufficient steps to give a comprehensive picture of the risks that the state has taken over from banks and other businesses for many years to come. The National Debt Office, in a letter to the Government, pointed out that development work such as this was planned in consultation with other guarantee agencies, but that the work was deprioritized because of the financial turmoil. Only at the end of October 2009 did the Government give the National Debt Office a mandate to assess the effect of Government assistance measures on the supply of credit. The mandate does not, however, include a requirement to provide an overall assessment of the economic risks to the state.

When the bank guarantee was decided, the Government refrained from attempting to assess the future costs, referring to the alternative of a potential worsening of the crisis in the real economy, the cost of which was estimated to be very high. The National Debt Office insists that the state's real exposure to the Swedish banking system is neither limited to the actual guarantees given nor the maximum guarantee amount of SEK 1 500 billion. The National Audit Office's interpretation of the cost minimization requirements set out in the State Assistance to Credit Institutions Act is that state assistance should cost as little as possible while avoiding any negative socioeconomic impact. To ensure this, the Government should estimate and disclose the risks and expected costs of the guarantees, and design processes to continuously manage, monitor and wind them down.

The Government has also not taken any steps to estimate the exposure to future costs from state export guarantee commitments.

The National Audit Office essentially holds the view that the Government has not ensured adequate support data to assess state exposure to future costs from the guarantees.

On reporting to Parliament

Parliament has on several occasions in 2009 called for a statement on the consequences of the measures undertaken. The Government has pointed out the difficulties in estimating the risks of the state's commitments. However the Government has not for instance tasked the relevant companies and government agencies to secure supporting data for coordinated and comprehensive assessment and monitoring of the economic risks to the state. The absence of such a mandate is likely to be one reason for the lack of

information about the economic risk in the budget bills and in other reports to Parliament.

An in-depth analysis of risks such as increased state lending and various guarantee commitments is highly relevant in the situation that has arisen. No such in-depth analysis has been provided by the Government. The Fiscal Policy Council and the National Institute of Economic Research have also pointed out this deficiency.

The National Audit Office concludes from its audit that the Government has not provided comprehensive and transparent status reports to Parliament.

National Audit Office Recommendations

In light of the reported findings and conclusions, the National Audit Office makes the following recommendations:

- The Government should commission reports and analyses on the economic risks to the state and taxpayers associated with guarantees of the type introduced in the last year. The analyses should be performed in a coordinated way for all state guarantees.
- The Government should present a comprehensive picture, including both bank guarantees and export credit guarantees, of the economic risks for the state and taxpayers. The Annual Report for the State should include appropriate additional information on the expected cost and risk of the guarantees to provide a more accurate picture of the state's economic position and risk exposure.
- The National Audit Office is of the opinion that the need for a comprehensive report on the risks and costs associated with state guarantees should be considered as part of the current review of the Budget Act.