

## **EUROPE NEEDS A GENERAL GUARANTEE FOR THE ENTIRE BANKING SYSTEM**

**- Extraordinary action is required in present extraordinary times. It is of utmost importance that the European Union strongly encourages the Member States to deal with the ongoing financial crises in a comprehensive manner. The European Union should be part of the solution, not part of the problem. What is needed is a general guarantee for the entire banking system – not the fragmented approach currently in place. This is not working, said Mr. Urban Bäckström in connection with BUSINESSEUROPE Council of Presidents meeting in Paris on Friday, December 5th.**

Mr Bäckström, who is currently Director General at the Confederation of Swedish Enterprise has a background as Chairman and Governor of the Swedish Central Bank and as State Secretary in the Ministry of Finance. He was deeply involved in the handling of the Swedish financial crisis in the early 1990's.

- The effect of the global financial excesses have caused a cumulative momentum in our economies that soon will be hard to manage. A downward economic movement has already started and many European countries are already in recession. The present severe credit crunch is making things worse. Credit conditions are tight and interest margins are still too wide. Large, medium and small businesses all around the European continent are in difficulty.

- Governments in Member States should be allowed by the European Union to take quick and decisive actions with the clear objective of removing uncertainty about future private sector losses. This is how it was handled in the Swedish bank crisis in the early 1990's, whereas in Japan government took too long to act decisively. The Swedish guarantee of the entire liability side of the balance sheet except equity capital was the key to a return to a stable situation in the financial system.

- I would like to see an opportunity to implement such a general guarantee along with wide options to recapitalise the European banking systems. This would strengthen the financial institutions and bring them into order.

- Europe has already learned from the major mistake made by the American authorities in September this year when the investment bank Lehman Brothers was allowed to collapse, something which sent shock waves all over the world. Lehman Brothers was of crucial importance to the global financial system and such a bank must never be allowed to go down in such a

disorderly way. By learning this lesson, an implicit banking guarantee is already in place in Europe.

- What I am suggesting is to make the implicit guarantee explicit.
- There comes a time when governments, central banks and supervisory authorities should deal with the long term problems by preventing the next financial crisis from happening. From this perspective, the potential problems caused by moral hazard are indeed relevant. Moreover, the fundamental problems behind the present crisis have been the excessive credit growth over a long period and the inherent procyclicality of the financial system. All this has to be dealt with in due course.
- Today, however, all focus should be preventing the present, inescapable recession from developing into something worse. Decisions made over the coming days and weeks may well shape the European continent for a long time to come, said Mr. Bäckström.

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