

Contingent liabilities

- the Swedish experience

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Contingent liabilities in Sweden

- Guarantees
 - Export credit
 - Development aid
 - Housing credit
 - Multilateral development banks
 - Emergency support for banks in distress
 - Deposit insurance and investor compensation schemes
- PPP's and other contingent liabilities have not been on the agenda in Sweden

Contingent liabilities in Sweden

The guarantee model:

- Background
- Purpose
- Design
- In Practice
- Achievements

Guarantee model – background

- Financial and economic crisis in the early 1990s
- Fiscal policy framework
 - Surplus target for net lending (entire general government sector)
 - Expenditure ceiling (central government)
 - Strict budget process
- The guarantee model – integrated part of the framework

Guarantee model – purpose

- Identify and address risks linked to off-budget commitments
- Ensure that guarantees and similar commitments are self-financed in the long-run (cost-recovery principle)

Guarantee model – design

Main building blocks of the model:

- Budget Act
- Guarantee and on-lending Ordinance
- International agreements
- Accounting rules

Some specific guarantee schemes are exempt from the model. These are regulated through separate legislation. Examples are the Deposit insurance and Investor compensation schemes

Guarantee model – design

Budget Act:

- Approval by the Parliament
 - The Government may provide guarantees for the purpose and to the maximum amount approved by the Parliament
- Fee is charged
 - The fee corresponds to central government's expected costs for the guarantee (unless the Parliament has decided otherwise for a certain guarantee)

Guarantee model – design

Budget Act:

- Subsidies have to be financed
 - If expected costs are not covered by the recipient, the Government has to propose to the Parliament how the difference should be financed

Guarantee model – design

Budget Act:

- Notional reserves
 - Fees and other financing of expected losses are entered in accounts at the Swedish National Debt Office (central government internal bank)
 - Realised losses from state guarantees are covered by funds from these accounts

Note: the above refers to notional reserves, no actual funds. A call on a state guarantee is booked against the applicable notional reserve and then charged against the Treasury Single Account (central account)

Guarantee model – design

Budget Act:

- Size of the fee
 - The Government or the agency determined by the Government decides on the size of the fee for a certain guarantee
- Reporting requirement
 - Accounting and risk analysis of accumulated guarantee portfolio in annual report to the Parliament

Guarantee model – design

The Guarantee and on-lending Ordinance:

- Contains uniform and more detailed rules governing the work of all authorities managing state guarantees.
- Principles regarding fees, contractual terms, monitoring, reporting etc.
- Risk mitigation
 - beneficiary must be financially viable at time of issuance
 - rights to monitor and control the risk

Guarantee model – design

International agreements:

- EU and OECD agreements address, among other things, pricing issues and risk sharing arrangements to mitigate distortion on competition

Accounting rules:

- More detailed guidelines on how to report state guarantees

Guarantee model – in practice

- Government delegates authority to four specialised authorities:
 1. The Swedish National Debt Office (central government internal bank)
 2. The Swedish Export Credits Guarantee Board
 3. The Swedish National Board of Housing, Building and Planning
 4. The Swedish International Development Cooperation Agency

Guarantee model – in practice

- Each authority manages their state guarantees independently
- Each authority responsible for issuing, monitoring, reporting and closing the guarantees in its sub-portfolio
- Special role of The Swedish National Debt Office:
 - manages the notional reserve accounts of the state guarantee authorities
 - Handles payments when guarantees are called
 - Consolidates guarantee information from all guarantee authorities for the central government annual report
 - Performs the annual risk analysis of the consolidated guarantee portfolio

Guarantee model – in practice

SEK millions, as of 31 december 2013

Guarantee authority	Guarantee commitment	Provisions for expected losses	Guarantee assets
National Debt Office	34 606	806	1 779
Export Credits Guarantee Board	185 807	6 232	27 434
National Board of Housing, Building and Planning	2 270	209	1 900
International Development Cooperation Agency	1 735	112	2 222
Special schemes (exempt from the guarantee model)*	1 434 809	N/A	78 002

*Includes the Deposit insurance and investor compensation schemes

Guarantee model – achievements

Evaluation of the model after nearly two decades in use:

- So far the model has been successful in limiting risks linked to guarantees while Sweden has continued to benefit from the positive effects of the guarantee instrument

However:

- Since guarantee volumes have not been significant in relation to the state finances the model has not yet been seriously tested. A full evaluation would require an increase in the size of the portfolio combined with times of financial distress