Economic Commentary

Financial crisis preparedness in the Nordic-Baltic region

David Farelius and Johannes Forss Sandahl

NO 6 2025, 20 May

Summary

Most of the Nordic and Baltic countries have banks with cross-border operations. These interconnections mean that financial disruptions in one bank or country can spread and affect the banking systems in several of the countries. However, over the past 15 years, the countries' common capacity to manage crises has improved. One reason is that the Baltic countries are now part of the euro area. In addition, the cooperation between national authorities has been strengthened to better identify risks and manage disruptions. Major crisis exercises have been organised, increasing capacity and strengthening crisis preparedness. The central banks in the Nordic and Baltic countries have also strengthened their cooperation to ensure the availability of foreign exchange in the event of liquidity problems in banks with operations in several countries. In this Economic Commentary, we show how Nordic-Baltic financial crisis preparedness has evolved.[1]

Authors: David Farelius and Johannes Forss Sandahl, who work in the Financial Stability Department[2]

Financial stability is a common interest

The Nordic and Baltic countries, also known as the Nordic-Baltic region, have interconnected banking systems and therefore share common interests with regard to financial stability. Swedish banks have operations in almost all of the Nordic and Baltic countries.[3] In the Baltic countries, a large share of banks are foreign-owned. SEB and Swedbank in particular have significant operations there (Table 1).

Table 1. Summary description of SEB's and Swedbank's operations in the Baltics

		SEB	Swedbank
Market share, lending in the Baltics	Households	19-27%	37-40%
	Companies	22-27%	20-35%
Market share, deposits in the Baltics	Households	18-29%	41-45%
	Companies	21-26%	29-38%
Share of group operating profit		19%	32%
Share of group assets		9%	16%

[1] Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by Riksbank staff. Staff commentaries are approved by the relevant head of department, while Executive Board members are themselves responsible for the content of the commentaries they write.

[2] The authors would like to extend special thanks to David Forsman, Dominika Krygier, Jonas Niemeyer, Annika Svensson and Katarina Werder for their valuable comments and contributions.

[3] Iceland is the only Nordic-Baltic country where Swedish banks do not operate.

Note. Percentages are rounded.
Source: SEB and Swedbank annual reports 2024.

The Baltic countries are therefore of interest to Sweden. Historical experience also shows how disruptions in these countries can spread in the region. For example, the 2008 global financial crisis saw a severe financial crisis in the Baltic countries with high contagion risks due to a combination of fixed exchange rate regimes, foreign currency debt and a high degree of parent company funding of bank subsidiaries.[4,5]

In recent years, the war in Ukraine has also highlighted the geopolitical vulnerabilities of the Nordic-Baltic region. Countries in the region need to take the new situation into account not only in terms of security policy but also in their preparedness for dealing with financial crises. There are also challenges for the region stemming from a global increase in protectionism in both economic and security policies.

Crisis preparedness has been strengthened

Each of the Nordic-Baltic central banks has the ability to manage financial crises with various tools. In the event of a severe disruption in the financial system, they can provide liquidity to several participants at the same time, known as general liquidity support, or to individual institutions in the form of emergency liquidity assistance. Central banks can provide liquidity assistance either in the domestic currency or in foreign currency. The countries participating in the euro area have a division of responsibilities whereby general liquidity support is provided centrally by the ECB and emergency liquidity assistance by the national central bank.[6] The non-euro area central banks can provide both general liquidity support and emergency liquidity assistance themselves.

Each country's central bank develops its own crisis preparedness strategy. But the Nordic-Baltic region's cross-border banking systems mean that it is often not possible to separate the countries' self-interests in these matters. They therefore have good reasons to cooperate when crises arise. In addition, there are five different currencies in the region, which means that countries may need to work together to provide the currency needed in a crisis.

The authorities in the region therefore cooperate on an ongoing basis to monitor cross-border risks to financial stability and to promote joint crisis preparedness. Over the last 15 years, this cooperation has been reinforced and taken on new forms, while a number of other factors have changed and created better conditions.

[4] See The Riksbank’s measures during the global financial crisis 2007-2010, Riksbank Study, February 2020.

[5] The crisis in the Baltics - the Riksbank's measures, assessments and lessons learned, hearing at the Committee on Finance, 2 February 2010

[6] See Agreement on emergency liquidity assistance, European Central Bank (ECB), 27 September 2024

Institutional changes and strengthened regulatory framework

In 2011, 2014 and 2015 respectively, Estonia, Latvia and Lithuania adopted the euro. This has affected the financial stability of the Nordic-Baltic region in several ways. One effect is that these countries no longer risk major devaluation pressures on their domestic currencies. Another is that the financial stability of the Baltic countries is now a shared interest among euro area countries.

When they adopted the euro, the Baltic countries also became part of the euro area's common banking regulation and supervision, and started to apply the common framework for dealing with banks in crisis.[7] This has harmonised the standards with which banks in the Baltic countries comply with the rest of the euro area. Among the Nordic countries, Finland also participates in the euro cooperation. Sweden and Denmark are outside the euro area, but subject to EU law as members of the Union. Norway and Iceland are not EU members but participate in the European Economic Area (EEA) and are actively working to bring their national regulation in line with the EU's.[8,9] The increased harmonisation reduces the probability of serious bank failures and increases the probability of cost-effective crisis management.

The banks' headquarters are spread across more countries

The Nordic-Baltic banking sector is dominated by a few large banking groups. By the end of the 2010s, four of the six major banking groups were headquartered in Sweden and their foreign operations were mainly conducted through subsidiaries (Table 2).

Table 2. Structure of the largest Nordic-Baltic banks in 2008

	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
Danske Bank	H	B	B/S	B	S	B/S	B/S
DNB	S	B	B	S	S	H	B/S
Nordea	B/S	B	B/S	B	B	B/S	H
SEB	B	S	B	S	S	B	H
Swedbank	B	S	B	S	S	B	H
Svenska Handelsbanken	B		B			B	H

H	Home
B	Branch
S	Subsidiary
B/S	Branch and subsidiary

Source: The Riksbank

[7] Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD) and Bank Recovery and Resolution Directive (BRRD).

[8] See https://www.efta.int/eealaw.

[9] For more discussion about the Nordic-Baltic financial integration, see Farelius, D., S. Ingves and M. Jonsson, "Financial integration in the Nordic-Baltic Region vis-à-vis the EU: A Swedish Perspective", SUERF Policy Note No 189, 2020

Today, the structure of the banks is more spread out (Table 3). For example, Nordea, previously headquartered in Sweden, moved to Finland in 2017. However, the Swedish banks continue to have a large presence in the Baltic States. In Estonia, foreign branches and subsidiaries account for over 85 percent of the banking system assets. In Latvia and Lithuania, the same shares are above 70 and 60 percent respectively, while the share of foreign branches and subsidiaries in the Nordic countries is much smaller, between 10-20 percent of assets.[10]

Another major change has been that the banks have gradually started to convert subsidiaries into branches in the Baltic countries. The process started when Nordea and DNB sold their Baltic operations in 2019 to a new bank, Luminor, which chose to locate its headquarters in Estonia and have branches in Latvia and Lithuania. Today, SEB is preparing to merge its three subsidiaries in the Baltic countries into one bank headquartered in Estonia, which in turn will have branches in Latvia and Lithuania. This change is planned to be implemented by 2027.[11]

Table 3. Structure of the largest Nordic-Baltic banks in 2025

	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
Danske Bank	H		B/S			B/S	B/S
DNB	B		B/S	B		H	B/S
Nordea	B/S		H			B/S	B/S
Luminor		H		B	B		
SEB	B	S(1)	B	S(1)	S(1)	B	H
Swedbank		S(2)	B	S(2)	S(2)	B	H
Svenska Handelsbanken			B			B	H

H	Home
B	Branch
S	Subsidiary
B/S	Branch and subsidiary

Source: The Riksbank

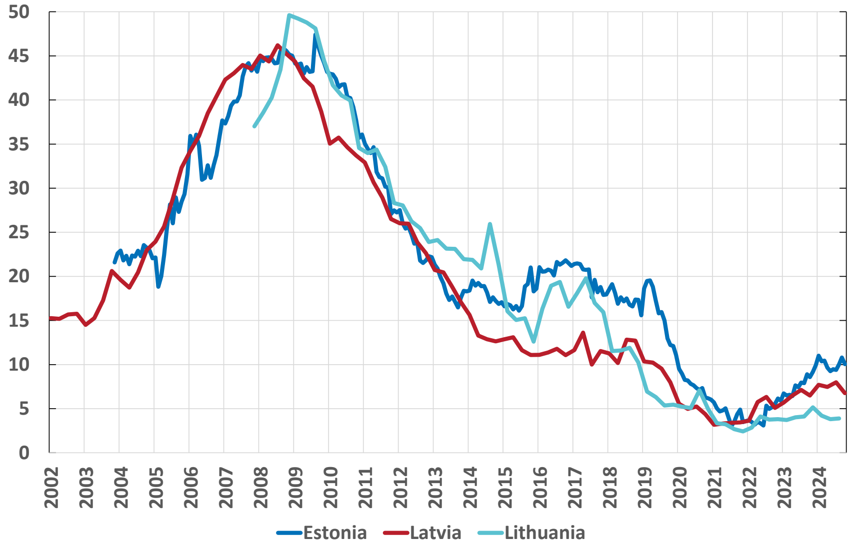
(1) SEB plans to convert its subsidiaries in Latvia and Lithuania into branches of a subsidiary in Estonia. (2) Swedbank's Baltic operations are conducted through a holding company in Latvia.

The banks in the Baltic countries also have different business models compared with the late 2010s. Their funding currently consists mainly of deposits from the public. Previously, banks relied to a greater extent on interbank funding, of which loans from parent companies in Sweden and elsewhere formed a significant part (Chart 1).

[10] Source: Nordic-Baltic central banks

[11] https://sebgroup.com/press/news/2024/seb-to-simplify-its-legal-structure-in-the-baltics

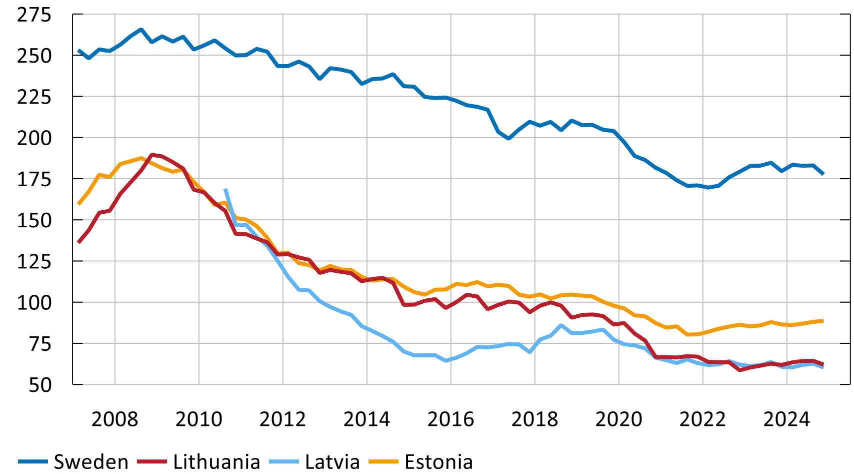
Chart 1. Share of interbank funding in total liabilities of banks in the Baltic countries, per cent



Source: The central banks in Estonia, Latvia and Lithuania

In the Baltic countries, the banks' total liabilities have come to consist more and more of deposits for several years now. All of the Baltic countries' banking systems are currently running deposit surpluses. This means they have more deposits than loans, and are therefore much less dependent on interbank loans and financial markets for their funding. In comparison, Swedish banks have a significant deposit deficit and rely heavily on wholesale funding (Chart 2).

Chart 2. Loan-to-deposit ratios for banks in the Baltic countries and Sweden, per cent



Note. The ratio refers to loans divided by deposits (loan-to-deposit). Lending includes loans to households and non-financial companies. Deposits include deposits from households and non-financial companies.
Source: Macrobond

Increased cooperation between the Nordic-Baltic financial stability authorities

In the 2010s, European efforts to strengthen cooperation among countries and regions with significant cross-border banking activities were begun in earnest. The Nordic-Baltic Stability Group (NBSG) was created in 2010 and consists of central banks, supervisory and resolution authorities and finance ministries. Initially, the NBSG focused on issues related to financial crisis management, how to share the costs of dealing with bank failures and questions regarding the banks' systemic importance, but since the agreement was revised in 2018, the focus has shifted to financial crisis exercises.[12] Today, the NBSG is increasing its focus on cooperation on issues related to operational incidents, such as those resulting from cyber-attacks.

Central banks and supervisors in the Nordic-Baltic region also work together in the Nordic-Baltic Macroprudential Forum (NBMF), which was created in 2011 to monitor financial stability risks and collaborate on macroprudential policy issues.

Major regional financial crisis exercises

Since 2018, one of the main responsibilities of the NBSG has been to organise regional crisis exercises. For example, the Riksbank had the responsibility to prepare and conduct such a crisis exercise in 2019, together with a group of consultants and representatives from the Nordic-Baltic countries. For two days, 31 authorities from the Nordic-Baltic region, as well as relevant EU authorities, participated in an exercise which involved conducting liquidity support measures, assessment of bank solvency and bank resolution decisions.[13] The crisis exercise contributed to a better understanding of the new crisis management framework (BRRD) and important conclusions on issues related to the management of banks operating both inside and outside the banking union.

Another major financial crisis exercise was conducted in 2024, this time led by the Danish Resolution Authority (Finansiel Stabilitet).[14] The final day of the exercise went one step further than in 2019 by also covering the period after the resolution decision, when the markets opened. An important issue in this final phase was how to provide liquidity support to banks in resolution, which had not been practised before.

Cooperation agreement between central banks on cross-border banking

The presence of five currencies in the region means that the banks may have liquidity needs in different currencies in a crisis. It can be challenging for a single central bank

[12] New Memorandum of Understanding for financial stability in the Nordic and Baltic countries, press release, Sveriges Riksbank, 9 February 2018

[13] Statement regarding Nordic-Baltic financial crisis simulation, press release, Sveriges Riksbank, 31 January 2019

[14] Nordic-Baltic crisis simulation exercise 2024, press release, Sveriges Riksbank, 20 September 2024

to meet these needs on its own. Therefore, the Nordic-Baltic countries need to cooperate on liquidity provision to work effectively in a crisis. Over the past decade, the central banks have strengthened this cooperation.

A first cooperation agreement was signed in 2016.[15] The agreement states that a request for emergency liquidity assistance from a bank within a group operating in several of the Nordic-Baltic countries will typically be handled by the central bank of the country in which the bank is domiciled. For example, if a bank subsidiary in Estonia applies for emergency credit, the Estonian central bank will typically handle the request. However, the agreement is not binding, which means that the bank can also apply for liquidity assistance from the central banks of the countries where its group operates.

If the bank applying for emergency liquidity assistance has a branch in another Nordic-Baltic country, the agreement requires the host country's central bank to strive to assist. One way to do this could be to offer the central bank of the bank's home country liquidity in the currency of the host country. For example, if a Danish bank with a branch in Sweden were to have a liquidity need in Swedish kronor, the agreement states that the Danish central bank will provide the liquidity support, but the Riksbank will strive to assist by, for example, offering the Danish central bank Swedish kronor via a currency repurchase agreement.

The three Scandinavian central banks have moreover agreed on principles for swapping their own currencies with one another if one or more banks, in an extraordinary situation, were to need liquidity in another Scandinavian currency than their home currency.[16] They have also concluded specific contingency agreements for this purpose. Overall, this means that the central banks of the Nordic-Baltic region are well prepared to support one another with liquidity in relevant currencies.

Conclusion

Today, the Nordic and Baltic countries are facing new risks. The geopolitical situation around the world requires authorities to work together not only within countries but also across national borders. Because the countries have such strong financial interconnections, with six major banks dominating the financial sector, there are also strong interdependencies between them. Through sustained efforts, the Nordic-Baltic countries have developed a good common capacity to deal with financial crises, which they maintain and further develop through regular contacts and established forms of cooperation.

Several changes have taken place over the past 15 years that have improved the conditions for financial crisis management in the region. The vulnerabilities that existed when the Baltic countries had fixed exchange rate regimes do not exist today, as they have now adopted the euro. This means that countries now are part of the euro area's common framework for banking regulation, supervision, and crisis management of banks. In addition, strengthened cooperation on risk identification, information

[15] Nordic-Baltic agreement on cooperation on cross-border banks, press release, Sveriges Riksbank, 15 December 2016

[16] Scandinavian central banks in new cooperation, press release, Sveriges Riksbank, 12 November 2020

sharing and crisis exercises have improved the joint resilience of the Nordic-Baltic countries.

The region has also strengthened its preparations for providing liquidity in different currencies to the financial system. For example, the Nordic-Baltic central banks have agreed to cooperate in the event that a bank operating in several of the countries needs emergency liquidity support. The Scandinavian central banks have also agreed on specific principles for cooperating on currency repurchase agreements and have entered into contingency agreements to exchange currency between themselves.

References

Agreement on emergency liquidity assistance, European Central Bank (ECB), 27 September 2024

Farelius, D., S. Ingves and M. Jonsson, “Financial integration in the Nordic-Baltic Region vis-à-vis the EU: A Swedish Perspective, SUERF Policy Note No 189, 2020

The Riksbank’s measures during the global financial crisis 2007-2010, Riksbank Study, February 2020.

The crisis in the Baltics - the Riksbank's measures, assessments and lessons learned, hearing at the Committee on Finance, 2 February 2010

Scandinavian central banks in new cooperation, press release, Sveriges Riksbank, 12 November 2020

Nordic-Baltic agreement on cooperation on cross-border banks, press release, Sveriges Riksbank, 15 December 2016

New Memorandum of Understanding for financial stability in the Nordic and Baltic countries, press release, Sveriges Riksbank, 9 February 2018

Statement regarding Nordic-Baltic financial crisis simulation, press release, Sveriges Riksbank, 31 January 2019

Nordic-Baltic crisis simulation exercise 2024, press release, Sveriges Riksbank, 20 September 2024

SVERIGES RIKSBANK
Tel +46 8 - 787 00 00
registratorn@riksbank.se
www.riksbank.se

PRODUCTION SVERIGES RIKSBANK