

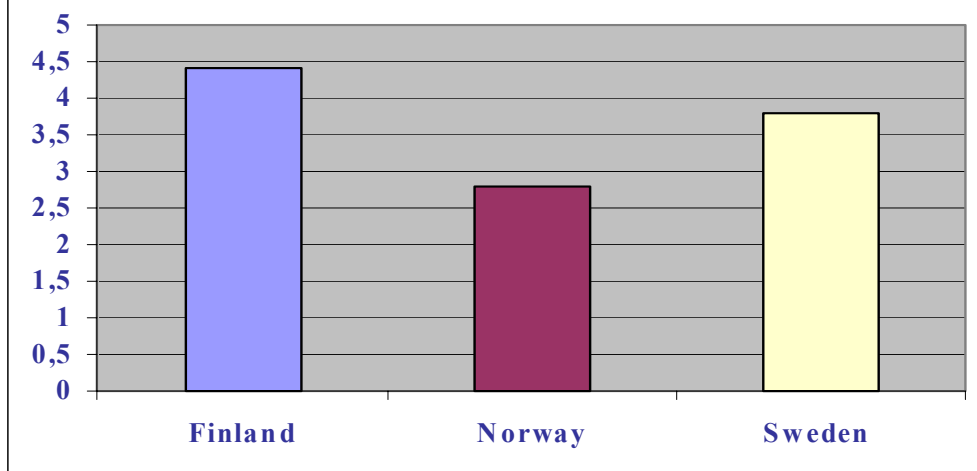
Crisis Resolution and Financial Stability in Norway

Mr. Jarle Bergh, Deputy Governor of Norges Bank
on the occasion of the 50th Anniversary of
Bank Indonesia, December 10, 2003

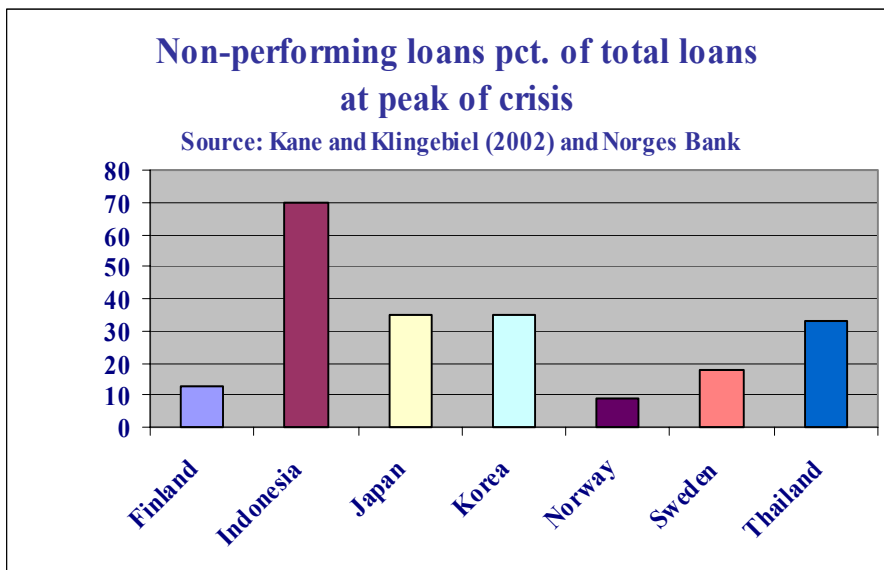
How severe was the Norwegian crisis

Loan losses pct. of GDP at peak of crisis

Source: Norges Bank



How severe was the Norwegian crisis



Features of the Norwegian crisis resolution

- Banks' own collective guarantee funds handled the problems in the banking sector before the crisis became systemic.
- No blanket guarantee from the government for banks' debts.
- No regulatory forbearance
- No liquidity support to potentially insolvent banks.
- A clear and transparent division of responsibility between the political authorities, the supervisory authority and the central bank was established early on.

Features of the Norwegian crisis resolution

- Government support was contingent on strict requirements being met, e.g. existing shareholders accepting a write-down to cover losses to the extent possible.
- No micro-management of banks.
- Measures taken to prevent supported banks exploiting the situation vis-à-vis non-supported banks.
- No asset management companies or “bad banks”.

The development of the crisis

- 1988 to 1990 small and medium sized banks failed.
 - Mostly handled by the two bank-owned guarantee funds.
- Late 1990, evidence that the largest banks would face problems.
- Early 1991, Government Bank Insurance Fund (GBIF) established.
- 1991 failure and serious problems in the three largest commercial banks.
- 1991 and 1992 conditional capital injections from GBIF.
- End of 1993 the crisis was over.

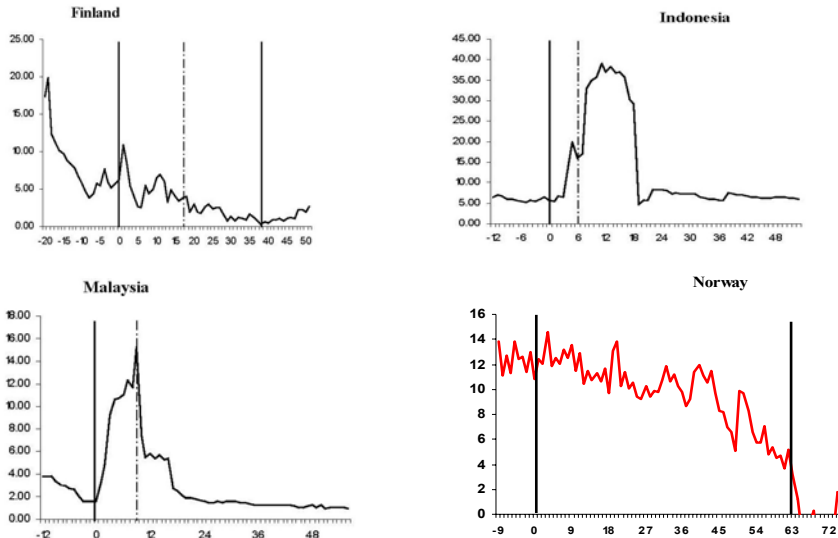
Conditions for capital injections from GBIF

- Management in failed banks changed.
- Existing share capital written down to cover losses to the fullest extent possible.
- The bank's operating costs were reduced and some of its activities downsized.
- Growth of the bank's total assets was restrained.
- But no attempts at micro management of the banks.

Extracts from the agreements with one bank

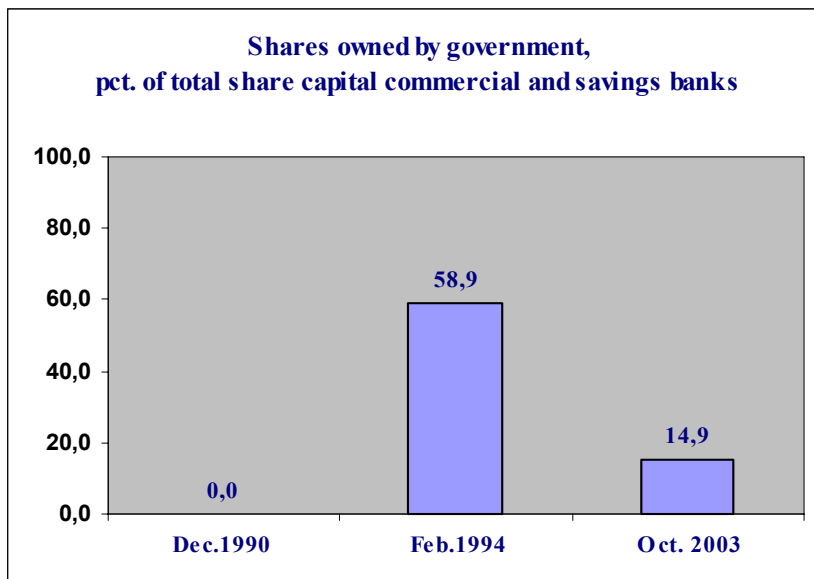
- "... the bank shall aim at a result giving a return equity sufficient that the bank in a normalized situation can raise new equity in the market. With the present [November 1992] level of interest rates this implies a required return on equity in the order of 15 to 20 pct.
- The bank commits itself to cooperating with other banks and the authorities to rationalize and make the payments system more efficient ...
- It is a condition for the GBIF's infusion of preference capital that the share holders' general meeting decides to write down the share capital,
- The bank shall every quarter, no later than two months after its end, report to the GBIF about the bank's operations and its situation. The report shall contain information about ”

Central bank liquidity not used to curb the crisis in Norway



For Norway pct. of total funding. For the other countries pct. of total deposits. On the x-axis, months
 Source: Kane and Klingebiel (2002) and Norges Bank

State ownership in Norwegian banks

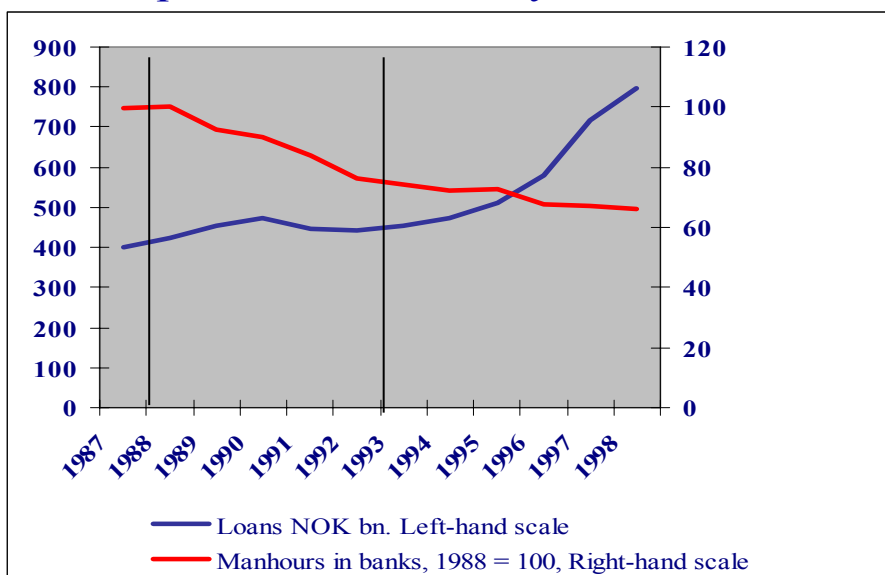


Source: Norges Bank

No asset management companies or “bad banks”

- In none of the problem banks was the ratio of non-performing loans so large that it would distract the management from their main goal.
- The banks themselves had the staff with the best knowledge of the borrowers and experience in working out defaulted loans.
- Transferring bad loans from the banks at a fair price would have been very difficult.
- Banks had most to gain from successful handling of bad loans.
- More taxpayers’ money would have been put at risk.

Operational efficiency of banks



Source: Norges Bank

Fiscal costs of crisis resolution

- Gross fiscal costs (discounted):
 - By year end 1993: 2.9 pct. of GDP
- Gross fiscal costs (simple sums, not discounted):
 - Sweden 3.6 pct. of GDP in 1997
 - Norway 2.0 pct. of GDP in 1997
- Net fiscal costs (discounted):
 - Norway end of 1993: 0.8 pct. of GDP
 - Sweden mid 1997: 1.4 pct. of GDP
 - Norway end of 2001: -0.4 pct. of GDP

Sources: St. meld 39 (1993-94), Jennergren and Näslund (1998), and Moen (2003)

Cumulative output losses pct. of GDP

	IMF	Hoggarth et. al.	Duration of crisis
Finland	22.4	44.9	1991-93
Norway	9.8	27.1	1988-92
Indonesia	24.5	20.1	1997 -
Thailand	25.9	28.1	1997 -

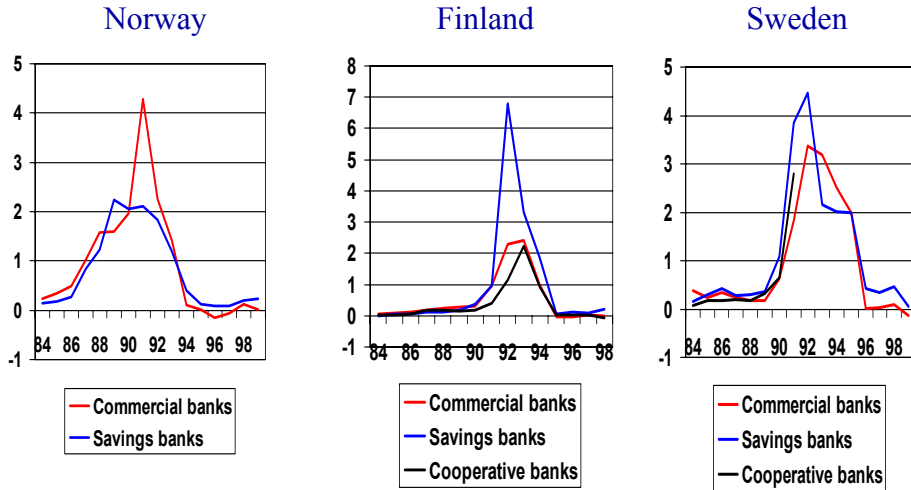
IMF: Differences from trend in growth rates.

Hoggarth et al: Differences in level of potential output and actual output

Source: Hoggarth et al. (2002)

Development of the crisis, loan losses

Loan loss provisions, pct. of total assets



Source: Drees and Pazarbasioglu (1998) and OECD (2001)