

A Norwegian perspective on banking crisis resolution

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First systemic crisis in an industrialized country since the 1930s

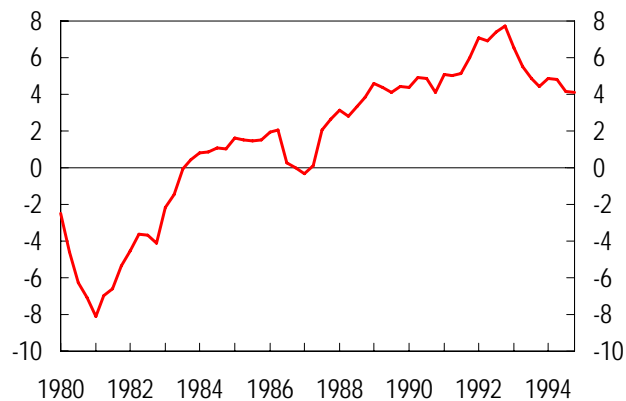
- *How could this happen in a well organized, mature economy?*
 - *How was the crisis resolved?*
 - *What can we learn from the crisis resolution methods adopted in Norway?*
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Special features of the Norwegian banking crisis

- Deregulation and liberalization paved the way for the boom
- Macroeconomic policies were largely pro-cyclical
- Lending growth became exceptionally strong
- Prudential capital regulations were relaxed
- Supervision efforts were reduced

Negative real interest rates in the early 80s

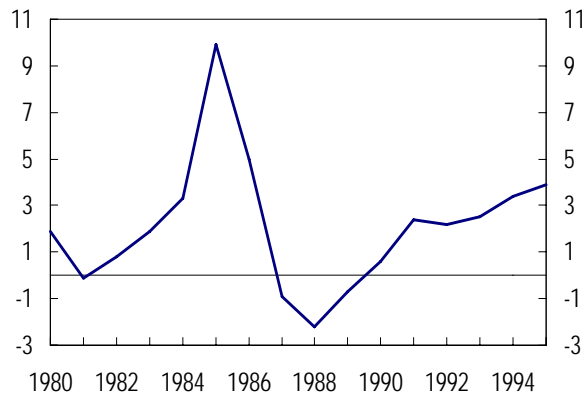
Real interest rate on mortgage loans, after tax (%)



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Strong growth in private consumption in the early 80s

Annual real growth in private consumption (%)



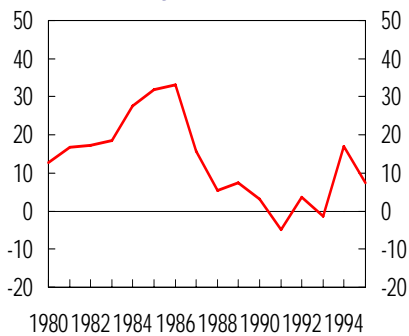
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Exceptionally strong lending growth

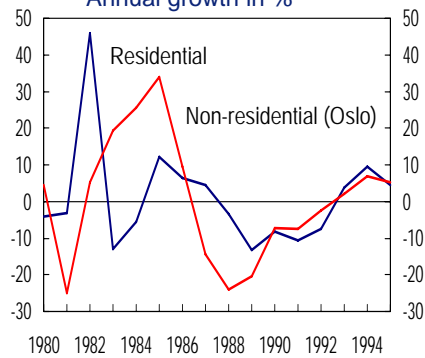
Bank lending

Annual growth in %



Collateral values

Annual growth in %

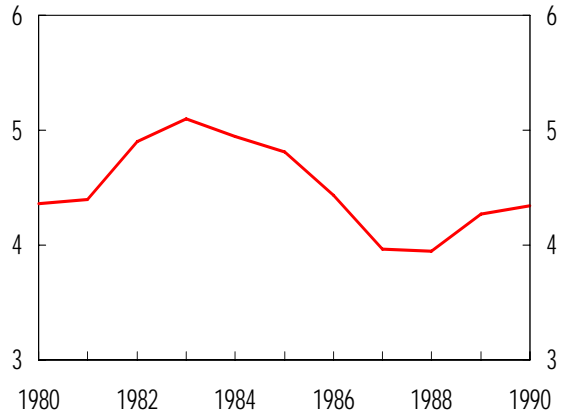


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Bank's capital base was eroded

Bank capital, ex. subordinated debt (% of total assets)

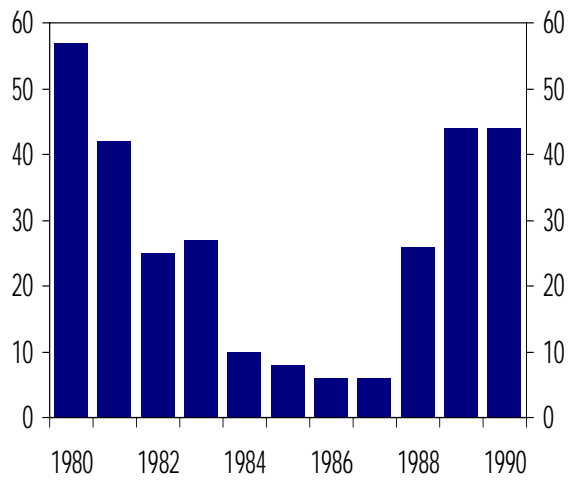


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On-site inspections decreased sharply

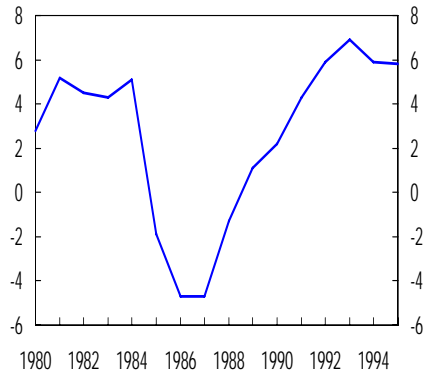
Annual number of inspections



8

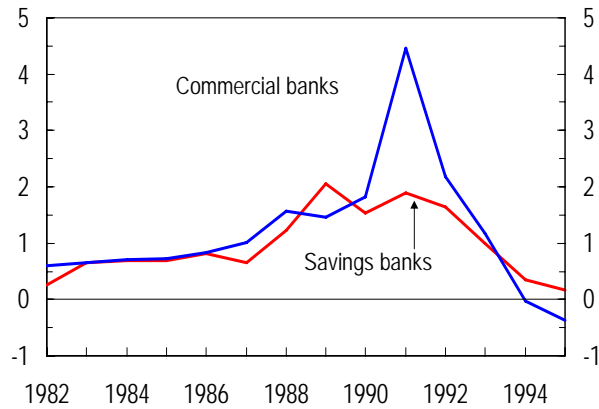
Private sector adjustment led to deepest recession since WW2

Households saving rate (%)



Large loan losses in the banking sector

Loan losses in % of total assets



Key features of the Norwegian crisis resolution

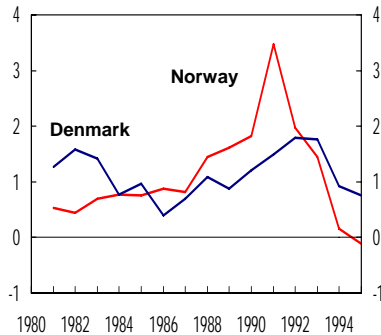
- Private solutions were explored first
- The share capital was written down to zero
- The Government acted swiftly, and no blanket guarantee was issued
- Liquidity support to illiquid, but solvent institutions
- The Government did not use an asset management company

Different resolution methods

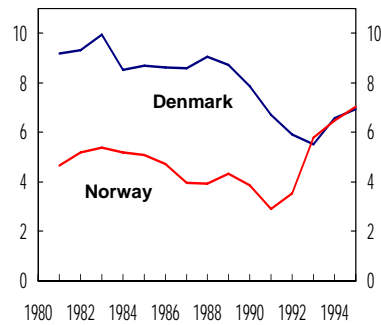
	Finland	Sweden	Norway
Active role of dep. guarantees funds	NO	NO	YES
Blanket guarantee	YES	YES	NO
Asset management company	YES	YES	NO
Shareholders' equity wiped out	MIXED	MIXED	YES
Public take-over of banks	YES	YES	YES

Loss provisions and bank capital in Norway and Denmark

Loan loss provisions
% of total assets



Capital and reserves
% of total assets



Relevance of the Norwegian resolution policy today

- Three important issues:
 - The role of shareholders
 - The role of the Government
 - The role of the central bank

Summary

- Boom-bust crisis with special national features
- Crisis was resolved quickly with little costs for the taxpayers
- The resolution methods are now part of the standard toolbox
- Still lessons to be learnt from the Norwegian banking crisis