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Summary of Government Interventions
Norway

Overview

The Norwegian government has maintained a policy of sustained involvement in financial markets following an economic crisis in the late 1980s – triggered by bad banking, weak market discipline and insufficient regulation. The mechanisms adopted by the Norwegian government to combat the 1980s recession have placed the economy in a better position to endure the current economic crisis than many other EU countries.

Despite this, the Norwegian government is predicting a weakening of the economy in 2009 and is taking comprehensive steps to ensure the financial markets remain stable through the global crisis. The most important measures to date have been:

- the establishment of government finance funds; and
- the introduction of a covered bond swap facility.

State guarantees

General

Norway adopted bank guarantee legislation in 1996 in the wake of the Nordic banking crisis. The aim of this was to restore confidence in the banking system.

Under current legislation, depositor losses are covered up to a total of NOK 2m. The scheme primarily applies to banks based in Norway, who pay a fee to participate. However, branches of overseas banks are also covered. Further, foreign banks are exempt from paying membership fees to participate in the guarantee scheme. For further criteria, please refer to the legislation at http://www.kredittilsynet.no/archive/stab_pdf/01/01/20040075.pdf

The Ministry of Finance has recently recommended an end to the foreign bank membership fee exemption, with fees to become payable according to the relevant bank's risk. Further, Norges Bank - Norway's central bank - recommended in its most recent financial stability report that the amount guaranteed should be reduced in the future and brought in line with other EU countries. The report is available at http://www.norges-bank.no/templates/reportroot____11458.aspx

F-loans

The Norwegian government makes "F-loans" to banks as a way of providing liquidity to the banking system. These loans are made by the central bank for a fixed interest rate, normally specified in a multi-price auction, and at a set maturity. Norges Bank requires banks to provide security for the loans.

Norges Bank had announced in October 2008 that it was considering offering long-term F-loans for settlement on 1 May 2009. However, the central bank announced on 18 March 2009 that it has decided not to offer any F-loans in May.

http://www.norges-bank.no/templates/article____69602.aspx

Government Finance Funds

On 8 February 2009, the Norwegian government announced the creation of two funds, the State Finance Fund and the State Bond Fund, with capital totalling NOK 100bn between them. Their purpose is to increase bank capital and provide credit to struggling companies.

http://www.regjeringen.no/en/dep/fin/The-Ministry/Other-Political-Staff/State-Secretary-Ole-Morten-Geving/taler-og-artikler/2009/policy-measures-to-ease-access-to-fundin.html?id=547339

State Finance Fund

The State Finance Fund proposal aims to create a fund of NOK 50bn to aid financially sound Norwegian banks. This will involve providing tier 1 capital, allowing banks to strengthen their lending capacity. In return for injection of capital, the banks will adopt measures to curb executive pay.

The Ministry of Finance has set up two main instruments to deliver this. One will be similar to a "*fondsobligasjoner*" (fund notes), which is presently issued by banks and recognised as core capital. The other will be a preference capital instrument. Both will carry risk-based coupons.

State Bond Fund

Another NOK 50bn will be provided in a bond fund to help ease capital market liquidity. The fund will be built up over the next year through investments in fixed income instruments issued by Norwegian companies. Asset management will be provided by Folketrygdfondet, a state-owned organisation.

Swap facilities

Covered bond swaps

On the 12 October 2008 the government announced a covered bond swap facility with the Ministry of Finance to help increase liquidity on the market. Up to NOK 350bn will be made available through the arrangement. Under the proposal, covered bonds are swapped for Treasury bills, structured on market terms and subject to a NIBOR–based floor price. Participants entering into swap agreements may either retain the Treasury bill and receive payment from the government when the bill matures, or sell the bill in the market. Further, they may procure covered bonds either in the market or directly from an authorised mortgage company.

http://www.regjeringen.no/en/dep/fin/press-center/Press-releases/2008/exchange-of-government-securities-for-co.html?id=533944

http://www.norges-bank.no/templates/article____73226.aspx

Reciprocal currency arrangements

Norges Bank also announced the extension of temporary reciprocal currency arrangements (swap lines). It has agreed to extend the existing facility of USD 15bn to 30 October 2009.

Other developments

Interest rates

Norges Bank has repeatedly reduced the base interest rate. Since October 2008 it has been reduced by 3.25 percentage points to 2.5 per cent.

Icelandic aid

On 14 October 2008, Iceland drew on swap facilities it had set up with Nordic central banks, tapping Norway for EUR 200m. Under the terms of the facility, Iceland can swap ISK for up to EUR 500m with each bank.

On 20 November 2008, the Ministers of Finance of Denmark, Norway, Sweden and Finland issued a joint statement on supplementing the IMF financing to Iceland of USD 2.1bn with additional loans of 2.5bn, intended to be split roughly equally between all the Nordic countries.

Short selling

Kredittilsynet, the Financial Supervisory Authority of Norway, first introduced a ban on short selling on 8 October 2008. Initially the ban only applied to certain banking shares. It was extended on 10 October 2008 to cover all primary capital certificates listed on Oslo Børs (the Oslo Stock Exchange). It is expected that the temporary ban will be phased out over time and replaced with new legislation on short selling. However, no specific date has been set for this transition.

Kredittilsynet is currently proposing legal amendments to allow for tougher sanctions against uncovered short selling. It has proposed a legal obligation that those who sell short have access to security, effectively ensure that the short sale is covered. They are also seeking power to ban all types of short selling where necessary, providing them with the flexibility to respond quickly to unusual market behaviour.

http://www.kredittilsynet.no/wbch3.exe?ce=21111

Government Pension Fund – Global

On 11 March 2009 the Ministry of Finance announced a 23 per cent. fall in return for the government Pension Fund, representing a total loss of GBP 65bn. It is the second largest sovereign wealth fund in the world, and Europe's biggest equity investor.

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