Stefan Ingves: Norges Bank 200 years

Speech by Mr Stefan Ingves, Governor of the Sveriges Riksbank and Chairman of the Basel Committee on Banking Supervision, at the celebrations to mark Norges Bank's (Central Bank of Norway) 200th anniversary, Oslo, 16 June 2016.

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Sweden and Norway have a lot in common. We understand one another's languages. We have a common labour market, though it is nowadays mainly Swedes who travel to Norway to work. And we get a little irritated when our ski champions lose to our neighbours. But above all, we have in many respects a common history.

Today we are celebrating the 200th anniversary of Norges Bank. However, the monetary history of Norway starts even further back in time, 1000 years earlier, when the Vikings spread fear throughout Europe. Coins first arrived in Nor-way with Vikings returning from raids in England. In 995 AD the first Christian king, Olav Trygvason, came to power in Norway. He is also important in numismatic history since the first known Norwegian coin is a penny attributed to him. Around the same time, the first Swedish coin was minted by Sweden's first Christian king, Olof Skötkonung.

There have been many links between Sweden and Norway throughout the centuries, from the Kalmar Union of Norway, Denmark and Sweden in the late Middle Ages to the union between Sweden and Norway in the 19th century.

During the Napoleonic war, Sweden lost Finland to Russia and in the Kiel peace treaty of January 1814 it was decided that Norway, which was then a part of the Danish kingdom, should instead join Sweden. The treaty was of course op-posed by the Norwegians, and during the spring of 1814, when Sweden was occupied with wars on other fronts, the Norwegians took action. They declared their independence, drew up a constitution and appointed a committee to plan a new Norwegian central bank. But in July Swedish soldiers arrived. After a brief battle, Norway accepted the Swedish king as king of Norway. However, the union created was fairly loose. Except for the foreign service, Norway retained all state institutions that characterize an independent state.

In June 1816, exactly 200 years ago, Norges Bank was established. The bank was located in Trondheim far from the politicians in Kristiania (which we now know as Oslo) and even further away from Stockholm and the Swedish king. Norges Bank was founded in a challenging environment where the economy was in a state of chaos following the Napoleonic wars, and confidence in the monetary system was low. The previous joint currency with Denmark had col-lapsed, and attempts to restore it had failed. It took a long time before the newly established Norges Bank managed to create credibility for the Norwegian currency.

In the first years of its existence, the bank's main tasks included managing silver tax payments and handling receipts, printing and distributing banknotes and bookkeeping. In January 1817 it was the only bank in the country. It received deposits, but charged a fee for that service. Thus, today's situation with depositors having to pay for keeping their money in the bank is not entirely a new phenomenon.

In the 1870s Norway joined a currency union with Denmark and Sweden that lasted until the outbreak of the First World War. The Scandinavian countries enjoyed strong economic growth during this period. Large cross-border capital flows supported the industrialization of the Scandinavian countries, and financial integration driven by the gold standard and the currency union was probably a contributing factor to the favourable development. Both Sweden and Nor-way were relatively poor countries situated on the outskirts of Europe when Norges Bank was founded 200 years ago, but with the advent of industrialization in the late

19th century both countries began their journeys to become two of the richest nations in the world.

Economic and political developments in Norway and Sweden have also showed similar patterns in the period since the Second World War. The role of the central banks was very limited in both Sweden and Norway. The monetary policy decisions were made by the government and Norges Bank became more of a technical implementer of government policy. For much of the 1970s and 1980s, economic policy in both Norway and Sweden lacked a long term strategy and credibility. Inflation and wages soared, and lost competitiveness resulted in repeated devaluations. In 1982, after a large devaluation of the Swedish krona, it was declared that there would be no more devaluations. The same thing hap-pened in Norway in 1986, when the Norwegian krone was devalued for the tenth time in a decade. Interest-rate setting once again became the genuine responsibility of Norges Bank.

We have also shared similar problems regarding the lending spree that started in the mid-1980s, and ended in a systematic banking crisis and in the worst re-cession since the 1930s. Both countries experienced solid economic growth and very rapid credit and asset price growth, followed by a cyclical downturn and heavy loan losses that exhausted the capital of many banks that had over-ex-tended themselves. The strong credit growth was partly due to the earlier de-regulation. Borrowing was also encouraged by the generous tax deductions for interest payments.

While the crisis was certainly aggravated by external shocks, such as the currency crisis in Europe in the early 1990s, it was mostly homemade through a bad policy mix and bad timing of reforms. However, prompt and broad-based government intervention helped the banking sector to recover relatively quickly. The fiscal costs of solving the banking crisis were also comparatively low. Nevertheless, the negative impact on the real economy was severe, particularly in Sweden, and unemployment soared.

Sweden had to pay a high price for its defence of the krona in the early 1990s, and a return to a fixed exchange rate regime was not a realistic option at the time. Instead, a new monetary framework took form. An inflation target was adopted and the krona was allowed to float free. In Norway, the situation was somewhat different. The Norwegian krone had not depreciated as much when Norway left the exchange rate mechanism. Norway therefore returned to a fixed exchange rate regime, although this regime gradually changed and in 2001 Norges Bank also formally adopted an inflation target and a new fiscal framework was introduced.

So our two countries have had a similar strategy for monetary policy based on an inflation target and a floating exchange rate since 2001. During this period there have been frequent and deep contacts between our staff, and I am thankful for all that we at Sveriges Riksbank have learned from these exchanges of methodologies and other experiences.

However, the emergence of Norway as an oil nation has made Norges Bank unique in many respects, not least in managing a sovereign wealth fund. Norges Bank is one of very few central banks charged with such a task. In fact, this fund is one of the largest investors on the Swedish stock exchange.

When Norway became an oil nation in the 1970s, the country started its journey to become one of the richest nations in the world. We Swedes have some-times been a little envious of this, and perhaps even thought it was a shame we no longer have the union!

Huge oil revenues also create major challenges, and many countries have not managed so well. But Norway has. By creating the petroleum fund, Norway has managed to save the revenues and keep them separate from its domestic economy. Furthermore, the fund managed by Norges Bank is now seen as a model showing the way for other sovereign wealth funds.

Even though monetary policy in Norway – and Sweden – is geared towards an inflation target, the development of the exchange rate cannot be ignored. It is also worth noting that both the Riksbank and Norges Bank pursue their monetary policy in the shadow of the ECB. Both central banks have to take into ac-count the effects on the exchange rate of its monetary policy, since the value of the krona greatly influences import prices and ultimately inflation. This may imply a monetary policy stance that is not optimal in terms of stabilizing the domestic economy and its financial system. In fact this is one of the main issues in economic policy in Sweden and Norway these days.

Central banking is not limited to finding and optimal strategy for monetary pol-icy. What central banks can and need to do is shaped by the developments in the whole world economy, and largely influenced by political circumstances, in-side and outside our own countries. Both formal cooperation and informal ex-changes of ideas is now intense between central banks in many countries, and in particular between Norges Bank and the Riksbank, who continue to face very similar challenges.

So to round off: Norway and Sweden have followed one another through the centuries, in war and peace, through crises and growth. And we can be thankful that we have succeeded in moving from poverty to wealth and becoming two of the world's wealthiest nations. Often the central banks have been able to contribute to higher welfare, but sometimes monetary policy has unfortunately been destabilizing.

Our joint history is continuing, we have common challenges to face going for-ward. Higher capital and labour mobility throughout the world opens new possibilities to raise welfare even further, but globalisation also require that we try to find common strategies across countries.

We can also enjoy our similarities and continue teasing one another when we meet on the sports field. As Sweden now follows its team in Euro 2016, we can't help but ask, oh where's Norway? But on the other hand we can expect a lot of teasing from you in the next world cup ski event!