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S. Knutsen & E. Lie

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Financial Fragility, Growth Strategies and Banking Failures: The Major Norwegian Banks and the Banking Crisis, 1987–92

SVERRE KNUTSEN and EINAR LIE

Norwegian School of Management

University of Oslo

During the period 1987–92, Norway experienced an extensive banking crisis, which reached its nadir in the autumn of 1991. Norwegian banks lost an incredible 76 billion NOK during the crisis.¹ The losses suffered by three largest Norwegian commercial banks on defaulting loans were so vast that they lost all their equity, and had to be rescued by the state. One of the issues that we address in this article is how to explain the occurrence of financial instability across the banking sector in Norway. Our main aim, however, is to focus on the performance of the two largest Norwegian banks – DnC and Christiania Bank – during the banking crisis, in order to clarify the following problems: what were the main causes of the failure of the major banks and why did some banks fail while others survived?

However, the occurrence of a banking crisis during the 1980s and early 1990s was not only a Norwegian phenomenon. Altogether, 133 of the IMF's 181 member countries experienced serious banking problems during the period 1980–95. Thirty-six of the countries encountered a banking crisis during these years, whilst the problems experienced by the rest of the countries have been classified as 'considerable'.² Among the Scandinavian countries, both Finland and Sweden experienced banking crises similar to Norway's. Our aim in this article is not, however, to do a comparative cross-country analysis of the effects of macroeconomic policies and regulatory regimes. Rather, we want to focus on the interaction between banks and their macroeconomic and institutional environment. Seen in association with this, it is our hypothesis that the specific internal structure of an individual bank is very important in determining how the bank as a whole adapts to environmental changes. Our two cases – Christiania Bank and DnC – were apparently very similar in terms of organisation and banking practices. But actually they exhibited substantial differences both between them and even internally between different organisational units. Thus, we want to explore how various units of the two banks behaved and performed differently, although they were facing the same environment.

In order to analyse these questions, we develop an analytic framework combining theoretical elements drawn from the so-called financial fragility approach, with an empirical business history approach emphasising strategy and organisation.

The remainder of this article reviews the financial fragility approach, examines the Norwegian financial regulatory regime, outlines the liberalisation of financial markets and the dramatic credit expansion during the first part of the 1980s, and explores the growth strategies of DnC and Christiania Bank as well as some organisational features of the two banks. Then it discusses the effects on the banks of the decline in oil prices in 1986, the tightening of economic policy and the following recession. In particular, the huge loan losses suffered by the two banks are examined. Finally, a short conclusion sums up.

II

The conceptual framework of this article is rooted in the assumption that a bank's willingness to accept the risk of suffering credit losses is dependent on both the macro-economic environment and the bank's internal governance and control systems. Losses may thus be caused by managerial decisions, by a general market movement, or by a combination of the two. This framework allows us to explain the simultaneous occurrence of an extensive banking crisis generalising across the banking sector, the different performance of individual banks during a period of crisis and even between various organisational units of the same bank.

Traditionally, there have been two distinguished approaches to the subject of financial crises; the monetary approach and the business cycle school or financial fragility approach. The monetarists claim that bankruptcies are an ordinary and daily occurrence in economic life. Anna Schwartz, for instance, has emphasised that 'willingness to spend may be reduced and previously glowing expectations may be replaced by uncertainty. But loss of wealth is not synonymous with a financial crisis'.³ According to Schwartz, a genuine banking crisis is characterised by panic and depositor-runs on banks. Crises occurring in other parts of the financial system than the banking sector are 'pseudo-financial' crises.⁴ Thus, the monetarists provide a rather narrow definition of financial crises, confining them to banking panics 'that either produce or aggravate the effects of monetary contractions'.⁵ In the monetarist framework, it is flawed monetary policies which causes runs on the banking system.

However, a definition that limits a banking crisis to a massive run on banks is not really appropriate to explain what happened to the Norwegian banking system during the crisis of the late 1980s and early 1990s. There

were signs of a depositor run on the Christiania Bank in September 1991, and deposits decreased rapidly until it was clarified beyond doubt that the government would guarantee the bank's solvency. A couple of other Norwegian banks experienced signs of depositor runs at the same time. In spite of this, the main feature of this crisis was not a contagious banking panic driven by depositors scrambling for high-powered money, but rather a solvency crisis, caused by widespread credit losses.⁶

The financial fragility approach has its roots in the views expressed by Irving Fisher in the 1930s. This approach regards financial crises as an essential component of the turning point of the business cycle.⁷ The crisis occurs as a consequence of the 'speculative excesses' of the previous boom, characterised by indebtedness following excessive borrowing during the boom. Among the modern proponents of the financial fragility approach we find Charles Kindleberger and Hyman Minsky. Based on Hyman Minsky's financial instability hypothesis (FIH), Charles Kindleberger has developed a model of crises.⁸ At the outset the events leading up to a crisis start with a 'displacement' – some exogenous, outside shock to the macroeconomic system. Whatever the source of displacement, it will alter the economic outlook 'by changing profit opportunities in at least one important sector of the economy'.⁹ This situation significantly increases profit expectations in one sector of the economy. As a result, both business firms and individuals with savings or credit pick up the opportunity, and investment and production rise. This stimulates an increased demand for finance. A boom is developed, fed by an expansion of bank credit. The extension of bank credit increases the money supply and self-exciting euphoria develops. An increasing number of firms and households are tempted into speculative finance. When the number of firms and households indulging in these practices grow large, speculation for profit leads away from normal, rational behaviour, and manias or bubbles result. The term 'mania' emphasises the irrationality (mob psychology, herd behaviour) and the term 'bubble' foreshadows the bursting which results.¹⁰

Only a small incident is needed to transform the mania into panic, which then instigates the crisis and inflicts widespread damage. The problems reverberate throughout the financial system, creating financial instability and debt deflation. According to Minsky, a financial system naturally evolves from a robust structure to a fragile structure. Like Irving Fisher, representatives of the business-cycle school attach great importance to the role of debt in causing financial difficulties. Over periods of prolonged prosperity, the economy 'transits from financial relations that make for a stable system to financial relations that make for an unstable system'.¹¹ Thus, the financial structure of firms in the non-financial sector shift from

'hedge' to so-called 'speculative' and even 'Ponzi' finance during a boom. Increased financial fragility is also a result of 'debt contracted to leverage the acquisition of speculative assets for subsequent resale'.¹² Difficulties arise when individuals, firms and banks have insufficient cash flow to service their liabilities, and debtors, unable to pay debts when due, may be forced by creditors to liquidate their assets. This leads to a situation with a decline in price level and demand. Subsequently, the real value of debt decreases and reinforces the downturn further. This process of debt deflation, as Fisher termed it, continues until bankruptcies and bank losses have eliminated indebtedness.

In our opinion the Minsky–Kindleberger framework provides a helpful framework for analysing past crises. This framework emphasises financial factors in causing instability. Understanding the credit-powered boom, which leaves businesses excessively debt-burdened and unable to cope with an economic slowdown, is key to understanding the subsequent banking crisis. Over time, governments have increasingly used expensive bail-outs to curb a Fisher deflation. But despite actions like this, the Norwegian case shows that debt deflationary sequences may occur.

In order to explain financial crises, it is necessary to focus on the relations between debt, risks of default in the non-financial sector (financial fragility), widespread instability in the financial sector (systemic risk) and collapse of the financial system (financial crisis). All the sectors of the economy have to be seen as related to each other.¹³ The notion of systemic risk can be defined as negative externalities occurring when somebody takes a risk that causes a further risk for others in the financial system.¹⁴ This concept of risk has obvious similarities to the one put forward by the sociologist Ulrich Beck in his analysis of 'the risk society'.¹⁵ As a result of increased complexity created by science and technology, Beck argues that risks can no longer be isolated or made 'calculable' within separate areas or institutions. Risk is an integrated part of our society. From a viewpoint like this, systemic risk in the financial sector is neither fully caused or controlled by the actors and institutions within this sector, and systemic failure affects the whole society, not only what one can label 'finance'.

The financial fragility approach has the capability to explain the occurrence of crises in a deregulated economy. It should be emphasised, however, that structural changes in financial markets seem to precede instability. Such changes are particularly attached to a reduction in entry barriers caused by deregulation, financial innovations, new markets and technological advances. This leads to intensified competition, credit expansion and increased risk-taking. Increased risk-taking may have several causes such as poor information for new entrants, a breakdown of credit

relationships, herdlike behaviour among lenders, and predatory pricing to gain increased market shares. Although GDP growth and interest rates are important, financial fragility should be pointed out as a precondition for heightened systemic risk.¹⁶ Even in a strong economic downturn, a financial crisis is unlikely to develop if the households and the corporate sector are not highly geared.

III

The recent Norwegian banking crisis was a general banking crisis, in the sense that it affected a majority of commercial as well as savings banks. The financial fragility framework explains the occurrence of a general crisis across the banking system. Thus, this framework offers explanations on a macro level. The focal point is the incentives and constraints faced by all banks in the shape of credit demand and funding costs. Seen from the borrowers' point of view, the analytical focus is the incentives shaping the price for credit and the value of their collateral. However, this framework does not explain why some banks fail whilst others thrive. Moreover, the concept does not grasp the role of strategy in banking credibly. Macroeconomic policy and the liberalisation of the financial markets during the early 1980s stimulated the demand for credit heavily, but this fact does not explain why different banks chose to comply with the increasing demand for credit in different ways. Even though all the major banks failed during the Norwegian banking crisis, there were several smaller banks that survived without needing state support. Norwegian examples are Nordlandsbanken A/S and several savings banks. During the Swedish banking crisis, which resembled the Norwegian case, this was an even more noticeable feature of the crisis. Whilst the Svenska Handelsbanken experienced moderate losses and the Skandinaviska Enskilda Banken, in spite of heavy losses, maintained solvency, the losses of the Gota Bank and the Nordbanken were so severe that the banks ended in deep trouble.¹⁷ Recent research has also demonstrated that the considerable variation in performance among banks during the Norwegian banking crisis of the 1920s can best be explained by variation in banking strategy and the ability to maintain internal control.¹⁸

From the perspective of organisation theory, there are several mechanisms which may help to explain bank behaviour before and during the crisis. One mechanism is mimicked behaviour, and another is learning processes. The management of different banks were drawn into a speculative mode by watching their competitors, and imitating the largest and what appeared to be the most 'successful' bank, DnC. The CEO of a medium-large Norwegian bank expressed himself this way:

'Our market strategy was to follow DnC as closely as possible. At least then, we wouldn't do anything wrong'.¹⁹ Growth maximising behaviour and increasing markets shares became dominant strategies in the Norwegian banking world. Both strategies were the result of herd-like mimic behaviour, regulatory change and macroeconomic incentives.

These developments also had an immense impact on corporate culture, which in turn is a critical factor in shaping bank behaviour. There was a remarkable shift from control to marketing and sales in the Norwegian banks during the early 1980s. Since decision-making is characterised by bounded rationality, the ability to make use of information, inclusive earlier experiences, is limited. This mechanism is reinforced when the organisation is undergoing a period of radical change. Deregulation, growth and changes in formal organisation created profound changes within the contexts in which the different actors in the bank organisations interacted. Hence, both management and staff had to unlearn deeply rooted modes of operation gained over a long period of heavy regulation, and adapt to doing business in a deregulated environment. Management on all levels lacked cognitive maps and the practical experience necessary to handle competition on the credit market. Old ways of doing things were seen as obsolete, and new practices had to be implemented. These new practices were brought in from other sectors, consultants and prevailing ideologies and 'theories' on 'service management'.²⁰

This troubled learning process created a loss of control in many banks. The adaptation process varied according to the organisational situation at the outset of the implementation of the growth strategy. Hence, we find variation in the degree of loss of control and organisational breakdown.

IV

The Norwegian financial markets and institutions were heavily regulated from the early 1950s.²¹ An extensive battery of credit policy measures had been introduced in order to manage flows of capital and thus be able to control the allocation of credit to Norwegian industry in a planned way. Moreover, the aim of credit policy during this period was to manage aggregated demand in order to stabilise the economy. A cornerstone in the public governance of the financial system was administratively fixed interest rates. Interest rate pegging aimed at the maintenance of a 'low level interest rates' policy. This created a credit rationing system and opened for a discretionary based system for the allocation of credit. Thus, the planners could use their extensive controls over the credit system to channel loans at below-market interest rates to targeted sectors and firms.

During the 1960s and 1970s, the Ministry of Finance (MOF) and various agencies under its leadership had a number of monetary and credit instruments at their disposal in addition to interest rate pegging – liquidity reserve requirements, mandatory deposits in the Central Bank against increases in foreign liabilities, direct regulation of lending and the regulation of bond issues. Thus the MOF, in co-operation with the Central Bank, was given power to decide both the total volume of bond issues, their issue terms and their distribution among various borrowers. Provisions were made that required banks and life-insurance companies to hold government bonds and other domestic bearer bonds, and for these holdings to be increased by a specified percentage of the growth of their total assets. During the 1970s these institutions had to buy bonds equivalent to 60 per cent growth in total assets. The tight and detailed regulation and governance of the domestic financial system was complemented with a strong regulation of capital movements across the border. Apart from current-account payments, all direct investments in or out of the country, as well as all types of loans, had to be approved and licensed by the authorities. A bank's access to loans and funding abroad was also regulated by capital controls. During periods of very strong demand for credit, the legislation authorised the MOF to implement so-called supplementary reserve requirements that were meant as more or less direct controls on bank lending.

The post-war financial regulatory regime affected the banks substantially. Part of the strategic decision making process was lifted out of the hands of the banks' top management and up to the government level. This regulatory system created, however, a stable framework for banking. The government accepted extensive cartel pricing on bank services. Losses on loans were negligible. But the maintenance of this regulatory regime with its 'cheap credit' growth strategy created growing imbalance and unintended structural changes in the credit market from the late 1960s and during the 1970s. During the 1970s an increasing and substantial deviation between the budgeted and the real annual credit flow was revealed. The credit rationing system gave impulses to institutions to evade and circumvent the credit regulations.

V

In the late 1970s, the Labour Party government changed the orientation of its economic policy, and started a liberalisation of the financial markets. The first deregulatory step was a change in the interest rate policy in the autumn of 1977, when the pegging of interest rates on bank loans was abolished. The adjustment of interest rate regulations led to a rise in the

nominal interest rate level during 1977–78. In order to curb accelerating inflation, however, a price and income freeze was launched in September 1978. At that time, the banks competed severely on the price on deposits, while the maximum rate of interest on loans were regulated by the authorities. The price and income freeze was lifted in 1980, but a policy that aimed at imposing a politically determined interest rate level was introduced. The government did not try to peg the interest rates on various types of loans any longer, but attempted instead to govern the interest rate levels through so-called ‘interest rate declarations’ issued by the Minister of Finance. The declaration set an average maximum rate on interest and commissions on both long-term and short-term loans. This system was abandoned in 1985. Even so, the government attempted to keep interest rates lower than the market price through political measures until ambitions to control interest rate levels were finally abandoned during the autumn of 1986.

The highly interventionist old model of selective credit regulation was not scrapped in one formal decision, but rather through a process of several decisions stretching over a period of ten years. Some decisions ought to be characterised as more seminal than others. Among these was a first step in November 1978 towards the relaxing of capital controls. From this juncture the banks had free access to borrow or place in foreign currencies as long as they held a balanced daily position between NOK and their portfolio of foreign currencies (the so-called zero-position rule). This opened up for an extensive use of deals in currency futures and currency swaps. Moreover it made it possible for the banks, unrestricted, both to borrow abroad in order to provide domestic loans and to provide loans for their customers in foreign currency.

After the 1981 electoral triumph of the Conservatives, there was a change in government as Kåre Willoch replaced the Labour Prime Minister, Gro Harlem Brundtland. Despite its market-friendly rhetoric, the Conservative government was not very eager to dismantle credit regulations. On the contrary, credit controls were sharpened during the period 1981–83, when the Conservative government utilised the full arsenal of credit controls authorised by legislation. These efforts proved, however, even more ineffective in managing domestic credit supply than ever before. Hence, further significant steps towards liberalising the credit market were taken. During the summer of 1983, the business cycle started a solid swing upwards. The Central Bank dismantled its ‘conditional loans’ arrangement, which had forced the banks to pay exorbitantly for expanding credit above certain limits. Access to Central Bank funding was thereby made much easier. In December that year, the Central Bank advised the government to dismantle the supplementary reserve requirements, and to raise interest rates

in order to reduce skyrocketing credit demand.²² The government followed the first piece of advice, but not the other.²³

From January 1984, direct controls on lending were lifted for banks and insurance companies, whilst the bond market was gradually liberalised during 1984–85. At the same time the rate of interest was still regulated downwards, below the market price. Consequently the supply of credit expanded. A credit-fuelled boom developed rapidly. At the beginning of its ministry in 1981, the Conservative government's fiscal policy was relatively tight. However, it carried out an expansive fiscal policy during 1984–85, despite strong dissent within its ranks.

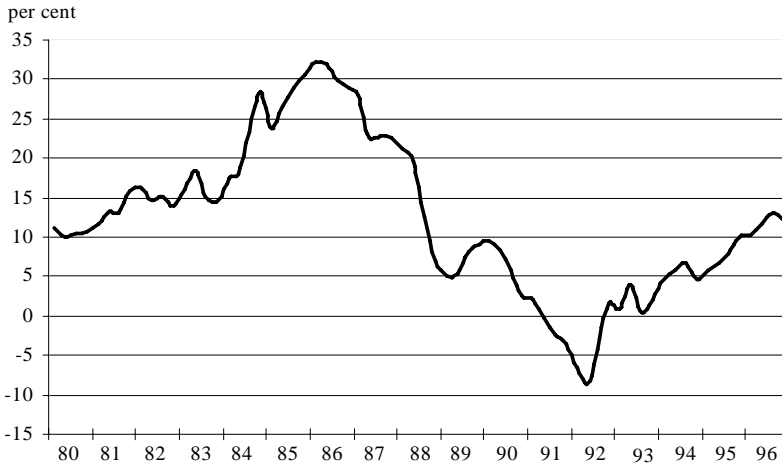
There is a robust relationship between the supply of credit and the after-tax price of credit. The system of taxation was designed in such a way that taxpayers could deduct all interest-rate expenditures from their income. Consequently, with rising inflation, the real interest rate after tax was around zero and even negative for average and high incomes. This produced a strong incentive to borrow. But the Conservative government was unable to combat this problem, especially since they had promised substantial tax reductions during the election campaign.

Asset price inflation became an important feature of the evolving boom. Several deregulatory initiatives towards the stock market were taken by both the Labour government in 1979 and by the Conservative government which succeeded it. In 1983, The Oslo Stock Exchange quadrupled its turnover compared to the previous year, and the general index grew substantially. This trend continued until the crash of October 1987.²⁴ The Conservative government also liberalised the market for real estate, by gradually abolishing price restrictions on co-operative flats during the period 1982–84. The market price of such flats increased steeply. When they were sold, the sellers could afford owner-occupied dwellings. The prices rose considerably in this market, which had not been price regulated, as a consequence of rising demand.²⁵

The steep credit expansion caused by deregulation and expansionist economic policy, initiated large investments in the market for business property. Real prices for business property rose by 100 per cent between 1983 and 1987, followed by a sudden fall in prices. Real prices were more than halved again by the end of 1991.²⁶ Shares and real estate were the assets most frequently used as collateral for loans. Swift price increases of collateral paved the way for an increase in credit, which in turn triggered off a further rise in asset values. This optimism developed into euphoria, and the spiral was not terminated until 1987–88.

The upswing and the speculative boom in the Norwegian economy was fed by a huge expansion of credit, which is clearly demonstrated by Figure 1. The diagram reveals that the overall credit expansion was particularly

FIGURE 1
GROWTH IN BANKS' LENDING 1980-96 (PERCENTAGE EACH QUARTER)



Source: Norwegian Financial Services Association.

dramatic from 1984 to a peak in 1986. In 1985 parliamentary elections took place. The conservative coalition government lost its majority but continued in government. The fiscal policy of the weakened government was characterised by an expansive budget, less than ever adapted to the current situation in the Norwegian economy.

Norway experienced a considerable oil price decline in 1986. Following the decline in oil prices, the bubble burst. The fall in prices had immediate consequences for the oil-dependent Norwegian international economy. The government left office in the spring of 1986 after being voted down in parliament on parts of a fiscal austerity package. A Labour government took over. Shortly after the shift in May 1986 the Central Bank devalued the Norwegian krone by 9.2 per cent. In late autumn of the same year, interest rates increased by two per cent. From 1986 there was also a series of retrenchments in the public budgets. However, it took time before these measures had any particular effect on the rising cost and inflation levels in the economy and on the banks' continued high lending volumes. Growth fell, however, from an average of 3.2 per cent in the five years before the crisis to 1.7 per cent in the two years after it. There was a recession from 1989 to 1991. Businesses and household borrowers had great problems servicing their existing loans. The fragile debt structure caused by macroeconomic excesses during the boom exacerbated systemic risk. From

the beginning of 1984 there were therefore few obstacles to prevent the banks carrying out a expansionist strategy as they faced the artificially high demand for credit. There was a race among the largest banks for market shares and the setting up of new branches, with an aggressive marketing of loans to smaller companies and individual clients. At the same time traditional banking competence was underestimated and the control systems in place were unable to keep up with the significant growth in volume and products.

The mentality and goals of the largest Norwegian banks seem to have been quite similar. However, the widespread desire to grow was projected in different ways, and partly in different markets. We will now give a brief summary of some of the main traits that characterised the expansion of Norway's two largest banks in the mid-1980s, before returning to a couple of important common traits explaining the reasons for the banks' large loan losses.

VI

In 1980 DnC had 3,750 employees and total assets of NOK 22 billion.²⁷ By 1986 these figures had risen to 5,000 employees and total assets of NOK 126 billion. On the Norwegian mainland, DnC was the large industrial and commercial companies bank. These clients were attended to directly by relevant departments in the bank's Main Office. The branch office coverage was relatively well developed in Oslo and the surrounding areas, whereas the rest of the country was more poorly covered. Moreover the bank was undoubtedly the largest credit institution for the shipping industry, as well as offshore and other oil-related businesses.

DnC's strategy during the early 1980s was to build up a nationwide network of branches, and thus obtain a much larger coverage than the bank had earlier. By 1986 the bank had completed a very comprehensive establishment programme. DnC then had a total of 134 offices and branch offices outside Oslo, and 36 in the capital. The corresponding figures for 1980 were 75 and 29 respectively.

The goal of becoming a nationwide provider of banking services was for a long time easy to combine with considerations of costs and profit. During the final two years of the wave of new establishments in the 1980s, so-called 'strategic' considerations dominated completely, to the neglect of calculations from the bank's economists. Some branches were established in spite of calculations showing little hope of profitability within a reasonable span of time. During the same period the bank was heavily decentralised, whilst its incentive systems, control systems, competence building and diffusion underwent profound changes. In the early 1980s, DnC practised

rigid rules determining how credits were to be evaluated and how documentation was to be collected and handled. However, these rules and routines were only to a limited extent written down in manuals and handbooks of the kind that fill the shelves of any credit officer in a bank today. The district offices and branch-office hierarchies were strongly based on seniority. Local bankers worked their way up from doing simple documentation and control work to handling ever larger credits. Clear norms and rules for loans and credit lines to business firms were established centrally. The managers of the bank's district offices had to present their largest credit cases regularly to the concern credit committee in Oslo. Here they were confronted with centrally elaborated standards, procedures and principles of evaluation. These rules had an important 'sprinkler effect' as the local heads of the bank brought the committee's comments and corrections back to their local offices.

During the period of expansion, key mechanisms crucial for the operation of this system broke down. New units were required to gain profitability within their second year in operation. Previous experience suggested that a branch needed five to eight years to be able to run with a profit. The new requirements made growth in volume the centre of attention, especially since the opening fees on credits were substantial in these years. At the same time the credit approval limits for heads of offices and branch offices were significantly increased. According the bank's new growth philosophy, it was also decided that new types of leaders were needed: people who knew sales and management were given priority ahead of those with substantial banking experience. In order to increase the replacement rate in the system, the retirement age for leaders was lowered substantially. Of the 48 heads of district offices in 1982, only 26 remained in position in 1985. In addition, a large number of new managers were hired for the new branches. The traditional informal system of control and diffusion of competence was undermined.

Document control was given lower priority, and there were a number of offices with a precipitous growth in volume. Credit assessment practices deteriorated. The clients were encouraged to borrow as much as they could possibly manage in order to increase the bank's income and market share. New forms of sales and marketing appeared that were completely alien to the banking business. Among these were car loans, which car dealers could immediately approve on behalf of the bank, and the sales of home and consumption loans at so-called 'home-parties'. The basis was laid for a huge wave of defaulting loans and credit losses. During these years, DnC became more vulnerable in relation to the systemic risk inherent in the financial system, while it simultaneously contributed considerably to the system's instability through its behaviour as a leading actor in the markets.

The large subsidiaries abroad became the other main area of expansion. In the years 1983–85, DnC bought out its three Nordic partners from a consortium, the Nordic Group. After this operation, DnC had fully owned banks in New York, London, Singapore and Hong Kong. In 1986 DnC also established a relatively large wholly owned subsidiary in Gothenburg, Sweden. The bank already had a wholly owned subsidiary in Luxembourg and a number of representative offices on all continents. These acquisitions positioned DnC as Norway's most international bank, with its total assets in subsidiaries and branches abroad being larger than those of all the other Norwegian banks put together.

The international strategy adopted early in the 1980s established two conditions as the foundation for expansion abroad. Since the domestic clients in industry and trade were increasingly looking abroad, the bank had to follow suit, in order not to jeopardise the relationship with the client. Moreover, the bank wanted to exploit further its acquired competence within shipping, oil and offshore. This could only be done by penetrating these markets from positions in international centres for these activities. In both cases the point was to utilise established competence as a basis for the expansion – drawing on what was considered the bank's competitive advantage. The plan also involved downscaling the largest banks in the Nordic group – Nordic London (later changing name to DnC London) and DnC America in New York – to a size more adapted to this strategy and the corresponding level of activity.

This strategy was gradually abandoned, however, without really being submitted to a broader re-evaluation. In Oslo, the conclusion was soon drawn that the banks abroad should not be significantly reduced in size. The main argument was that downscaling meant a risk of losing well-qualified leaders who did not wish to work in a 'small' bank. In the competition to be the largest Norwegian bank in the future, reduction in the size of the subsidiaries hardly seemed desirable. When the Nordic partners pulled out of the subsidiary banks, DnC consequently entered new local markets in order to compensate for the lost business. The subsidiary banks increasingly operated on a large scale in fields the head office lacked competence in. Control and co-ordination versus the rest of the group therefore became difficult to carry out. This increased the banks exposure to market risks as well as operational risk.

In many ways the domestic mistakes made during the years 1983–87 were now repeated abroad. The connection between the head office and the subsidiaries was further weakened in the late 1980s when the Norwegian and Scandinavian related business was again given low priority, and the subsidiaries entered even more heavily into the local loan markets in niches where profits were high. Large bonuses enticed leaders to deliver good

balance of accounts results. In these years the banks lived very independent lives with little interference from Oslo but under strong pressure to deliver good results to the financially weak head office. The largest subsidiary, DnC London, advertised for instance in Great Britain that it was 'a British bank for British customers'. The integrated corporate line of thought that lay behind the purchases in 1983–85 was at this point completely turned upside down.

VII

Christiania Bank (CBK) merged with – or actually acquired – Norway's fourth largest bank, the Andresens Bank, in 1980. This increased the number of employees from 2,100 to 3,400, and total assets grew from NOK 12 to 16 billion. By 1986 these figures had risen to 4,350 employees and total assets of NOK 72 billion, which made CBK the second largest Norwegian bank in terms of assets. This expansion continued, both by further acquisitions and by organic growth. The overall growth in total assets during the period 1979–90 was from NOK 12 to 139 billion. Most of this growth was internally generated.²⁸ CBK's outstanding loans increased from NOK 11.5 billion in 1980 to NOK 67 in 1987, which represents an average yearly growth rate of 34 per cent, compared with an average of 28 per cent for the commercial banks in total. CBK's market share in the credit market increased from 20 per cent in 1983 to 31 per cent in 1989. Its most significant growth period was 1984–86, when the credit market was deregulated most extensively.

This immense expansion ought to be related to the bank's strategy. Following the merger in 1980, the CBK leadership started extensive work on moulding a strategy for the 1980s. In the strategy plan for 1982–85, adopted by the board in January 1982, CBK's growth strategy was quite explicit: 'The strategic goal is stronger growth than other banks'.²⁹ An average increase in lending of 14.5 per cent per year was formulated as the operative goal to fulfil the coined strategy. CBK also directed the bank's efforts towards strengthening its marketing aimed at large business clients. Another initiative was to diversify the business into venture companies and insurance, as well investment banking. Furthermore, there was little doubt that the willingness to expand was reinforced by the mutual competition between Christiania Bank and DnC. Several observers have even pointed to a strong, personal rivalry between the CEOs of the two banks during these years.

Executive and line management were focused on growth as a goal in itself and as a solution to both improving earnings and reducing relative costs. As a consequence of deregulation and increased competition,

CBK's net interest rate margin deteriorated substantially from 1983 to 1986, as in other Norwegian banks. Simultaneously costs increased and developed into a major problem for CBK. The bank also had expanded its international business substantially. Consequently, CBK was reorganised and divisionalised in 1985. The bank was divisionalised according to markets, both geographically and related to products. Thus, four divisions were established: the Branch Offices Division, the Oslo and Akershus Division, Capital Market Division and International Division. The decision structure and activities of the bank were strongly decentralised, including credit decisions. The top management was occupied with strategic work to develop the bank and its subsidiary companies into a 'financial supermarket', and from 1987 the leadership developed the vision that CBK's goal was to become the leading banking group in Scandinavia.

Before 1980, CBK had a tight and functioning system of credit decisions and credit control, and a working system for internal governance. The merger in 1980 and the following reorganisation of the bank – simultaneous with a huge credit expansion – caused the complete dissolution of these systems. In 1988, the Financial Supervision Authority (Kredittilsynet) pointed out after an inspection in the bank that work to develop internal control systems at CBK was given very low priority. During the period 1987–88 even internal auditors and external consultants pointed out to the executive management, the Board of Directors and the Control Committee various fundamental weaknesses in internal control systems and the bank's deteriorating risk profile.³⁰

The consequences of the growth strategy, the dramatic credit expansion, the organisational stress following the swift and continuous reorganisation of the bank and the increasing internal weaknesses, was a complete loss of control on the part of the executive management. When the business cycle turned downwards and a lot of the bank's clients failed, creating an increasing stock of defaulted loans, CBK's position was too weak to absorb the increasing amount of bad debt.

VIII

How did the banks view the situation from 1986 onwards? DnC's development late in the 1980s was very different to that of its two main competitors. DnC was the first large Norwegian bank to accrue huge losses on loans, the first to alter lending policy, and the first to start an extensive organisational restructuring and reduction of staff. This must partly be explained by the fact that DnC was the first major bank to start credit expansion. Consequently, the bank experienced problems with defaulting

loans somewhat earlier than the competitors. The bank had relatively good working systems for registering defaulted loans. There is little doubt that this reinforced the will and capacity to change course.

Moreover, the sense of crisis was probably further advanced by a scandal which hit the bank in 1987, involving the bank's trading with securities. This brought about a thorough examination of the bank's different control systems. Towards the end of 1987, the management itself came to the conclusion that a large part of the bank's growing losses on loans and guarantees was a result of too much focus on volume, coupled with a reduced quality of the work done on credits. Furthermore, a comprehensive examination of portfolios showed a broad impairment/weakening of the borrowers' results and solidity. By the end of 1987 the DnC management had realised that the bank's problems on the credit side were serious and would be long lasting.

1987 was a difficult year for CBK as well, with unexpectedly high losses on loans and guarantees and a relatively weak business result. For the first time in 100 years CBK had to report a deficit. In the course of 1988 the bank enforced several measures to improve the bank's control and governance systems, but there was no real recognition or admission of the bank being in the midst of lasting problems on the credit side. The CEO soon presented 1987 as 'an exceptional year'. In 1988 and 1989 Kreditkassen had a positive balance of accounts, and a notable business journal elected CBK the best bank of the year, 'the Winner bank'. In 1990, the bank had to write off losses of more than NOK 2.5 billion. But the CBK top management did not recognise that the bank was in the midst of a crisis until the spring of 1991. It now became clear that the bank was experiencing huge problems, and there followed a basic change of direction, including changes in the board and parts of the management.

The third of the three large banks in Norway, Bergen Bank, has by comparison not been subject to examination in ways comparable to DnC and CBK. Like CBK, the admission of having more profound credit problems developed rather late at Bergen Bank. This bank had a growth in loans of more than 20 per cent in both 1989 and 1990, and merged with DnC in 1990 as a seemingly strong bank without any significant problems. In the early 1990s, however, the Bergen Bank loan portfolios became a heavy burden for the new bank DnB.

Comparing the development of losses in DnC and CBK, two significant differences appear. DnC's losses were spread out over time, but with considerable yearly losses from 1987. CBK, however, made the greatest part of its losses in 1990, 1991 and 1992 (Table 1). This difference in distribution over time is to some degree due to differences in control systems and in the will or desire to bring the losses out into the open. But

TABLE 1
 LOAN LOSSES IN NORWEGIAN BANKS, 1986–96
 (PERCENTAGE OF TOTAL LENDING)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Commercial banks	0.7	1.3	2.1	2.2	2.6	5.9	2.8	1.8	0.2	-0.4	-0.3
Savings banks	0.4	0.8	1.8	2.5	2.3	2.1	2.5	1.3	0.4	0.2	0.1
Christiania bank	1.0	1.2	1.3	1.4	2.7	6.8	3.3	1.6	0.1	-1.1	0.4
DnC/DnB	1.3	0.8	2.6	2.1	2.6	3.6	3.2	2.3	0.2	-0.2	-0.3
Bergen Bank	1.0	0.8	1.3	1.2							

Sources: Norwegian commercial banks, Oslo: A.S. Oekonomisk Litteratur, various years.

there is little doubt that there was a real shift dependent on when losses were incurred. DnC expanded earlier than CBK, and thus incurred losses earlier. Moreover, CBK had huge losses on large business clients within property financing and construction activities. This also contributed to concentrating this bank's losses. In 1991 CBK had to write off losses amounting to a considerable NOK 5.9 billion. This equalled an incredible 6.8 per cent of total loans.

An overview of the losses from DnC and CBK as well as the sum of all the Norwegian commercial banks display that the years 1990–92 marked the nadir of the crisis in terms of net losses (Table 1). As a consequence of the loans and provisions made, CBK was taken over by the state late in 1991 and DnC in the middle of 1992.

In the public debate which ensued in Norway, there was a widespread belief that over-provisioning for bad debts caused some of the losses in the early 1990s. The regulatory authorities' role and guidance during the crisis has accordingly been questioned. Undoubtedly, potential losses at several banks, including DnC and CBK, were overestimated in these years. This is accounted for in the negative rates of losses in 1995 and 1996. The recoveries may be explained, however, by the rapid recovery of the Norwegian economy after 1992, rather than pressure from state authorities. Later studies have also showed that neither DnC nor CBK would have been rescued from insolvency by greater clairvoyance in the most critical years.³¹

IX

The largest losses in CBK came, as already mentioned, from loans provided for the financing of real estate and on loans to manufacturing industry. Several of the defaulting loans in the latter category refer to businesses in electronics and other modern 'growth industries', which expanded during the early 1980s. An important point to make about the loan losses suffered

TABLE 2
DISTRIBUTION OF LOAN LOSSES IN THE DNC GROUP, 1984–92
ACCORDING TO ORGANISATIONAL UNIT

Regions:	49 per cent
International:	32 per cent
Head-office:	19 per cent
Of which:	
Shipping/oil/offshore:	8 per cent
'Mainland Norway'	11 per cent

Source: E. Lie, *Den norske Creditbank 1982–1990. En storbank i vekst og krise* (Oslo, 1998).

by CBK is that a considerable portion of the losses which were written off in 1990–92 referred to loan contracts written during the period 1984–87. A survey of defaulted loans drawn up by the Controller's Office reported 33 client loan accounts with losses exceeding NOK 50 million.³² These losses represented one-third of CBK's total loan losses written off during the years 1989–91 and 50 per cent of the losses written off in 1991. All these contracts were made during the years of dramatic credit expansion, 1984–87. The foundation of the huge loan losses CBK suffered in the late 1980s and early 1990s was clearly laid during the period of dramatic credit expansion.

In the DnC case as well, there is a significant relationship between loan losses on the one hand and the periods of growth as well as the areas of growth on the other.³³ What does this tell us about the performance of the different organisational units of the bank? As a rule of thumb in judging the DnC administration during the first part of the 1980s, the volume of loans and guarantees provided by the DnC Group could roughly be divided into three equal parts: the Regions with their subordinate branches, Head Office in Oslo, and the international division. During 1986 and 1987, however, this pattern changed, with the relatively faster expansion of the Regions and their local branches. In 1987, when the bank started to sell out some of its high quality mortgage loans in order to strengthen its equity capital ratio, the Regions covered almost 40 per cent, the Head Office around 30, and the international division a little more than 30 per cent.

From the mid-1980s onwards the proportion of losses from the district branches had increased dramatically. This surprised the bank's leadership. Historically, the Head Office had produced larger losses than the local branches. The large customers, especially in shipping, offshore and the oil sector, gave on average a slightly higher profit rate than the average corporate client of the local branches. This was seen as compensation for a marginally higher credit risk connected to these customers. In addition to

this, the major part of the loan portfolio in the Regions was personal loans to private consumers (55 per cent in 1986). Traditionally, these loans had been less vulnerable – both for DnC/DnB and the Norwegian financial sector as a whole. Even during the years of the crises, the private customer markets accounted for relatively less loss than the corporate market.

The loss/loan ratio reported by the newly established offices and branches where high, in some cases disastrous. But even the larger and more well-established branches reported loss ratios much higher than the ratio of the Head Office, especially those with a new, ambitious and growth-maximising leadership which lacked banking experience. This development does not demonstrate, however, that loans to small and medium-sized business clients were more inclined to fail than advances to large clients. The attention should rather be directed to the striking differences between the combined credit-expansion and deterioration of the governance and credit-control system of district offices and branches on the one hand, and the much more stable milieu of credit officers at the Head Office on the other. The leadership of the credit departments in Oslo did not change significantly during the 1980s. The same general managers met weekly to discuss credits and credit routines. Some new administrative reforms were implemented during the decade, but all in all the routines and competence did not change much in the years of credit expansion, 1982–86. The system of formal and informal control, which deteriorated in the Regions, was preserved at the Head Office.

The offices in Oslo and the surrounding areas were organised in a separate region labelled Region Oslo/Akershus. The performance of this region underlines the point of argument above: the loss/loan ratio of Oslo/Akershus was considerably lower than those of the other regions. Comparisons with the regional distribution of the loss ratios from other larger banks show, in contrast, that the Oslo and Akershus area is slightly above the national average. The performance of DnC's Oslo/Akershus Region may be explained by the fact that this region was a part of the Head Office credit environment. The Region's administration was situated in the Head Office's buildings, and the Director of the Region was a member of the Group Credit Committee. The volumes of loans and guarantees expanded rapidly in Oslo/Akershus as well. But this region opened relatively fewer new offices and weighted seniority and banking competence higher when new leaders were appointed. It should also be noted that Oslo/Akershus was by far the largest of the bank's Regions, with about one-third of the total assets administered in the six Regions.

In the international division, the losses from the banks in Luxembourg, London and New York all made provisions for more than 1 billion NOK during the years of the crisis. The larger part of the losses came in markets

unfamiliar to the head office: DnC Luxembourg – financing of steel trade; DnC London – property development in East London and other British corporate markets; DnC America – management buy-outs in New York. The losses in New York and especially in London came as a consequence of the strategy chosen in 1988/89, where high short-term margins became the primary aim. On Luxembourg and Gothenburg's part, the problems were due to a more general neglect from the Head Office: weak local management, rapid changes in the composition of the executive committees and boards, incompetent internal auditors, slow reactions to signs of irregularities of different kinds, and a generally reluctance in using time and resources in Oslo on matters concerning the subsidiaries.³⁴ Incidents of fraud and disloyalty also occurred making a 'clean-up' difficult.

Losses stemming from lending to shipping, offshore and oil from the head office are not part of this analysis because they have little to do with the more general banking crisis. Around three-quarters of these losses were a result of defaulting offshore loans given to companies operating in the Persian Gulf and the seas south-east of the US coast, after the collapse of the oil-rig market in the early 1980s. Regarding other loan defaults from the head office, foreign clients make a heavy contribution. For example, by far the largest loss on one single client was a syndicated loan to the Euro Tunnel project. Among the largest write-offs in the DnC group during the banking crises, corporate clients in Norway are few, and far down on the list.

DnC's pattern of distribution of losses differs from that of CBK, also in international business. Even CBK expanded its international business substantially during the 1980s – a development that started in the early 1970s. However, CBK's losses written off on international lending were significantly less than DnC's losses in the same area. This is essentially a result of differences in strategies pursued. An initial push to CBK's as well as DnC's international expansion during the 1960s and 1970s came from the expansion of domestic non-financial firms and the need for the major banks to follow their customers. But CBK followed a more conservative strategy than its main competitor, and was not so deeply involved in consortia like DnC. During the 1980s, CBK chose not to expand in local markets abroad the way that DnC did. Instead CBK developed an international niche strategy. The international division, as well as CBK's offices abroad, should expand within prioritised areas of business.³⁵ These areas were engineering and construction, shipping, fishing and energy. In 1989, the niche strategy was further sophisticated and more precisely defined to be shipping/transport, fishing and energy on a global scale.³⁶

The transition from an expansive to a contractionary policy occurred at the same time as the change in government. This has more recently led to a rather heated debate in Norway on whether the crisis in the financial sector

could mainly be explained in terms of conditions tied to the period of expansion, or whether the tightening/retrenchment was significant in itself. Claims have been made that these measures were given in too stiff doses, and too one-sidedly directed towards the economy in the private sector. Towards the end of the 1980s the effects of the changes in the tax structure were becoming apparent, and there was altogether a significant increase in real interest after tax.

There is little doubt that there is a close connection between the burden of indebtedness and the banking crisis. But it is an open question whether a significantly different policy would have yielded better results. It seems unreasonable to claim that contemporary actors should have understood that a different policy package would have been better. As noted earlier in this article, it took time until the tightening/retrenchment measures had an effect on the banks' credit volume, giving for a long time the impression that the measures were not sufficient. The committee appointed by parliament in 1997 to investigate the crisis emphasised that most of the rise in real interest was due to inflation being gradually reduced, and pointed out that nobody argued in favour of maintaining a more precipitous growth in prices than the competing countries.³⁷ The public debate on macroeconomic policy exhibits a strong reluctance and even disagreement regarding the policies pursued during 1984–86, whilst from 1986 there was broad consent among the economists in the MOF and the Central Bank about being on the right course. This picture is also reflected in material from archive studies in the MOF and the Bank of Norway.³⁸

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The aim of this article has been to analyse and discuss how we best can explain the shocking banking crisis which occurred in Norway during 1987–92. Our main focus, however, has been on the failure of the two major Norwegian banks during this turmoil. To understand the mechanisms that cause a general financial crisis and increase systemic risk, we have applied the financial fragility approach. The discussion shows that it is essential to grasp the main factors leading up to a credit driven boom and an asset-price inflation in order to be able to give a comprehensive explanation of the crisis. The foundation of the huge loan losses suffered by DnC in 1987–88 and by CBK in 1990–91 was laid during the years of dramatic credit expansion, following the deregulation of the financial markets. Lax monetary policy and an expansive fiscal policy by the government stimulated the speculative boom. Increasing debt in especially the corporate sector, as well as the household sector contributed to a fragile financial structure.

The abrupt downturn of the business cycle and the contractionary economic policy increased the number of bankruptcies, and a growing number of firms and individuals became unable to service their loans. The two banks incurred huge loan losses. Finally, both lost their equity and had to be bailed out by the state. In connection with this, our analysis has demonstrated that different units in the same bank have responded differently to external changes. Whilst some downgraded their control systems and expanded rapidly in new business areas, which in turn led to large losses, other units followed a more cautious strategy. Some authors have claimed that the banking crisis was primarily a product of a tight economic policy. This view ignores the credit-fuelled boom, which build up a fragile debt burden in the economy in the first place. Moreover, the behaviour of euphoric bank managements and their readiness to mimic the expansionist strategy of the leading bank should also be emphasised.

There is little doubt that there was a close connection between the burden of indebtedness and the banking crisis. On the level of individual banks, the analysis reveals a clear link between the will to follow incentives in the business environment to expand, and the rate of loan losses. Our analysis has demonstrated that expansionist strategies contributed to a breakdown in the systems for steering and control. But even this process varied according to the understanding and emphasis the management, and even different departments in the bank, put on such problems. Thus, the internal organisational effects of the expansionist strategy are of great importance in explaining the banks' failure, not only its effects on monetary expansion.

NOTES

1. During the period under consideration the exchange rate varied between 10 and 11.5 NOK to a £.
2. C.-J. Lindgren *et al.*, *Bank Soundness and Macroeconomic Policy* (Washington, DC, 1996).
3. A. Schwartz, 'Real and Pseudo-Financial Crises', in F. Capie and G. Wood (eds.), *Financial Crises and the World Banking System* (London, 1986).
4. *Ibid.*
5. M.D. Bordo, *Currency Crises and Banking Crises in Historical Perspective*, Research Report no 10, IHF, Handelshögskolan i Stockholm, 1990.
6. The space available does not allow us to discuss business cycle theory and the validity of the monetarist case for a strong effect of money on economic activity. We do not reject all the insight produced by the monetarist school. Actually, we take the role of monetary policy into account, both in our analysis of the boom during the 1980s, and in pointing to monetary policy as an element in the subsequent contraction.
7. I. Fisher, 'The Debt Deflation Theory of Great Depressions', *Econometrica*, Vol.1 No.4 (1933), pp.337–57.
8. C.P. Kindleberger, *Manias, Panics and Crashes: A History of Financial Crises* (London, 2nd edn. 1989).
9. *Ibid.*, p.18.

10. Ibid., p.20.
11. H.P. Minsky, 'The Financial Instability Hypothesis', Working paper # 66, The Jerome Levy Economics Institute of Bard College, May 1992, quoting D.B. Papadimitriou and L. Randall Wray, 'The Economic Contributions of Hyman Minsky: Varieties of Capitalism and Institutional Reform', *Review of Political Economy*, Vol.10 No.2 (1998).
12. Kindleberger, *Manias, Panics and Crashes*, p.17; cf. Minsky, 'The Financial Instability Hypothesis'.
13. E.P. Davis, 'Causes of Financial Crises in a Deregulated Economy', in Banking, Insurance and Securities Commission of Norway, *Macroeconomic Surveillance aiming to Detect Potential or Emerging Financial Crises* (Oslo, 1994).
14. J. Dow, 'What is Systemic Risk? Moral Hazard, Initial Shocks, and Propagation', *Monetary and Economic Studies* (Dec. 2000).
15. U. Beck, *Risk Society: Towards a New Modernity* (London, 1992).
16. G.J. Ecklund and S. Knutsen, *Vern mot kriser? Norsk finanstilsyn gjennom hundre år (Protection against Crises? Norwegian Financial Supervision through the Twentieth Century)* (Bergen, 2000).
17. Concerning the Swedish case, see *Bankkrisen. Rapporter av H. Lindgren, J. Wallander, G. Sjöberg*, Stockholm: Finansdepartementet 1994; J.A. Lybech, *Facit av Finanskrisen* (Stockholm, 1994); M. Larsson and H. Sjögren, *Vägen till och från bankkrisen* (Stockholm, 1995).
18. S. Knutsen, E. Lange and H.W. Nordvik, *Mellom næringsliv og politikk. Kreditkassen i vekst og kriser 1918–1998* (Oslo, 1998).
19. T. Reve, 'Bankkrisen: Hva gikk galt?', Saf-report no. 3, 1990, p.17. Mimetic behaviour is also pointed out by Lars Engwall as an important feature of the *modus operandi* of Swedish bank managers during the late 1980s: L. Engwall, 'The Swedish Banking Crisis: The Invisible Hand Shaking the Visible Hand', in G. Morgan and D. Knights (eds.), *Regulation and Deregulation in European Financial Services* (London, 1997).
20. Reve, *Bankkrisen*, p.35.
21. This subject is treated in detail in S. Knutsen, 'Phases in the Development of the Norwegian Banking System 1880–1980', in Y. Cassis *et al.* (eds.), *The Evolution of Financial Institutions and Markets in Twentieth-Century Europe* (Aldershot, 1995).
22. The government was now extended with representatives from the Christian Democrats and the Agrarian Party.
23. Knutsen *et al.*, *Mellom næringsliv og politikk*, pp.255 et seq.
24. B.S. Tranøy, *Å forklare bankkrisen – identifisering og analytisk ordning av faktorer*, unpublished paper, June 1997.
25. NOU 1992:30, p.33.
26. Ibid.
27. The section is based on E. Lie, *Den norske Creditbank 1982–1990. En storbank i vekst og krise* (Oslo, 1998).
28. Knutsen *et al.*, *Mellom næringsliv og politikk*, p.262
29. 'Strategy for CBK 1982–1985', CBK-archive, cf. Knutsen *et al.*, *Mellom næringsliv og politikk*, p.250
30. Report by Arthur Andersen & Co., Nov. 1991. CBK archive; cf. Knutsen *et al.*, *Mellom næringsliv og politikk*.
31. P.P. Dok. nr. 17 (1997–98). *Rapport til Stortinget fra kommisjonen som ble nedsatt av Stortinget for å gjennomgå ulike årsaksforhold knyttet til bankkrisen*.
32. Survey of bad loans, Controllers office, 5 Nov. 1991, CBK archive.
33. An important problem connected with the analysis of DnC's losses, however, is the merger with Bergen Bank in 1990. From the accounting year 1990, only the figures for the new bank – Den norske Bank (DnB) – are published. Table 2 is calculated on the basis of material and assumption accounted for in S. Knutsen and E. Lie, 'Bankkrisen og storbankene' (The Banking Crisis and the Large Banks), *Sosialøkonomen*, Vol.54 (2000), pp.16–25.
34. DnC London, situated in a nearby metropolis, was popular among the managers in Oslo and had a quite stabile composition of its executive committee. But New York and Hong Kong were too far away; Luxembourg and Gothenburg were too boring.

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35. Strategic plan for the international activities of Christiania Bank, 1985–1989, Oct. 1984. CBK archive.
36. Strategic plan, International Division, June 1989. CBK archive. Although it was not a major cause to CBKs collapse in 1991, the bank lost substantially on loans to international fish businesses in 1993–94. Most of the losses fell on CBK's Seattle branch, chiefly as a result of US policy change. For more details, see Knutsen *et al.*, *Mellom næringsliv og politikk*.
37. P.P. Dok. nr. 17 (1997–98). *Rapport til Stortinget*.
38. Lie, *Den norske Creditbank*, p.261