

27/11-85 at ¹⁸³⁰2000 hrs

ECONOMIC DEVELOPMENTS, MONEY MANAGEMENT AND THE INTER-
NATIONALIZATION OF NORWEGIAN BANKS

Your Royal Highnesses,
Excellencies,
Ladies and gentlemen,

Allow me first to say to you how happy I am to be here tonight. It is a pleasure to meet so many distinguished representatives of British society - and others who contribute so much to the further development of the strong ties between Great Britain and Norway. These ties can be traced back through the centuries - and will remain of the most fundamental importance: We are banking on the City remaining a world financial centre for a long time to come.

I would like to take this opportunity to share with you some thoughts on economic development, both internationally and in Norway, and on the important role played by the international banking community.

However, as a political leader I think I should begin with a word of caution, as expressed by that great countryman of yours, Sir Winston Churchill, and I quote: "Political ability is the ability to foretell what is

going to happen tomorrow, next week, next month and next year. And to have the ability to explain afterwards why it didn't happen". These words of wisdom could undoubtedly also apply to the art of making economic predictions.

International economic developments and policies

Since the beginning of 1983 there has been an economic upturn in the OECD-area. The rate of economic growth has, however, been markedly more modest in Europe than in the Far East and North America.

Even though the recovery in the OECD-area has now been progressing for almost three years, the major forces that brought earlier upswings to a halt do not appear likely to make their presence felt in the immediate future.

There are, nevertheless, reasons for concern as regards future economic developments and policies.

In the first place I would draw to attention the fact that, even though the economic recovery seems to be lasting for quite some time, unemployment in Europe has been steadily increasing throughout the present recovery, and this year amounts to 11 per cent of the labour force or some 19 million persons. And yet another increase in European unemployment is forecast! This is definitely alarming. Prolonged mass unemployment is not only an economic challenge, but also a challenge to the very core of the Western democratic system - to the unspoken social

compact of our societies.

As a further cause for concern, I would point to the continuing imbalances in the world economy, particularly the present imbalances between the United States, Japan and Germany in the stance of demand management, foreign balance and exchange rates.

These imbalances are in reality at the root of an increase in protectionist sentiments. They aggravate the debt crises of many developing countries, which can in turn lead to disastrous political consequences. May I mention that a debt crisis triggered the French revolution.

In commenting on some of these problem areas, I would like to draw your attention to an article by Professor Lester Thurow of MIT, which was recently published in the Economist - indicating that good economic brains are, possibly, what can contribute most to improving economic and political prospects.

One of the most important lessons to be drawn from recent experience is that because the American economy is far less regulated and rigid than the economies of Europe, it responds more readily to greater demand by increased employment. In the more rigid European labour markets, increased demand does to a higher extent lead to higher wage costs, and from there to greater inflation, and does not necessarily lead to increased production at all. This indicates that with a more flexible labour market, one could more easily generate jobs through a

policy of increased demand, without increasing inflation. We are gradually moving in this direction. But - given the social and political realities of modern European societies, a modest step-by-step approach to necessary change is the only alternative to political confrontation and social unrest.

Professor Thurow also gives a convincing analysis of the negative effects of unstable exchange rates on growth. I would like to support his basic views on these problems.

I am afraid that greater stability in the exchange rates will be a must if we want to sustain growth, and that will obviously require more large-scale intervention in the currency markets. But, as Professor Thurow also observes:

"Intellectual fashions often dominate current events and the present intellectual fashion favours non-intervention."

I agree, and can only add that this fashion - the word is well chosen - is at least not conservative: At the core of conservative ideology - developed by your illustrious compatriot Edmund Burke among others - is an obligation for governments to create and maintain the stability of the social framework which gives the individual personal freedom and favourable conditions for productive efforts. A system of wildly fluctuating exchange rates certainly does not fit this type of progressive conservatism; which should not be confused with orthodox liberalism.

I see a distinct need for more real international economic cooperation aiming at - and succeeding in - inducing better coordination of domestic policies, and more stable exchange rates. If this is not done, greater upheavals and more protectionism may be difficult to avoid, - to state the risks mildly.

I therefore welcome the recognition by the Group of Five that they "share special responsibilities to ensure the mutual consistency of their individual policies."

But, I do realize how difficult broader economic harmonization is. It is as if the authors of The Acts of the Apostles had modern attempts at world-wide cooperation in mind when they wrote their chapter 19, verse 32:

"Some therefore cried one thing, and some another: for the assembly was confused; and the more part knew not wherefore they were come together".

I would, however, like to express my admiration for the achievements made by the IMF and the World Bank group, taking into consideration the political obstacles with which they are confronted. Nevertheless, a substantial further extension and broadening of international cooperation seems to be of the utmost necessity in order to reduce the plight of the developing countries, and of all those countries which have acquired an intolerable burden of debt, through close cooperation between irresponsible borrowers and euphoric lenders.

I remember quite vividly some years ago when several bankers comforted me by saying that "governments cannot go bankrupt". If that was a basic premise for their activities, my conclusion is that a better education in history would most definitely be a good investment.

The Norwegian economy and economic policies

After these more general remarks, allow me to discuss the Norwegian economy, which is presently growing at a healthy pace; the GNP is expected to increase by 3 per cent this year and by slightly less in 1986.

Employment is also increasing steadily, and unemployment has fallen to between 2 and 2½ per cent of the labour force, one of the lowest rates in the OECD-area.

Of course this is partly due to the present government's economic policies - you would hardly expect me to tell you otherwise. But I must admit that the oil sector has played and continues to play an important role as well.

So far, the present government has been able to resist growing pressure to spend all of the oil wealth at home, quickly. The Government's foreign debt - which was very high 5 or 6 years ago - has been all but repaid. Our foreign reserves have been built up as a buffer against possible hard times ahead. Since 1981 government expenditures, although high when expressed as a share of the GDP, have grown less than before. At the same time we have been able to provide tax relief to both

businesses and households in order to revitalize our traditional economy. Thus our traditional economy is once again expanding rapidly.

However, I still see major challenges ahead. The Norwegian economy is clearly vulnerable to future fluctuations in oil prices measured in dollars, as well as to the dollar exchange rate. Thus it is important that other sectors of our economy - including the banking sector - continue to expand in a prudent and profitable fashion both at home and abroad.

As part of a policy to this end, Norwegian credit and banking policies have been greatly liberalized during the term of the present government. Interest rate policies have been changed and interest rates now move according to market forces. This year we have established a new market in commercial papers, and open market operations in short- and longer-term Government papers now constitute an important aspect of monetary policy.

The private credit market has expanded greatly as a share of the domestic credit supply. Our major consideration - aside from allowing Norwegian banks to expand - is to increase competition and efficiency in financial markets.

One important event in this respect was the establishment of seven foreign banks in Norway at the beginning of this year. I am sure that Norwegian banks will take up this new challenge in a spirited fashion and welcome more competition in other areas of financial

intermediation as well. Insurance is another field where I think increased competition from abroad would be beneficial and healthy. The Norwegian Government will continue to liberalize concession practices.

Controls over capital movements have been reduced in recent years, in accordance with international developments. Short-term capital is now fairly free to move, and the controls on the purchase of Norwegian share capital have been liberalized. Given the surplus on our current foreign account, we were forced to limit foreign purchases of Norwegian bonds last autumn. In our present situation large amounts of long-term capital inflow to Norway would certainly not be in the interests of anyone. My feeling is that this has largely been understood and accepted abroad.

As you may know, our exchange rate policies are conducted with the aid of a "basket" of currencies. This gives a high degree of stability in exchange rates, and all in all, I think the present exchange rate regime has served us well.

For Norway, a major challenge for future developments lies in exploiting our favourable real and financial situation. Even if revenues from the petroleum sector were to stagnate or fall, we have built up financial reserves which could be managed to give a high rate of return in the years ahead.

Furthermore, we have a growing number of skilled and competent people both in manufacturing and in services. Banking and financial intermediation is an important service which should play an increasing role in future economic developments.

The internationalization of the Norwegian economy in general, and of banking and other financial services in particular, has been quite extensive in recent years. The Norwegian Government has actively tried to encourage these developments. Starting this year we are also allowing Norwegian banks to use some of our foreign exchange reserves. In other words, Norwegian banks have been invited to invest some of our foreign exchange earnings to yield benefits in the future.

During recent years we have also seen an increasing number of Norwegian firms going abroad to compete on foreign markets. A considerable number of industrial enterprises and several shipping companies have been able to contribute to the advance of technology and to establish themselves as important players in international markets, owing to their high technology, competitiveness and management skill.

The Government will encourage this internationalization of Norwegian enterprise. This year the Government introduced new measures in the form of loans in foreign exchange on favourable terms for businesses that want to establish themselves abroad. My impression is that this has been welcomed by the business community.

As a whole, the process of internationalization has undoubtedly been beneficial to Norwegian industry as well as to our national economy. And we are increasingly aware of the future potential of Norwegian financial and industrial activities abroad. This, together with foreign banking and industrial operations in Norway, have created a link which I regard to be of considerable economic and political importance. This link should be further strengthened.

Allow me to conclude by congratulating the Norwegian banking community on its substantial achievements in recent years - and further, to extend those congratulations to the banking community of this world financial centre, which the City represents, now and in the future.

And I do hope that you are all geared to the idea of continuing this pleasant meal with an exchange of views on money. This seems to me to be in conformity with Ecclesiastes, called the book of The Preacher, which states that "A feast is made for laughter, and wine maketh merry, but money answereth all things".

Thank you very much for your attention.