

Box 1 Examples of banking crises (financial crises) in the last decade

Norway 1990-1991

The first signs appeared in Norway in 1988 when several commercial and savings banks needed the help of their guarantee funds to merge with stronger banks. When these funds were on the point of running out at the end of 1990, a special state guarantee fund was set up which allocated contributions to them and also injected capital into the commercial and savings banks. Then, when the capital adequacy ratios of the three largest banks dropped below the mandatory requirement and it became obvious that new share capital could not be procured in the market, the government intervened and by the end of 1991 had become a majority shareholder in them all: Den norske Bank, Christiania and Focus. At its peak, Norway's financial assistance to its banks was equivalent to 2.6% of GDP, but this was offset by collection of receivables and proceeds from the sale of assets. Banks in Norway produced a profit again in 1993. The Norwegian treasury first sold Focus to Den Danske, and last autumn sold Christiania to Nordea. The state still holds a majority share in Den norske Bank but aims to sell shares this year in order to bring its holding down to 33%.

Sweden 1991-1992

In Sweden, Nordbanken was the first to run into troubles, late in 1991. It was then the country's third-largest bank, and the state held a majority share in it. The Treasury injected extra capital and appointed new management. Around mid-1992 it was clear that the problem had become generic and action was needed to prevent the closure of foreign credit lines and the collapse of the banking system. That autumn the government, with parliamentary backing, announced that all liabilities would be honoured, apart from capital stock. All the banks benefited from this announcement of guarantees, but virtually all the direct financial assistance went towards rescuing the state-owned Nordbanken, taking over Gota Banken and then merging the two. At its peak, Sweden's government assistance for its banks was equivalent to 5.2% of GDP, offset by collection of receivables and proceeds from the sale of assets. Banks began producing an operating profit again in 1994. Privatisation of Nordbanken began in 1995 and the state's entire holding has since been sold.

Finland 1991-1993

In Finland, government action to rescue the banks began late in 1991 with assistance to Skopbank, which was

jointly owned by the savings banks. Real estate and shareholdings in other companies were transferred to separate funds. A state guarantee fund was set up in April 1992 and when this was restructured in February 1993, parliament resolved that the government would guarantee payments by Finnish banks. The government had made a prior pledge of subordinated loans to DMBs in proportion to their risk-weighted assets, but these were converted into share capital if no interest was paid for three years or if the capital adequacy ratio dropped below the mandatory minimum. All the commercial banks and savings banks took advantage of this offer. Around the same time, action was taken to address the widespread problems of savings banks. Half of all the savings banks were merged into a single savings bank which was then converted into a limited liability company and taken over by the guarantee fund. Half a year later this merged savings bank was split into four units which were sold to the country's four main bank groups. Finally, the problems of STS bank were tackled by merging it with KOP, in April 1993. At its peak, Finland's financial assistance to its banks was equivalent to 10% of GDP, offset by collection of receivables and proceeds from the sale of assets. The banks continued to produce operating losses until 1996.

Other countries over this period:

Guyana 1993-1995
India 1991-1993
Indonesia 1992-1994, 1997-1998
Italy 1990-1994
Japan 1992-1994 (to some extent ongoing)
Kenya 1993
Malaysia 1997-1998
Mexico 1994(-1995)
Nigeria 1991-1994
Nepal (1988)-1994
Papua New Guinea (1989)-1994
Philippines 1997-1998
Russia 1998
Sri Lanka (1989)-1993
South Korea 1997-1998
Tanzania (1989)-1994
Thailand 1997-1998
Turkey 1991, 1994 and 2000
Uganda 1990-1994
Venezuela 1994