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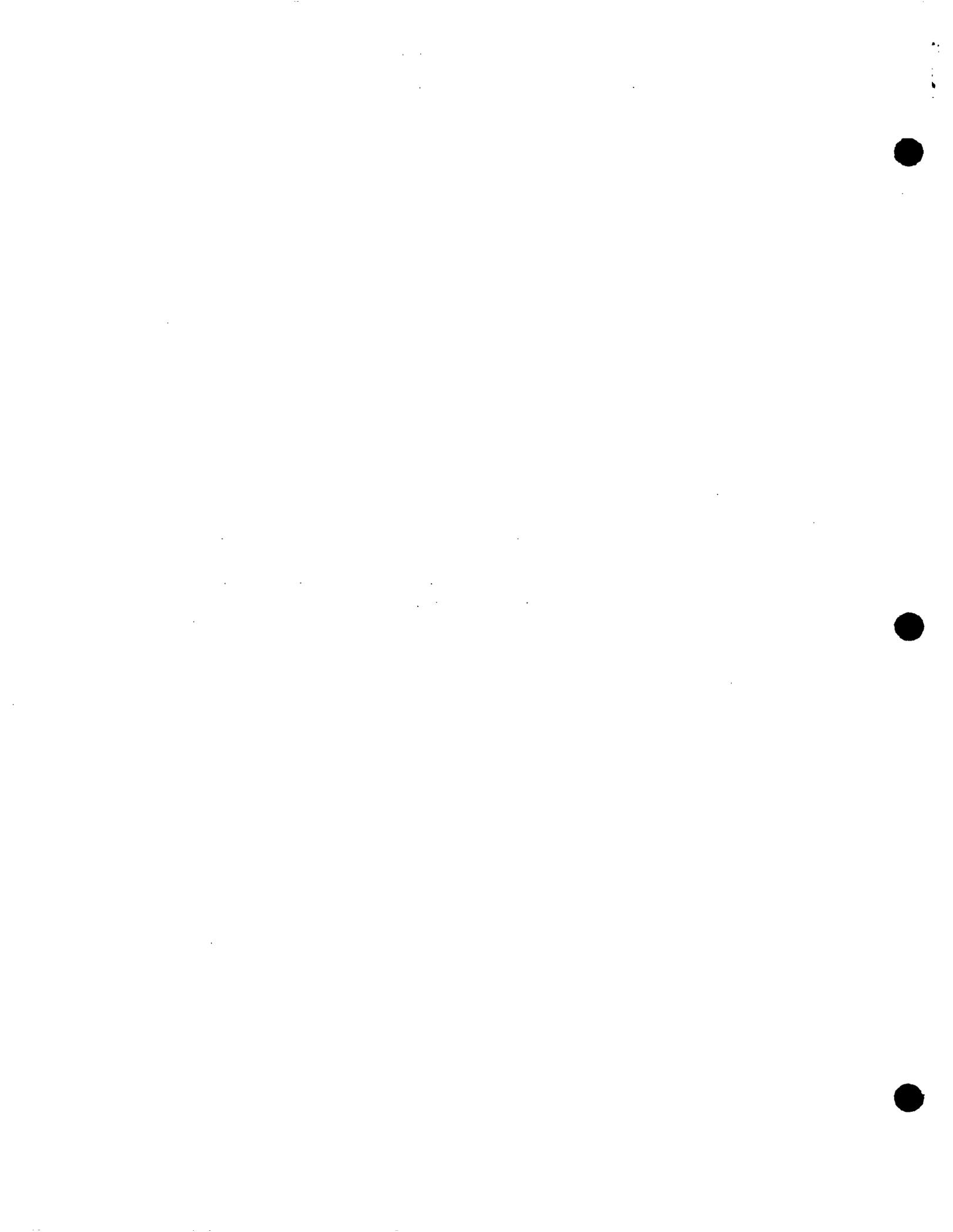
July 15, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Norway - Staff Report for the 1983 Article IV Consultation

The attached supplement to the staff report for the 1983 Article IV consultation with Norway has been prepared on the basis of additional information. This subject has been tentatively scheduled for discussion on Friday, July 22, 1983.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

NORWAY

Staff Report for the 1983 Article IV Consultation
Supplementary Information

Prepared by the European Department

Approved by L. A. Whittome

July 14, 1983

Since the issuance of SM/83/120 (6/8/83), the following information has become available.

I. The New Government

On June 8, 1983, the minority Conservative Government of Norway was replaced by a new coalition Government consisting of the Conservative Party (11 ministers), the Christian People's Party (4 ministers) and the Center Party (3 ministers). Mr. Kåre Willoch continues as Prime Minister, as does Mr. Rolf Presthus as the Minister of Finance. The Government has a majority of 79 seats out of 155 seats in Parliament.

II. Monetary Policy Measures

1. Lowering of interest rates

On June 3, 1983, the Ministry of Finance issued a new interest rate declaration to be effective July 1, 1983. Those bank lending rates which are administratively set were lowered, for short-term loans by 1.1 percentage point to 13.1 percent and for medium- and long-term loans by 0.5 percentage point to 12 percent, and the authorities requested that this reduction be directed in particular to the business sector. Interest rates on loans from life insurance companies were kept unchanged at 12 percent. The Bank of Norway lowered its discount rate by 1 percentage point to 8 percent effective June 6, 1983. A similar reduction was made in the Bank's lending facilities for commercial and savings banks, with the rate on the ordinary lending facility being set at 8 percent. The Ministry of Finance lowered the interest rates on Treasury bills by 0.5 percentage point also effective June 6, 1983; the interest rate on 90-day Treasury bills is now 10.75 percent.

The Bank of Norway also declared its intention to bring down interest rates in the money market in such a way that money market rates would, as a general rule, stay within a range of 13-13 1/2 percent. Money market rates in May 1983 varied between 13.7 and 14.2 percent.

2. Direct regulation of lending

In order to keep lending within the limits set by the credit budget, the Ministry of Finance on June 24, 1983 put the lending of the savings banks under direct control by activating the supplementary reserve requirement, which requires noninterest-bearing deposits with the Bank of Norway equal to the amount of the excess over the prescribed growth of lending. For savings banks in southern Norway, the increase in lending in the 12 months ending December 1983 is not to exceed 10.5 percent. The monetary authorities also stated that the lending of commercial banks would also be brought under direct control, if the growth of their lending increased faster than is specified in the credit budget. Leasing and factoring by private finance companies were also brought under regulation.

In connection with these measures, the Bank of Norway decided to suspend the conditional lending facility for the commercial and savings banks for the time being. The ordinary lending facility was enhanced by adding a fourth tranche and by differentiating the interest charges on the tranches, so that they became 8, 10, 12, and 14 percent, respectively.