Lessons learnt from the sub-prime crisis

Regulatory weaknesses

- Basel II
  - Too little capital
  - Too low risk weights
  - Lenient on liquidity

- Goodhart’s law prevails:

«Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes.»
Qualifying the lessons

- Level playing field concerns
  - Race to the bottom
  - Allow country specific variation

- New international macroprudential framework has potential
Challenges

- Identifying systemic risk
- Regulatory arbitrage
- Fix incentives

→ Credible and effective resolution regime

- Pro-cyclical nature of regulatory efforts
The Norwegian framework

- Joint monetary policy and financial stability report
- Higher capital adequacy requirements
- Countercyclical capital buffer
  - Norges Bank gives advice on the CCB while the Ministry of Finance decides
CET1 requirements. Norwegian banks

Percent of risk-weighted assets

Sources: Ministry of Finance and Norges Bank
Norges Bank’s key indicators

- Total credit as a percentage of mainland GDP
- The ratio of house prices to disposable income
- Commercial property prices
- The wholesale funding ratio of Norwegian credit institutions
Lending margins have responded
Mortgage lending rate\(^1\) and funding costs. Percent. 18 July 2007 – 25 March 2014

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1) The interest rate on lines of credit secured on dwellings provided by all banks and mortgage companies in Norway.

2) Estimated using weighted interest rates on covered bonds outstanding and weighted deposit rates.

Sources: DNB Markets, Statistics Norway and Norges Bank
THANK YOU FOR YOUR ATTENTION