Ensuring financial stability in turbulent times

Governor Øystein Olsen at the Finance Norway conference
12 April 2001
High cost of financial crises

GDP. Percentage change on previous quarter converted to annual rate.

Source: IMF
Run-up to financial crises – clear similarities

- Real house prices
- Debt/GDP
- Share of market funding
Vulnerability also built up in Norway.
Vulnerability still exists

Real house prices, index 2000=100

Debt/GDP mainland Norway, index 2000=100

Share market funding and other debt excl deposits
Level of debt high for many households

Percentage of private households\(^1\) with net debt ratio\(^2\) of more than 500 per cent by net debt ratio. Annual figures 1987 - 2008

1) Excl. self-employed.
2) Net debt ratio equals debt minus bank deposits as a percentage of disposable income

Sources: Statistics Norway and Norges Bank
Real economy

- Wages, prices, and unemployment
- Export demand
- Exchange rate
- GDP

Financial sector

- Credit to households
- House prices
- Credit to enterprises
- Equity prices
Basel III provides for a more robust system

- **Capital**
  - Requirement for higher and better quality capital

- **Liquidity**
  - Quantitative requirements for liquidity buffer and stable funding
Capital requirements in Basel III

Previous and new minimum capital adequacy requirements, and new capital buffer requirements. As a percentage of risk-weighted assets

Sources: Basel Committee and Norges Bank

Common equity 2.0
Tier 2 4.0
Hybrids 2.0

Old

New incl. buffers

Common equity 4.5
Conservation buffer 2.5
Countercyclical buffer 2.5
Hybrids 1.5
Tier 2 2.0

0 1 2 3 4 5 6 7 8 9 10 11 12 13
0 1 2 3 4 5 6 7 8 9 10 11 12 13

Gamle Nye med buffere

Norges Bank
Possibility of low risk weights on residential mortgages

Required capital per NOK 100 of residential mortgage lending

- Standardised approach, risk weight 35%
- IRB, risk weight 10%
- Maximum countercyclical buffer
- Common equity + capital conservation buffer
Crisis resolution – some possible improvements

Objective: Uninterrupted operations without use of public funds

- Creditors must bear losses

Banks must draw up plans for orderly liquidation

Early intervention by crisis resolution authorities must be possible
- Authority to split up and sell an institution in parts
- Possibility of establishing bridge bank
- Possibility of converting debt to equity