

CENTRAL BANK EVOLUTION: LESSONS LEARNED FROM THE SUB-PRIME CRISIS BY C.A.E. GOODHART

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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



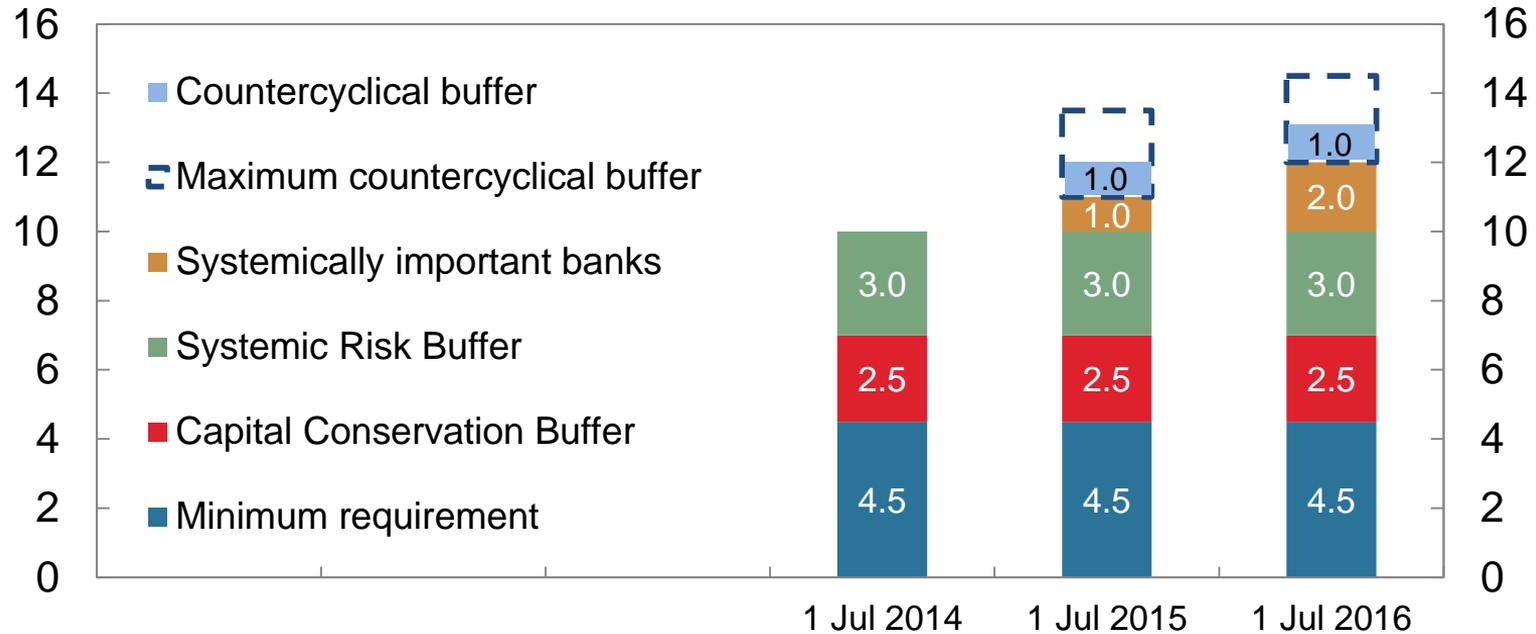
The Norwegian framework

- 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



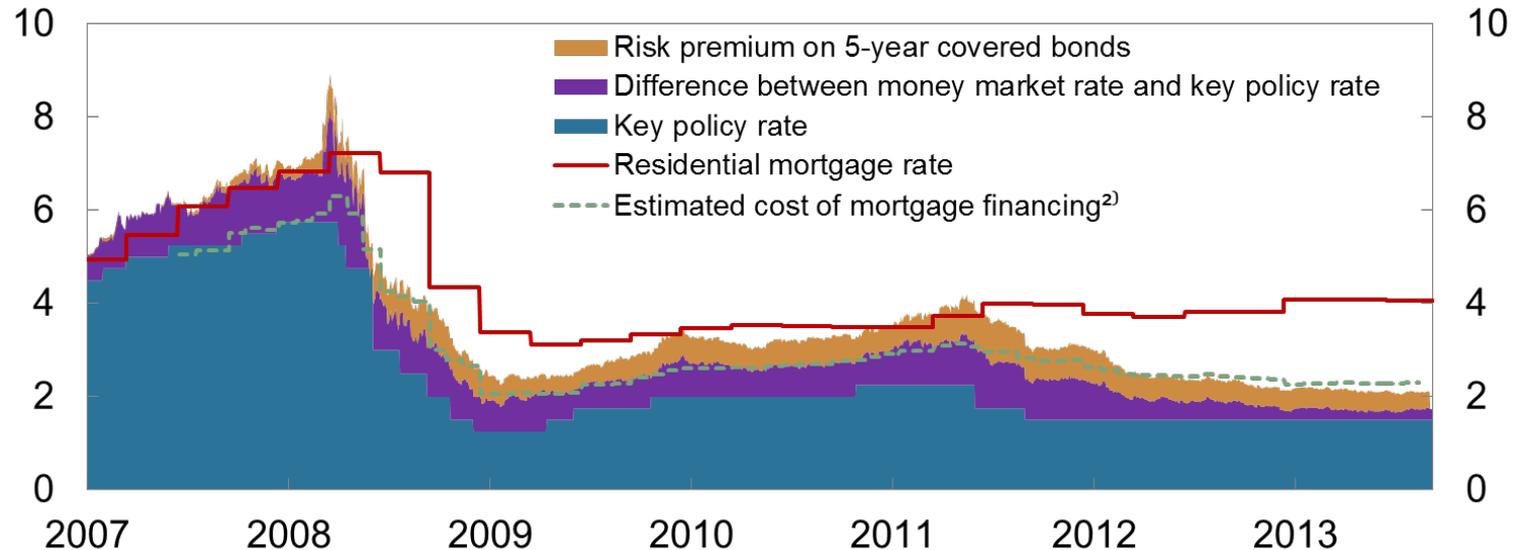
Norges Bank's key indicators

- 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 rate¹⁾ and funding costs. Percent. 18 July 2007 – 25 March 2014



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

