Ensuring financial stability in turbulent times

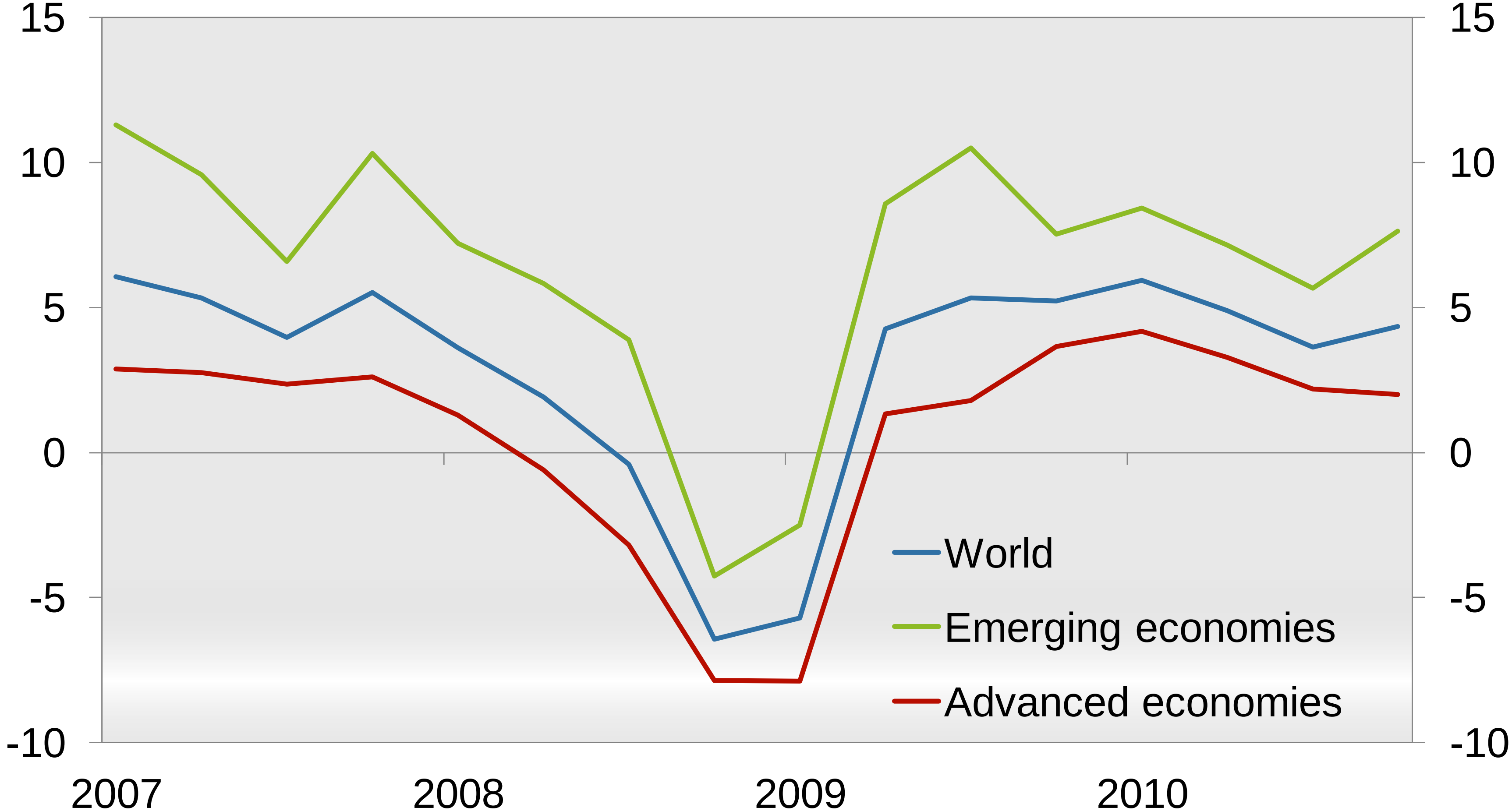
Governor Øystein Olsen at the Finance Norway conference

12 April 2001

NORGES BANK

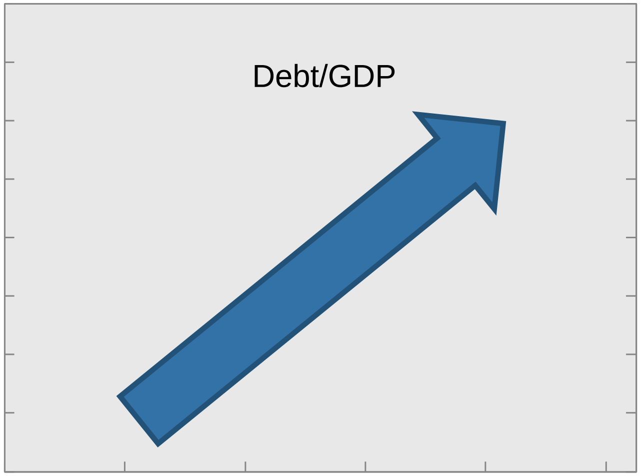
High cost of financial crises

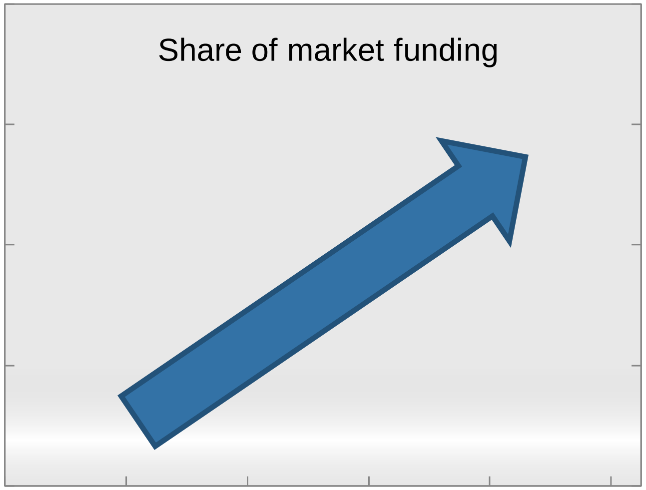
GDP. Percentage change on previous quarter converted to annual rate.



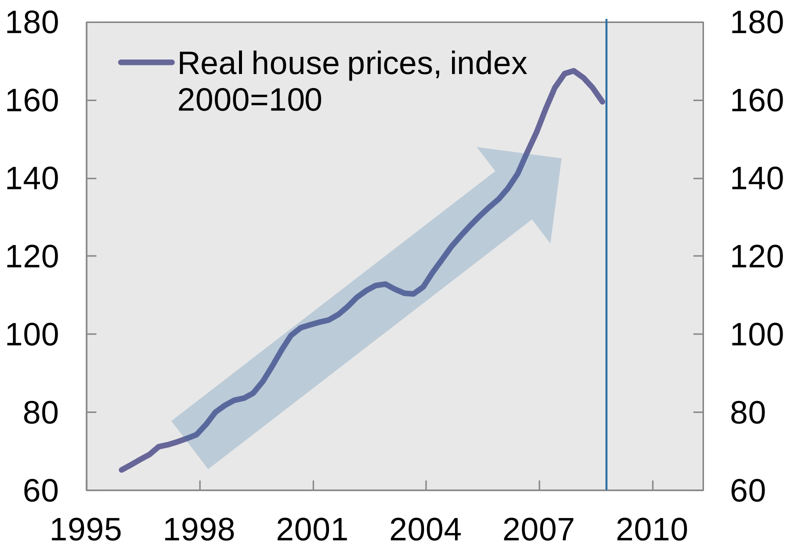
Source: IMF

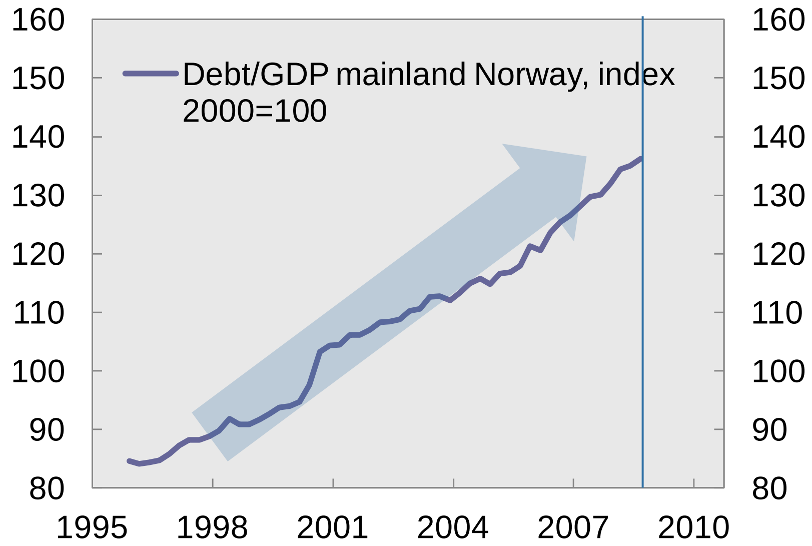
Run-up to financial crises – clear similarities

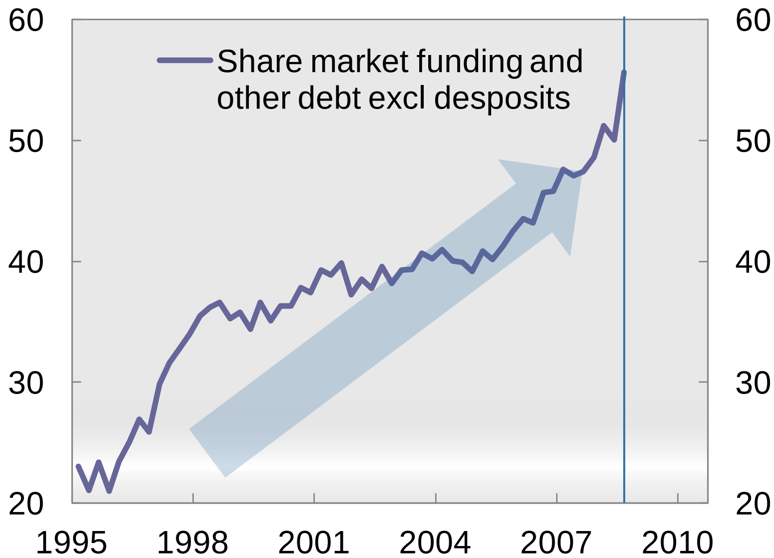




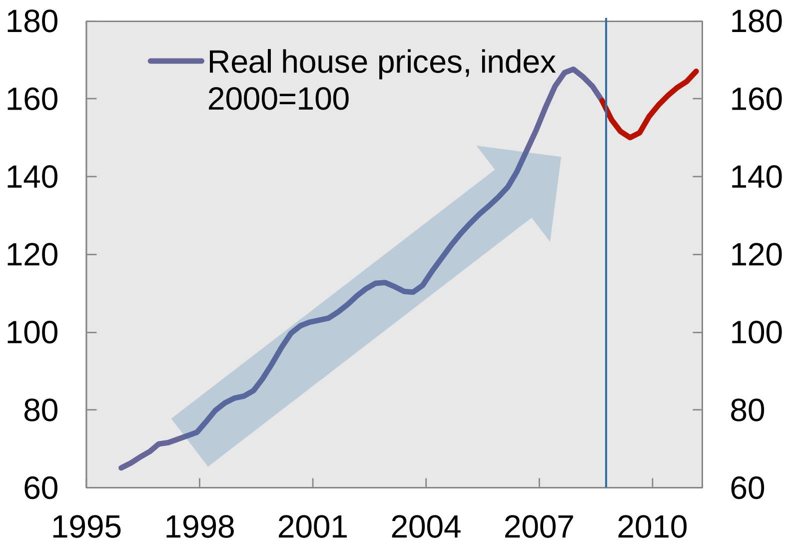
Vulnerability also built up in Norway

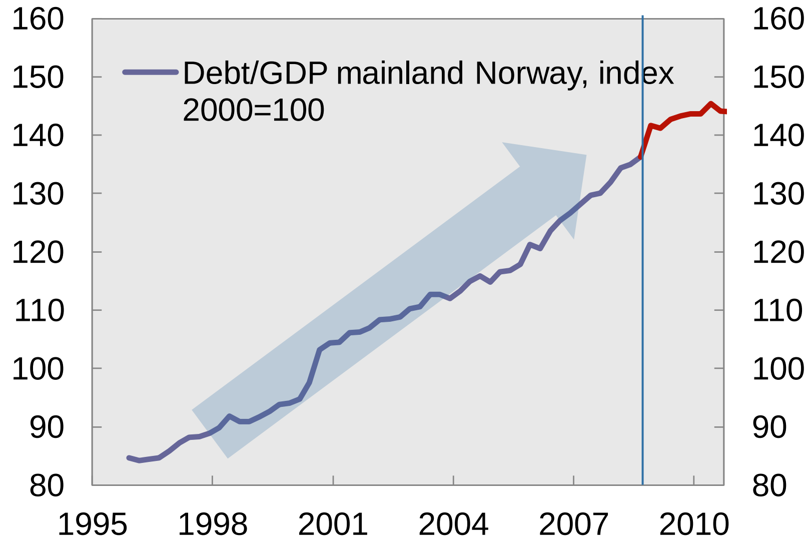


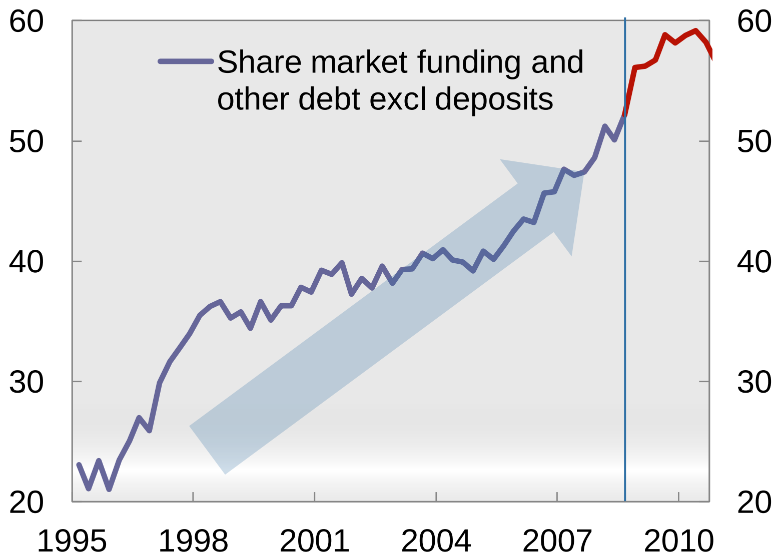




Vulnerability still exists

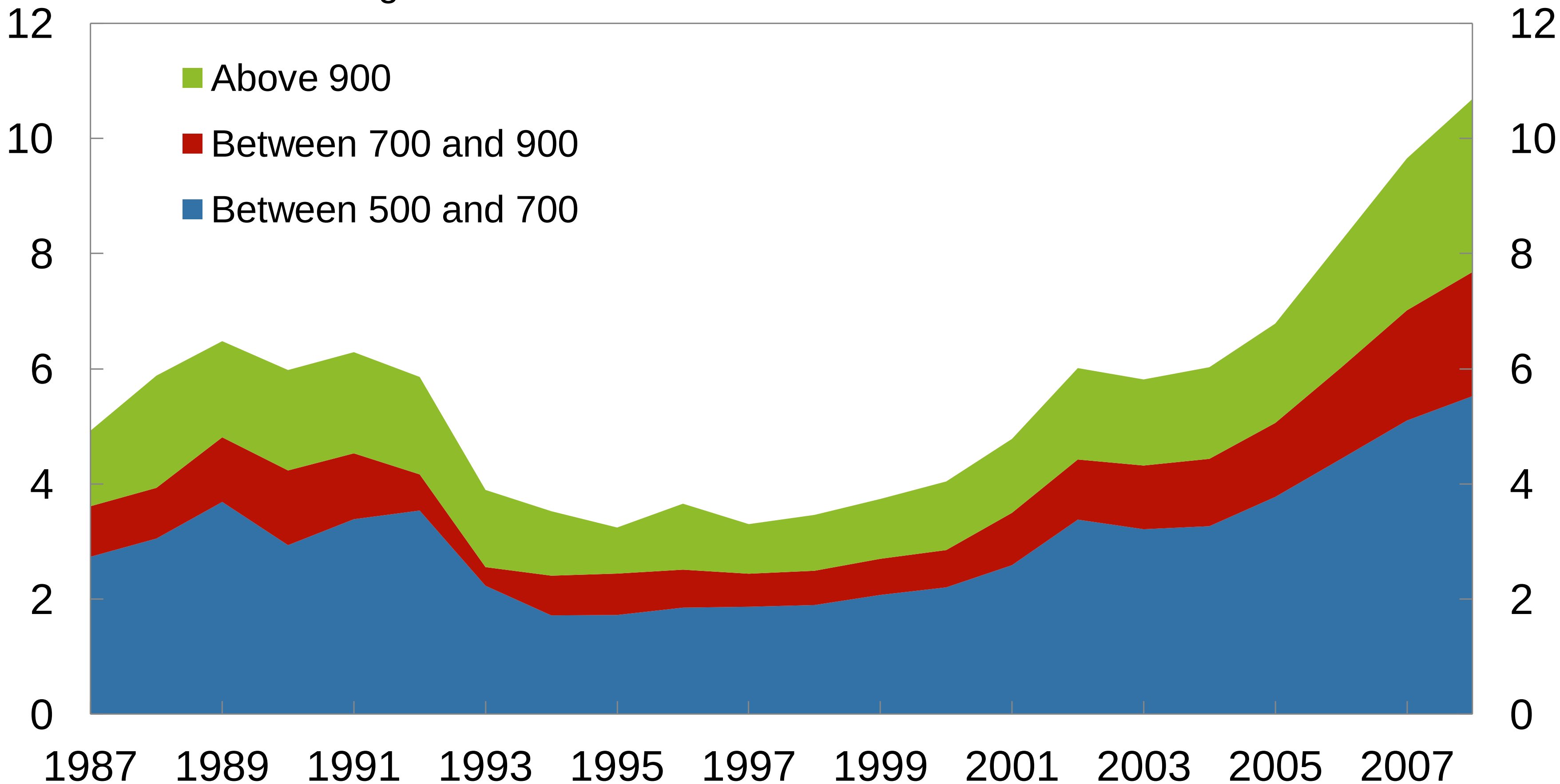






Level of debt high for many households

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



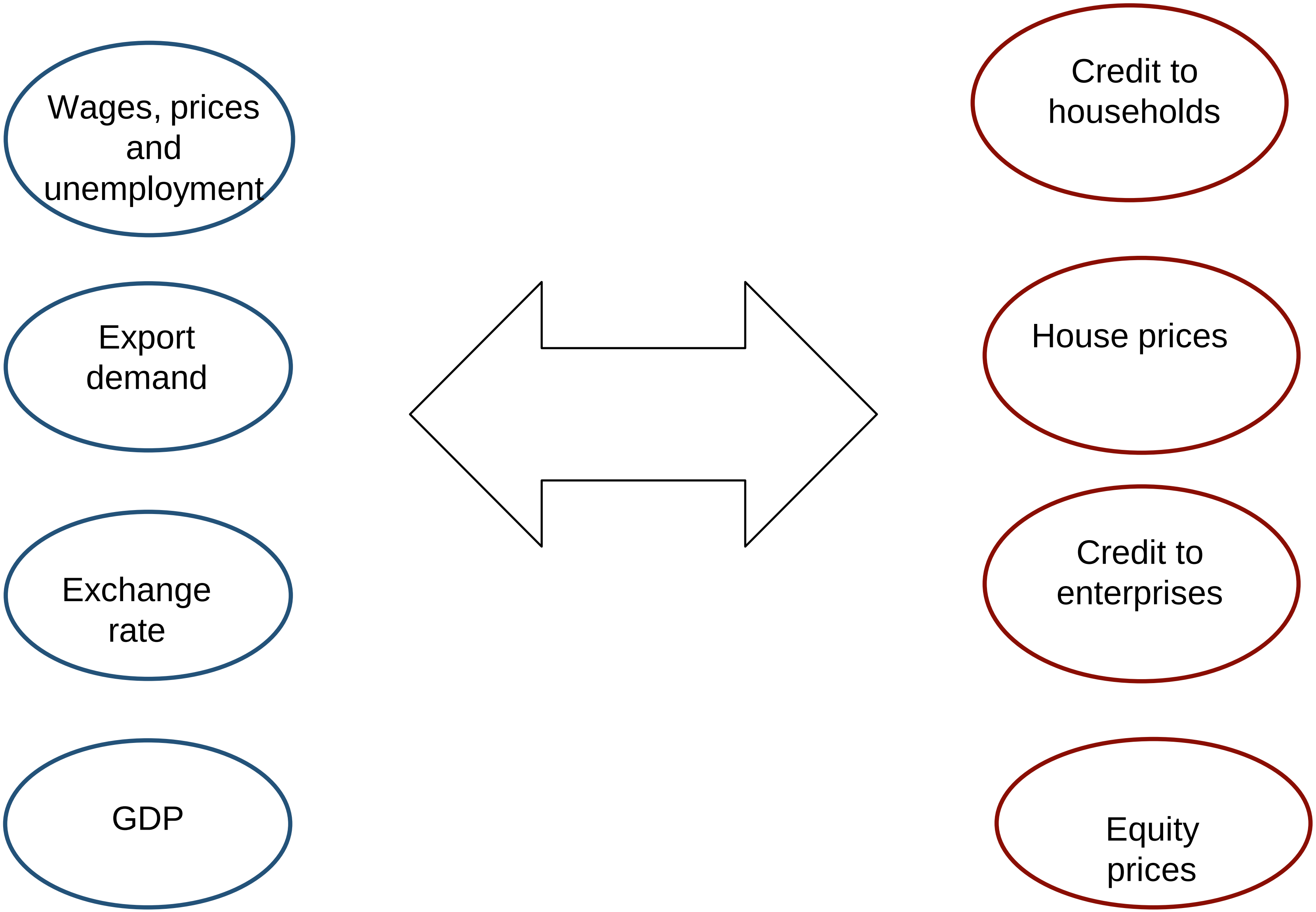
1) Excl. self-employed.

2) Net debt ratio equals debt minus bank deposits as a percentage of disposable income

Sources: Statistics Norway and Norges Bank

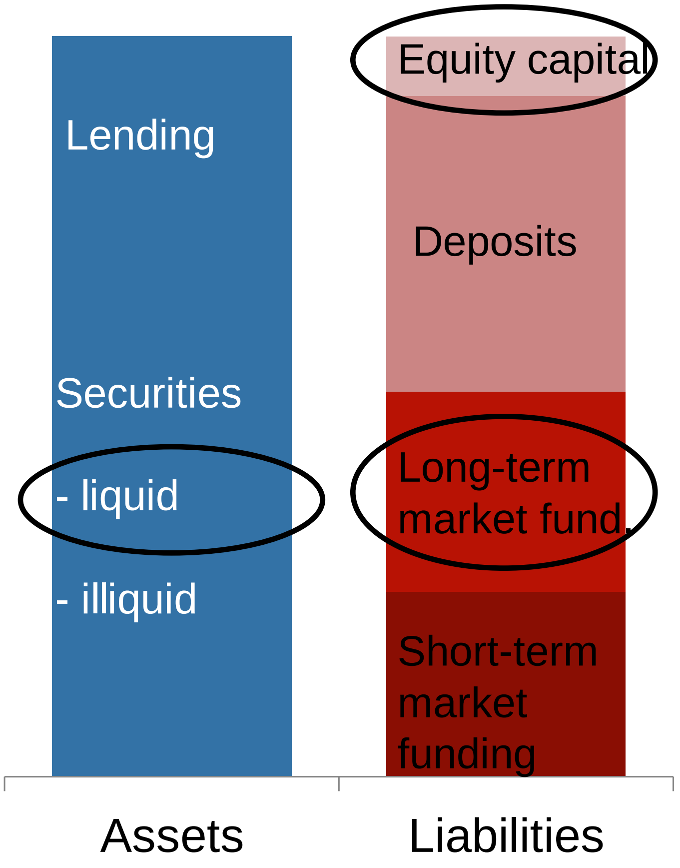
Real economy

Financial sector



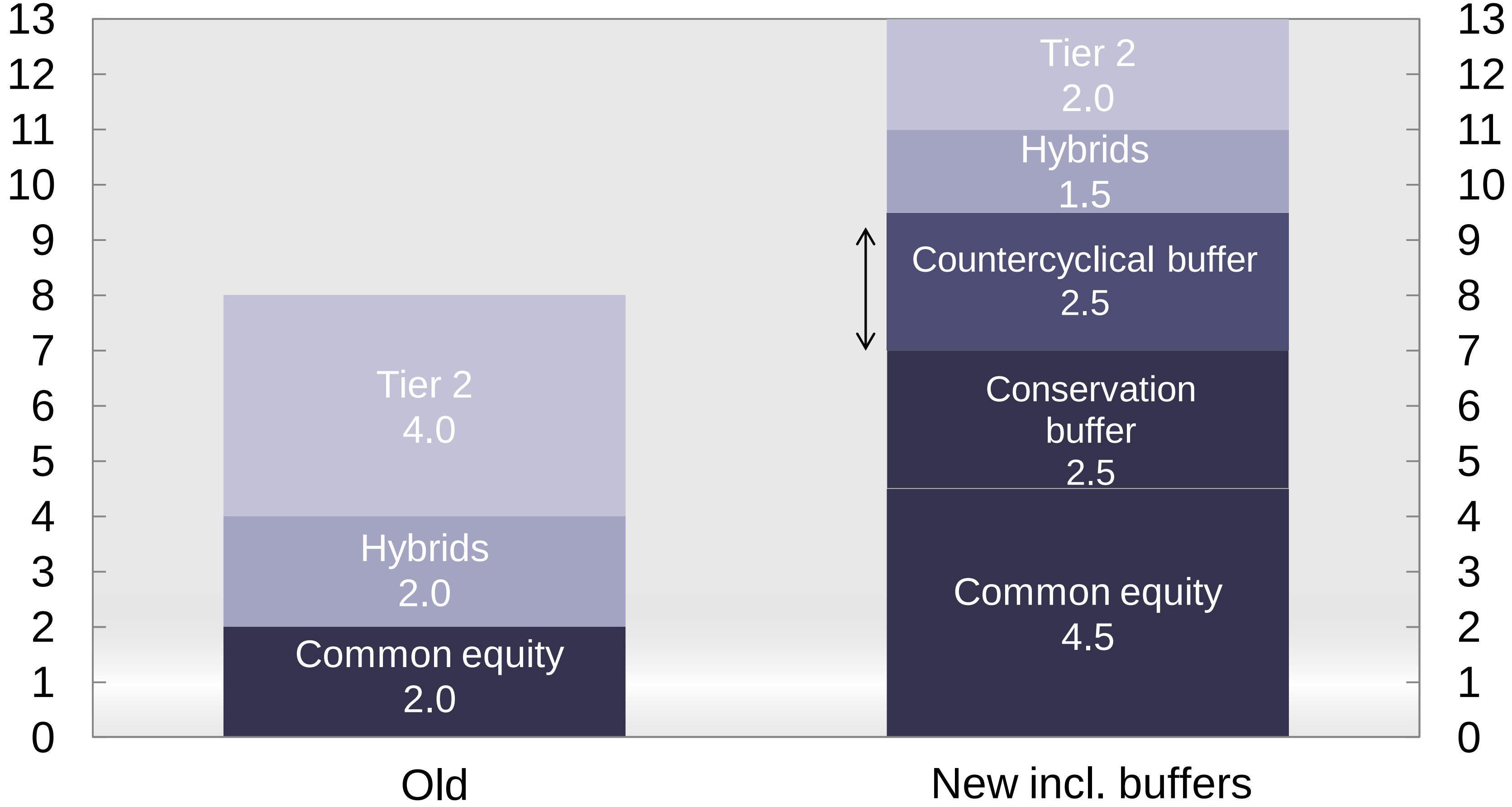
Basel III provides for a more robust system

- Capital
  - Requirement for higher and better quality capital
- Liquidity
  - Quantitative requirements for liquidity buffer and stable funding



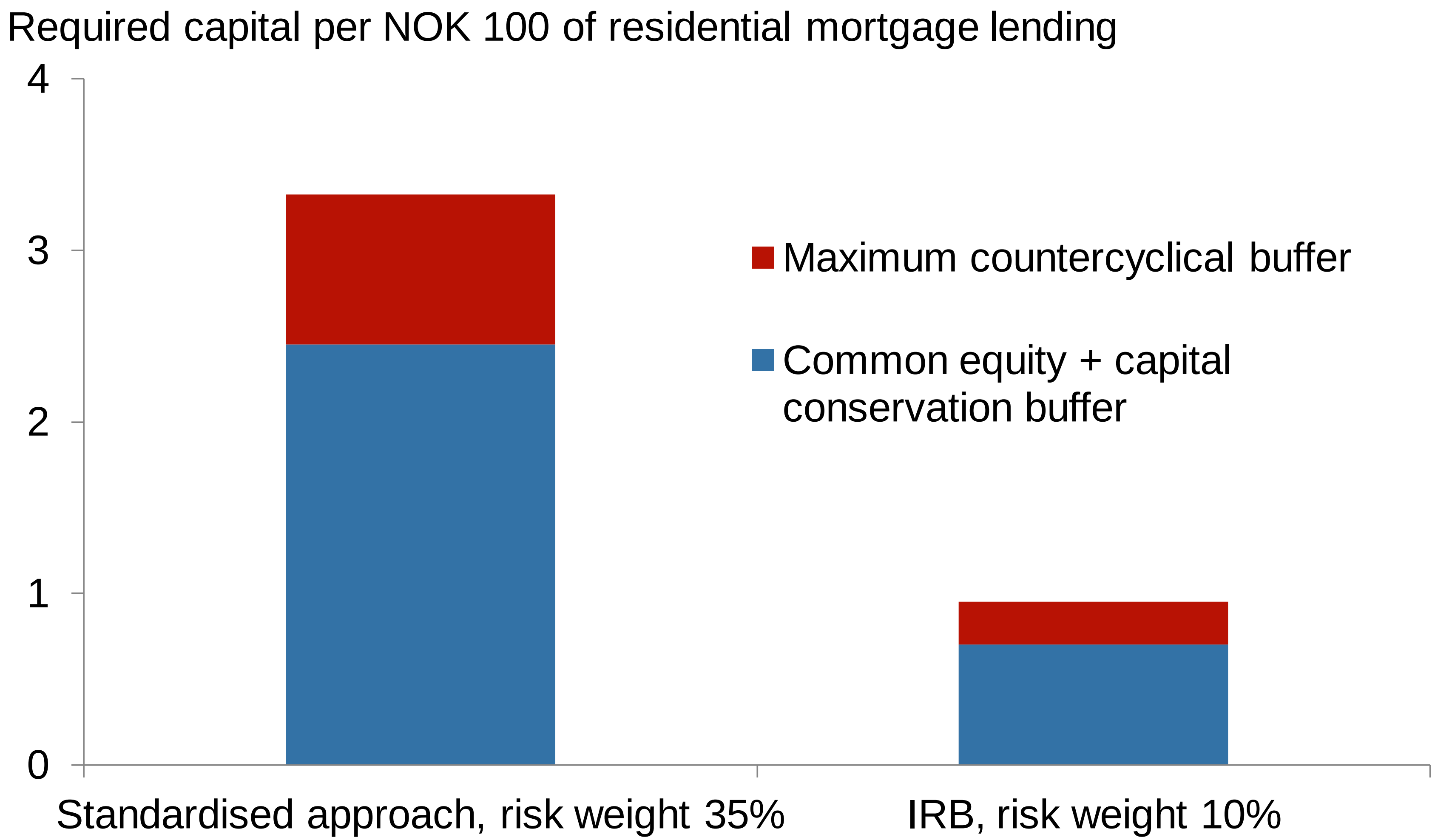
Capital requirements in Basel III

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

Possibility of low risk weights on residential mortgages



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