



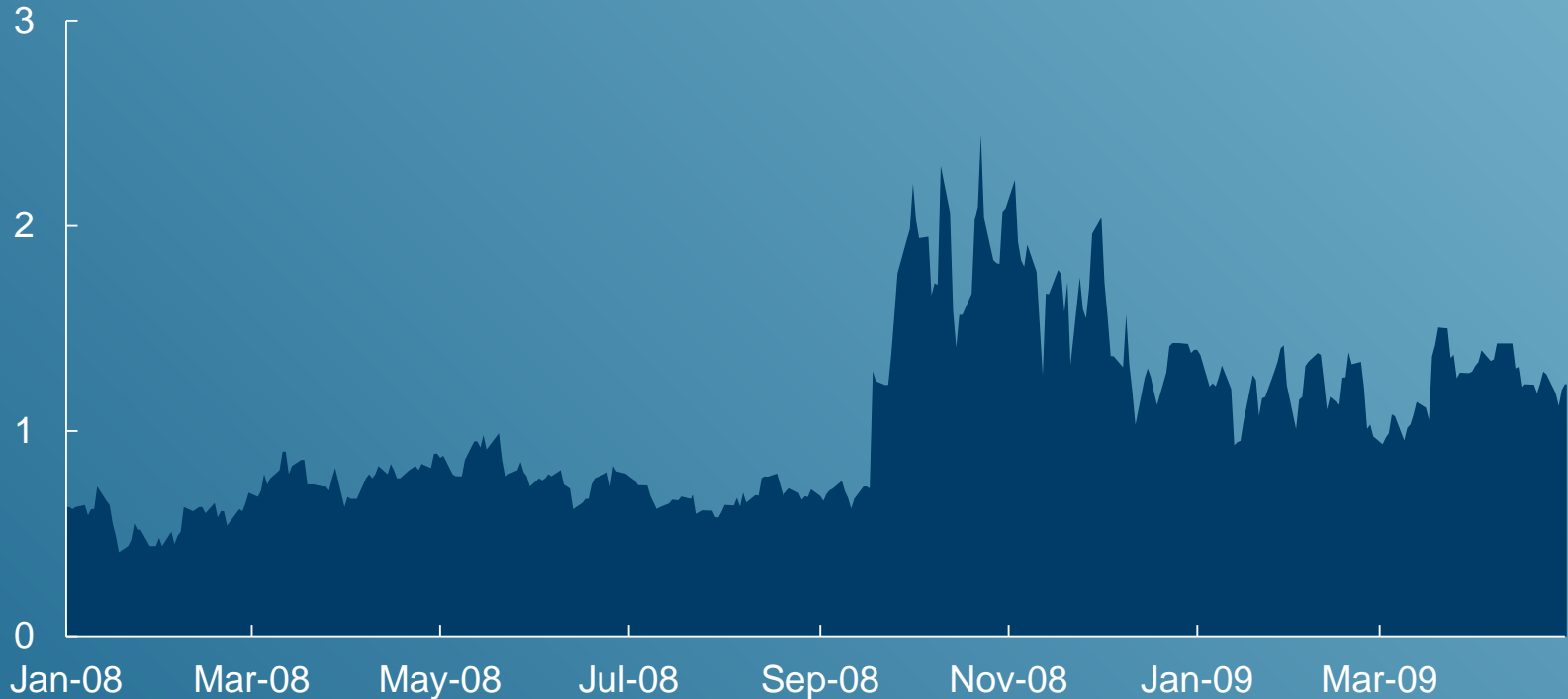
# 10 YEARS AFTER LEHMAN BROTHERS

DEPUTY GOVERNOR JON NICOLAISEN

Oslo, 14 September 2018

# Banks lost confidence in each other

Risk premium in Norwegian 3-month money market rate. Percentage points



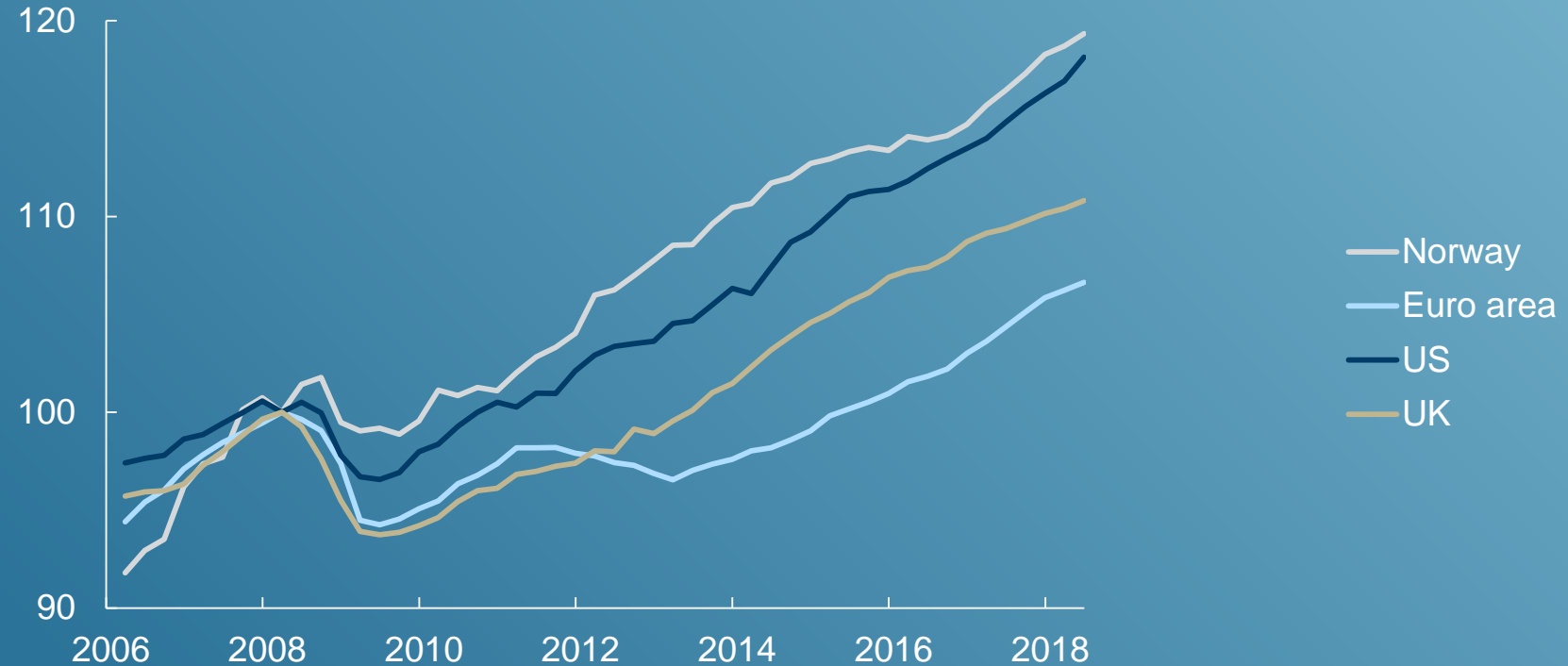
We were reminded that ...

- ✓ ...banks need equity
- ✓ ...banks need liquidity
- ✓ ...financial crises are costly
- ✓ ...economic policy works



# An abrupt decline

GDP. Index 2008 Q1=100



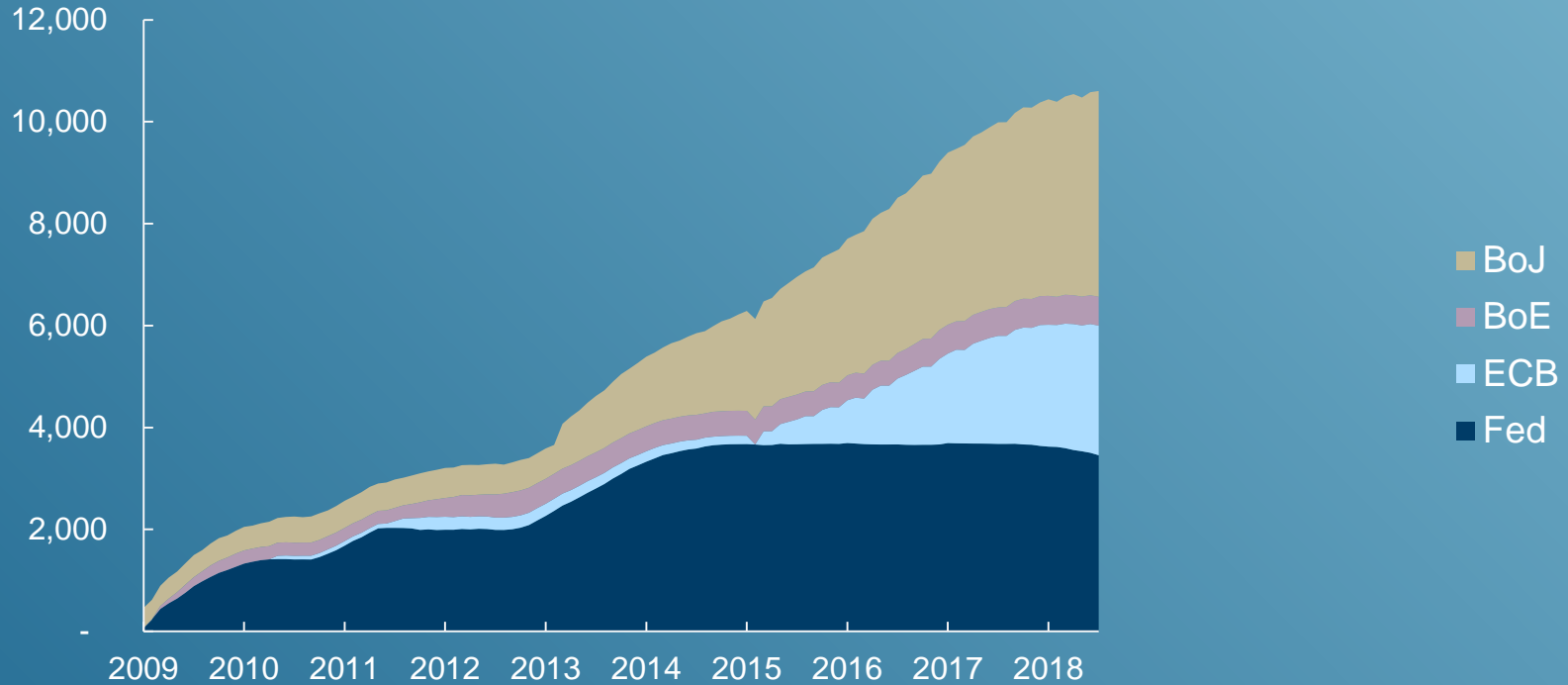
# Central banks abroad sought alternatives

## 10-year government bond yields



# Whatever it takes!

Central bank balance sheets.<sup>1)</sup> In billions of USD



1) Government and government-related securities. Includes MBSs for the Federal Reserve (Fed) and government-related bonds for the European Central Bank (ECB).

Sources: Bank of England, Bloomberg, and Norges Bank.



# Lessons learned

- Fiscal space is important
- Banks must be solvent and liquid
- We need foreign exchange reserves
- Financial imbalances can lead to sharp downturns
- Monetary policy can contribute to counteracting the build-up of financial imbalances
- The krone is a buffer
- When there is confidence in the inflation target, monetary policy is more effective in managing the economic cycle



# New monetary policy mandate

## Section 3

"The operational target of monetary policy is annual consumer price inflation of close to 2% over time.

Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances."







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