Paper title: “Does the LIBOR Misdirect Monetary Policy? A Case Study on the NIBOR and Norges Bank 2007-11”

Abstract: This paper is an empirical investigation into the Norwegian Interbank Offered Rate (NIBOR) during 2007-2011. It is demonstrated that an informal rule change to the benchmark fixing mechanism, instigated by the NIBOR panel in September 2008, not only increased the susceptibility of the benchmark to deception, but fundamentally changed the decomposition of the Norwegian money market risk premium. The new NIBOR resulted in a greater dependency on the Eurozone money markets, and also came to include an additional risk premium variable: the ability of Eurozone banks to raise U.S. dollar funding. In sum, it is shown that Norway has faced both higher, and more volatile, money market risk premia since Q4 2008 –having considerable policy implications.

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