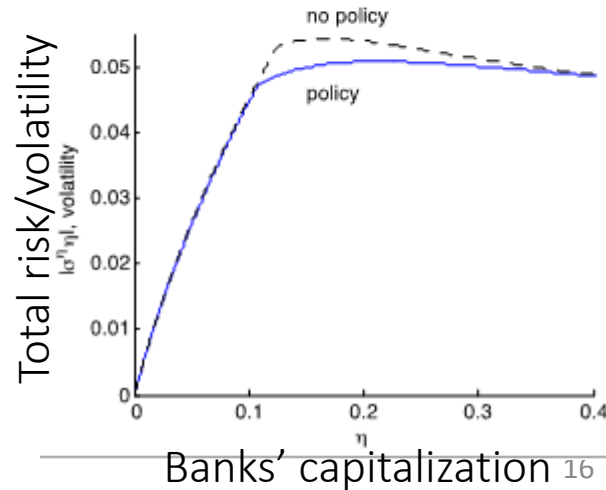
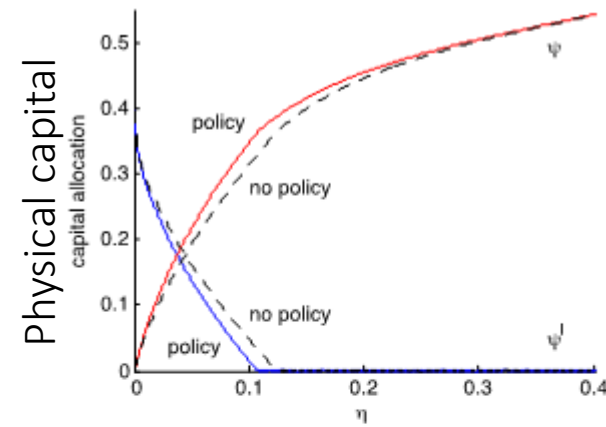


Trade-off: Price vs. Financial Stability

- Induce “financial risk taking” during crisis in order to reduce endogenous risk, contraction & disinflation
 - Precautionary delevering leads to
 - Fire-sale prices Liquidity spiral
 - Disinflation **Disinflation spiral**
 Inefficient due to pecuniary externalities
 - Take on “financial risk” to
 - boost economy,
 - reduce endogenous risk (& risk premia)



1. “Stealth” recapitalization of impaired sector (bottleneck)
 - Banking vs. insurance, SMEs,
 - Corporate sector, household,...
2. Make risk-taking attractive