



# MONETARY POLICY IN NORWAY

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University of Stavanger, 12 April 2018

# Topics

- What does monetary policy in Norway aim for?
- What are the implications of the new regulation on monetary policy?
- What assessments are made by Norges Bank in actual policy-making?



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# New Regulation on Monetary Policy

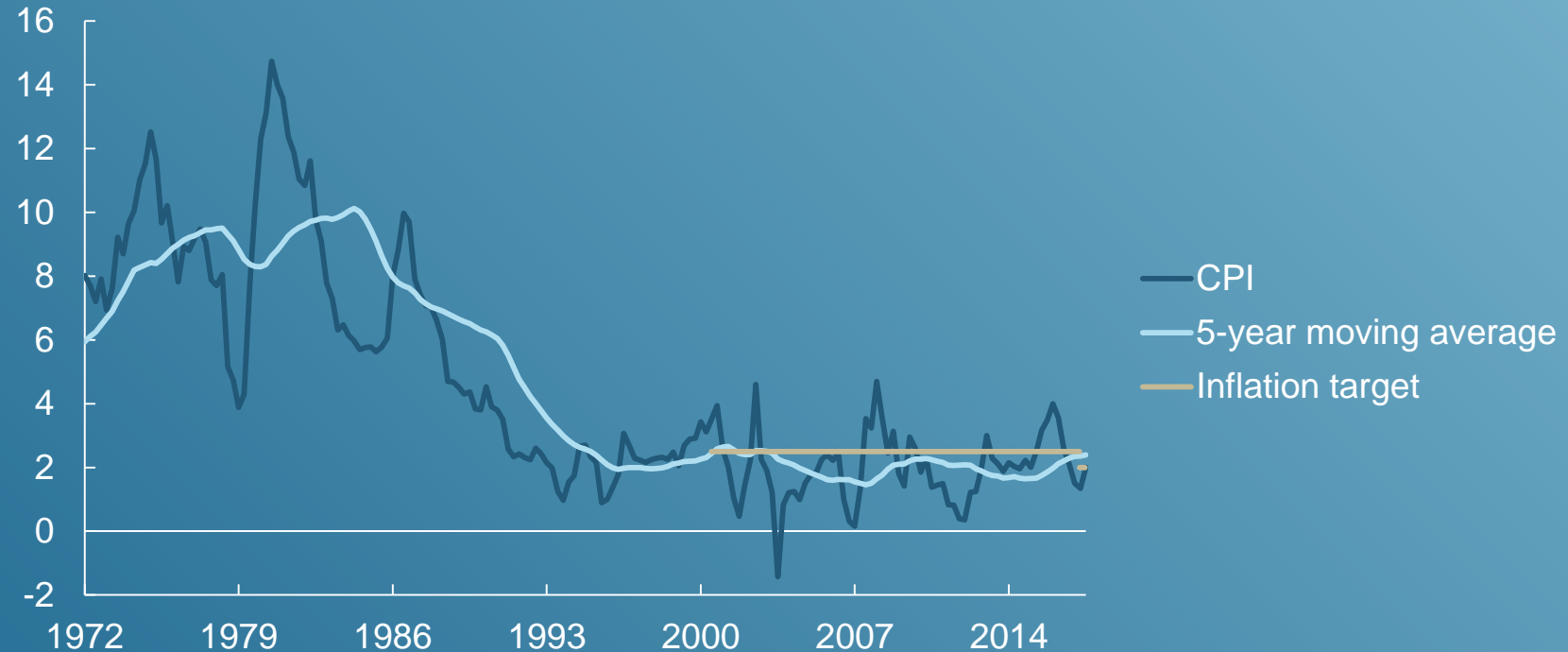
Section 1      Monetary policy shall maintain monetary stability by keeping inflation low and stable.

Section 3      The operational target of monetary policy shall be annual consumer price inflation of close to 2 percent 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.



# Inflation targeting has worked well

CPI. Four-quarter change. Percent



# Smaller fluctuations in output and employment

Output, employment and registered unemployment. Deviation from trend<sup>1)</sup>



1) Three-quarter moving average. Trend estimated using HP filter with  $\lambda=40\,000$ . Estimates based on series 1978 Q1 – 2017 Q4. Sources: Norwegian Labour and Welfare Administration (NAV), Statistics Norway and Norges Bank



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# Letter from Norges Bank of 28 February:

“In the opinion of Norges Bank, the new regulation clarifies the monetary policy mandate and underpins the Bank’s flexible approach to inflation targeting. In Norges Bank’s assessment, the new regulation will not result in significant changes in the conduct of monetary policy.”





# A lower target in a simple theoretical model

Changes following a lower inflation target. Percentage points

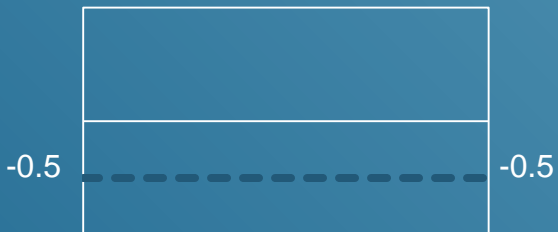
Inflation



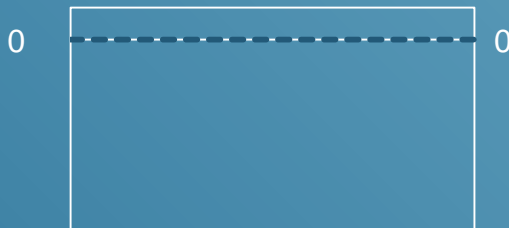
Real interest rate



Nominal interest rate



Output gap

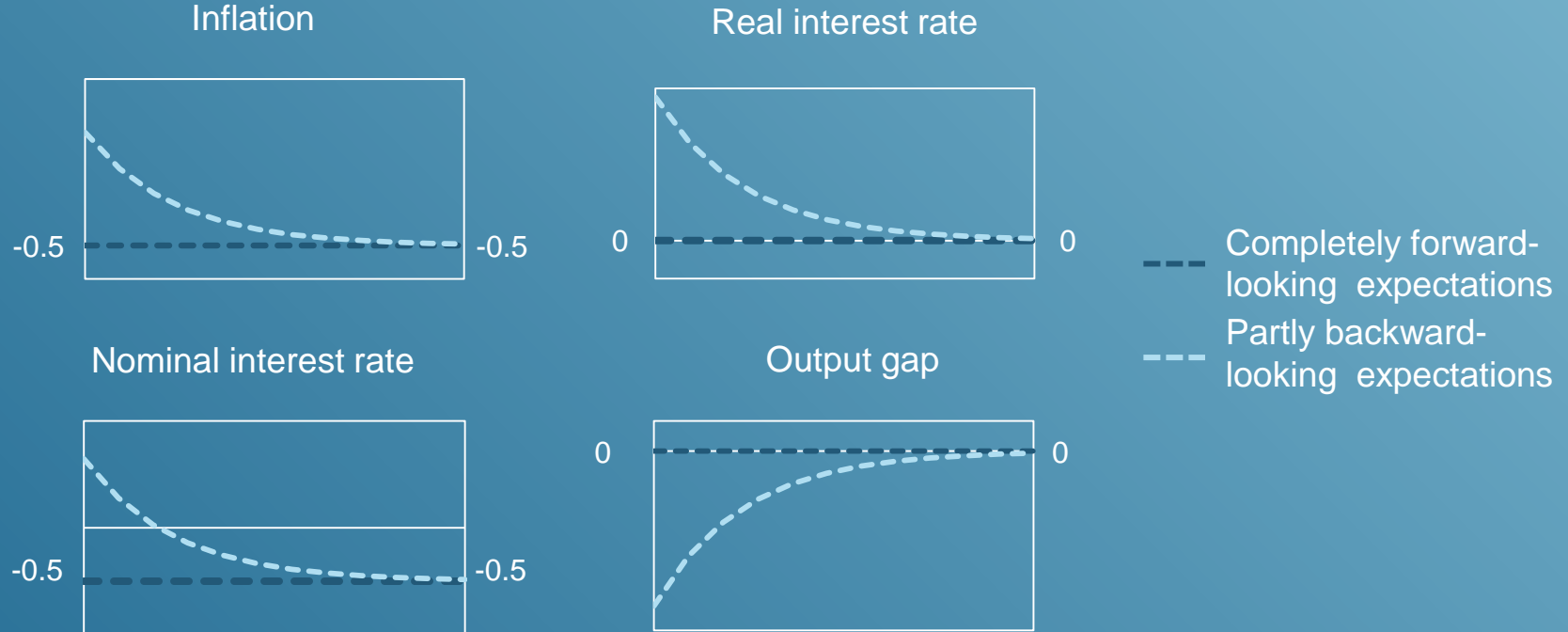


- Rational and forward-looking expectations
- Complete credibility of target



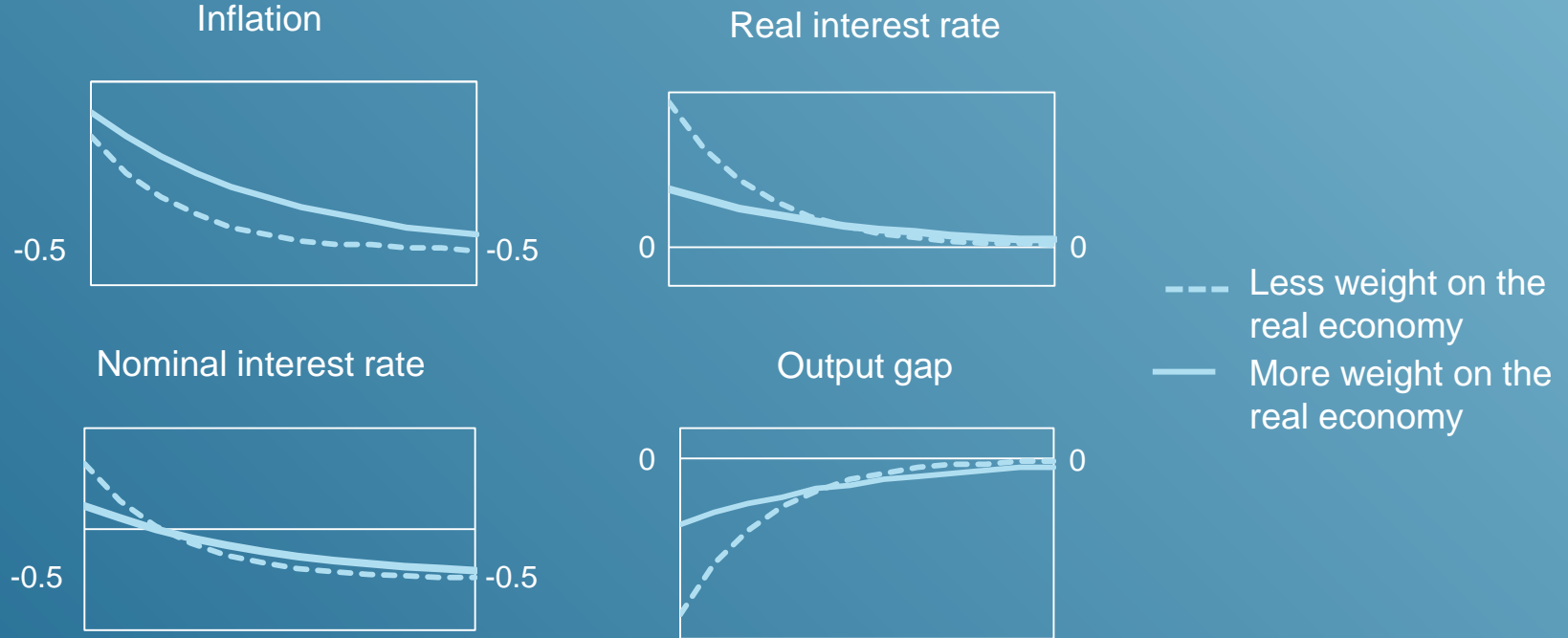
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# A lower target in a simple theoretical model

Partly backward-looking expectations. Changes following a lower target. Percentage points

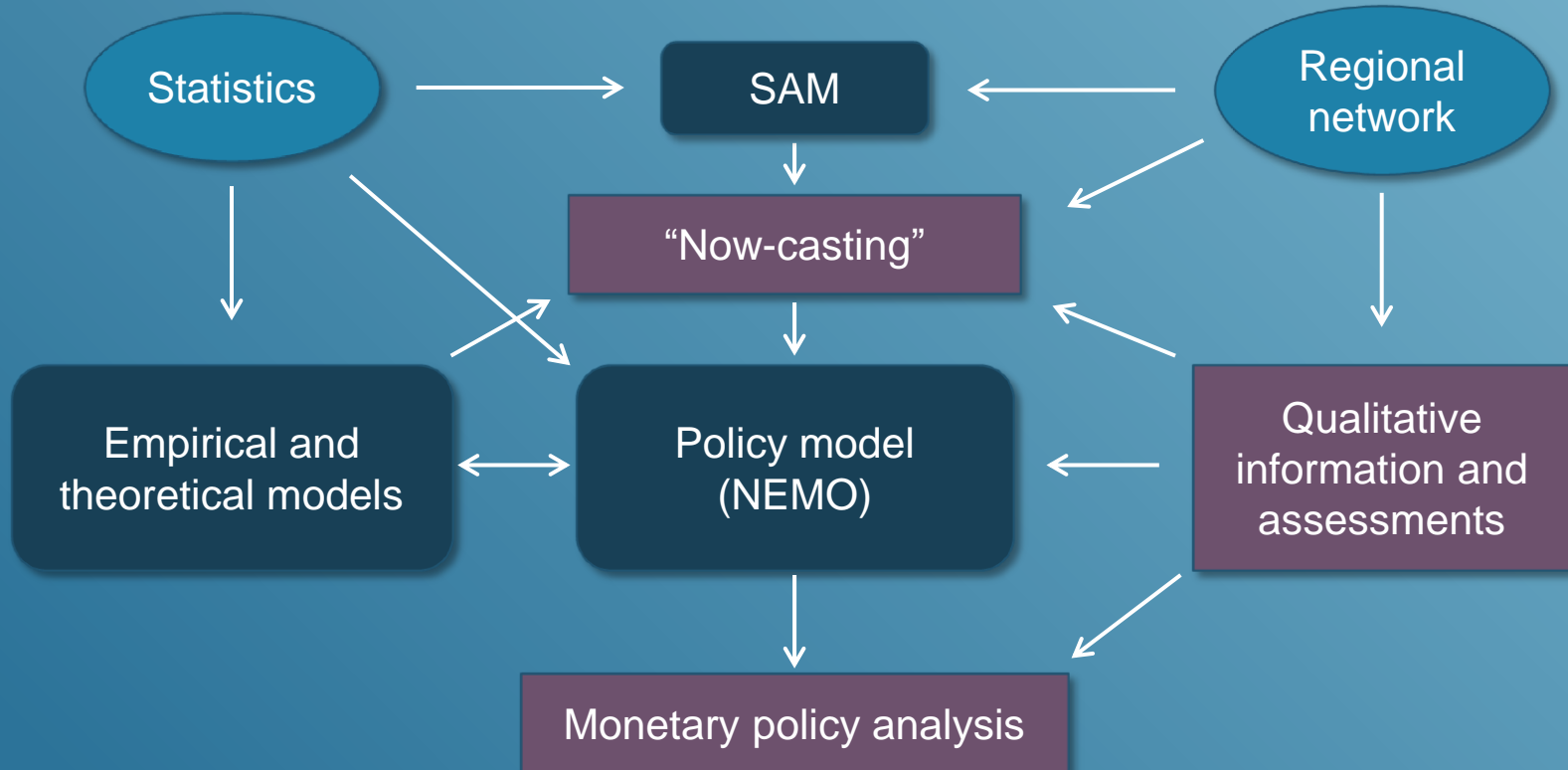


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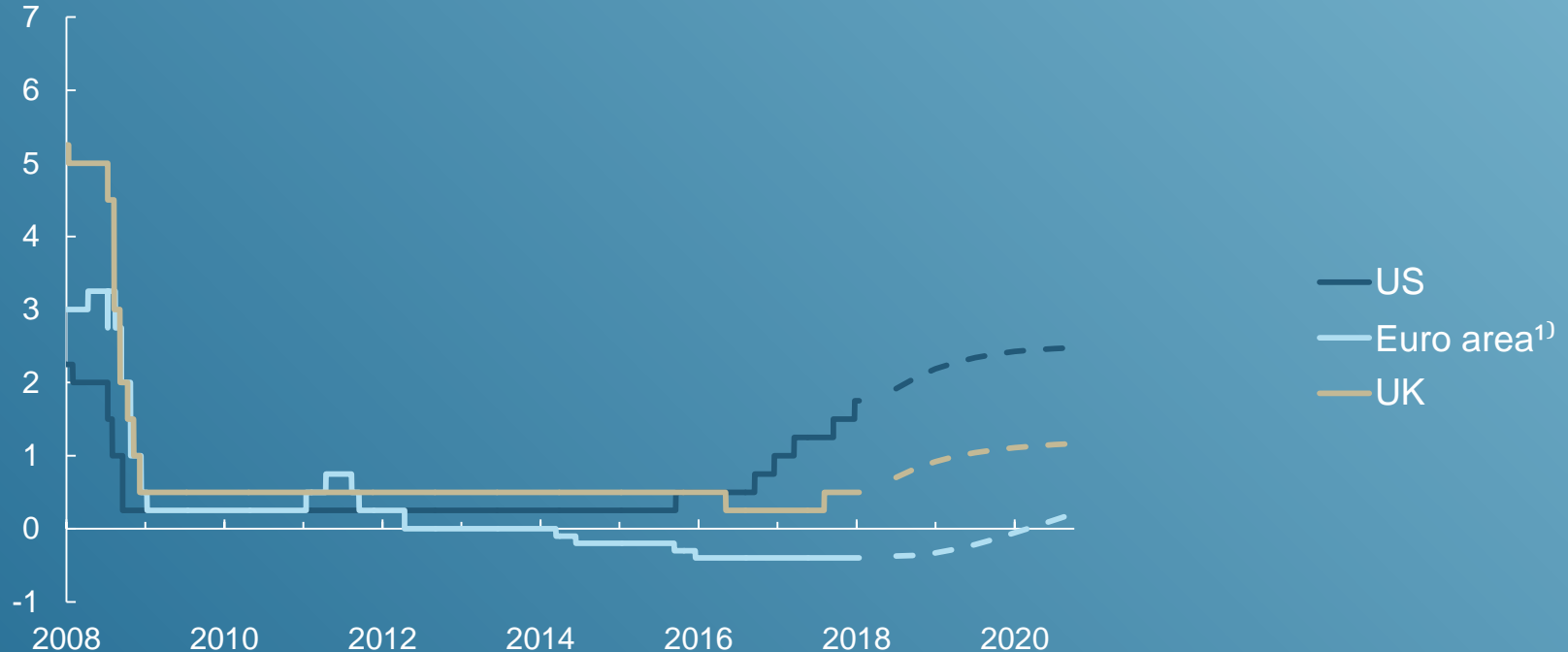


# Monetary policy analysis at Norges Bank



# Policy rates abroad on the way up

Policy rates and forward rates at 10 April

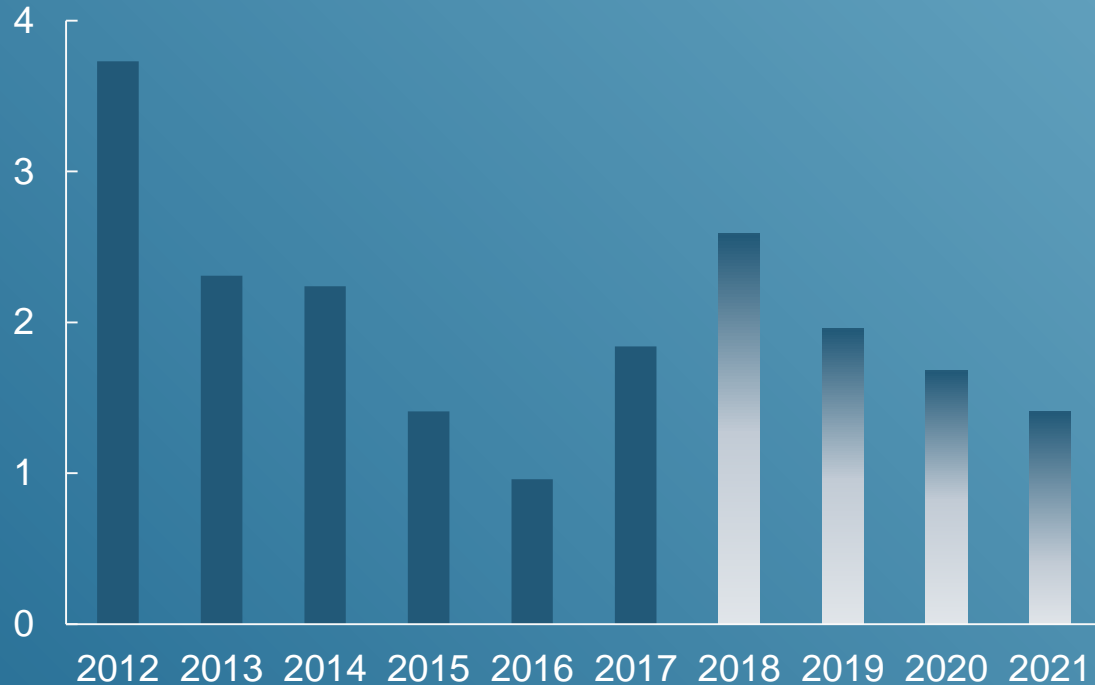


1) ECB's deposit rate. Eonia from 2018 Q1.  
Sources: Bloomberg, Thomson Reuters and Norges Bank



# Norway: Growth has taken hold

Mainland GDP. Annual growth. Percent

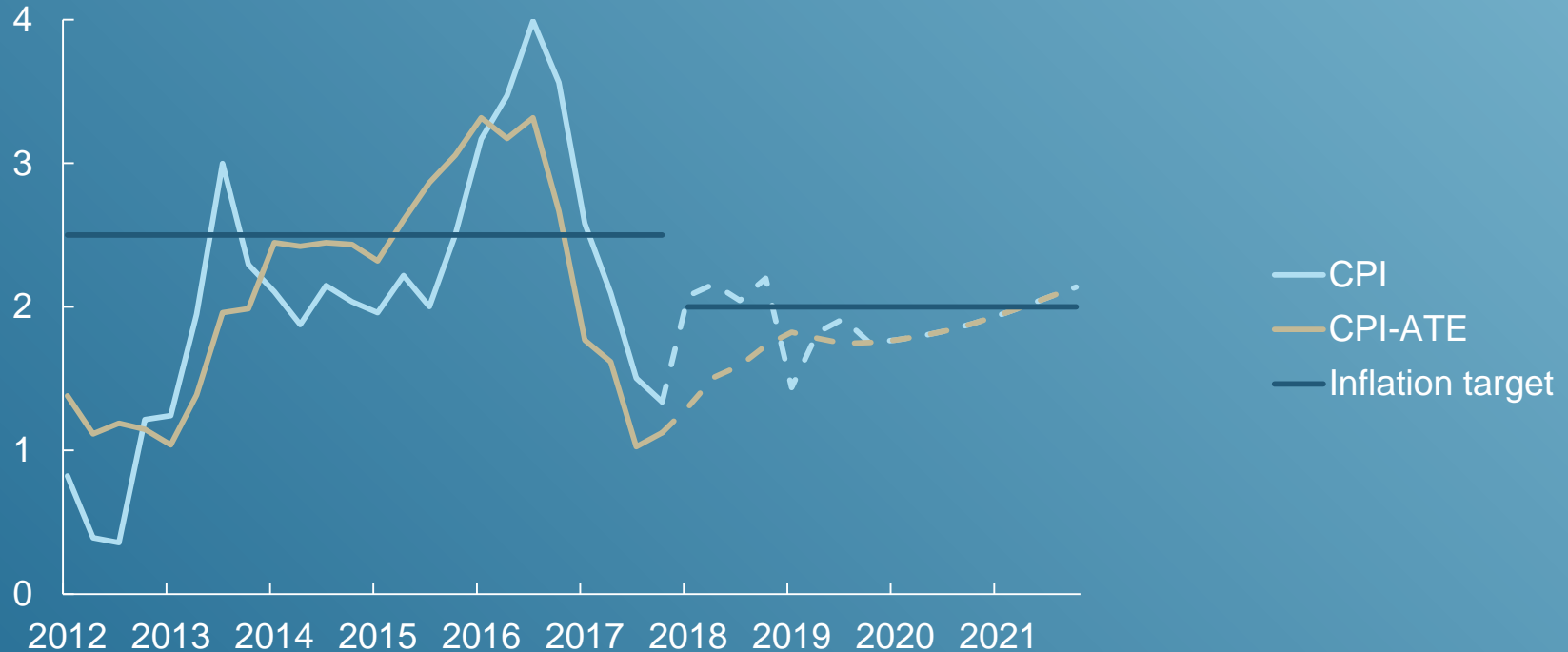


Sources: Statistics Norway and Norges Bank



# Inflation edging higher

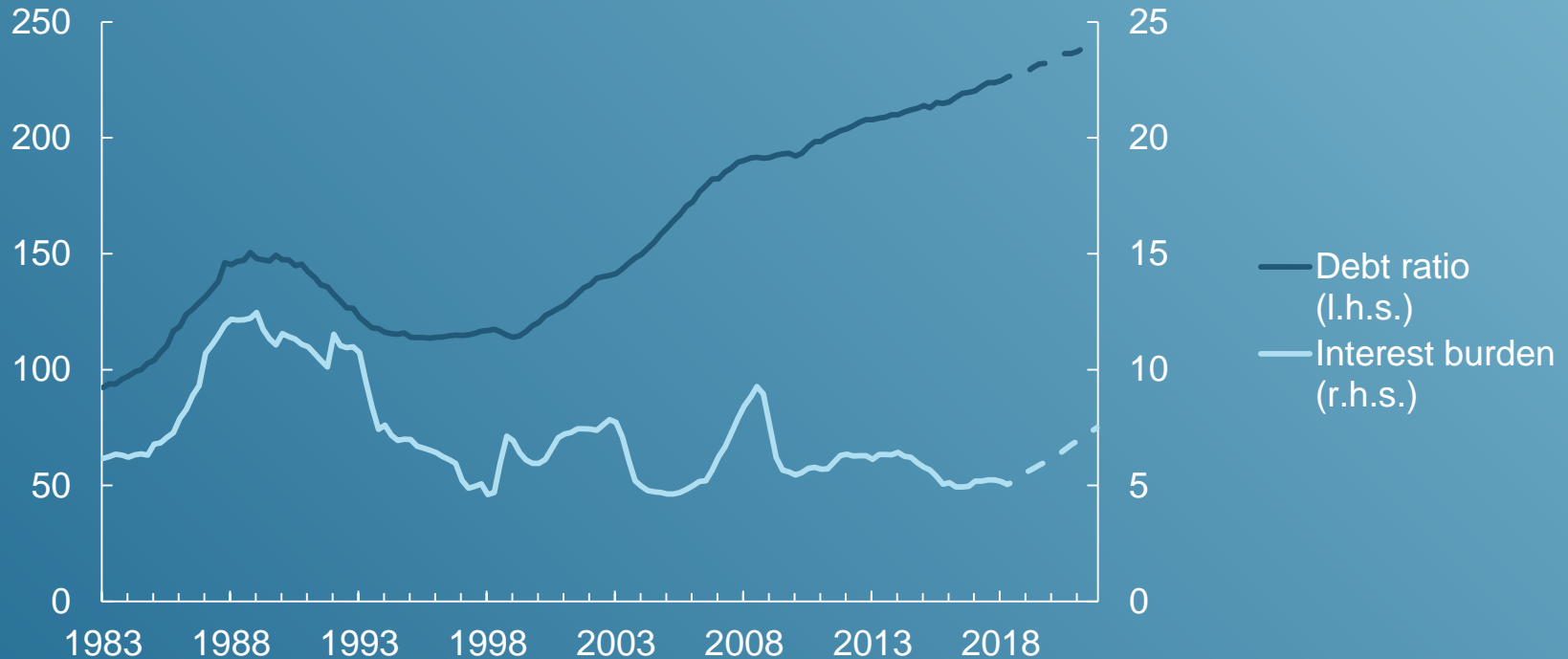
CPI and CPI-ATE. Four-quarter change. Percent



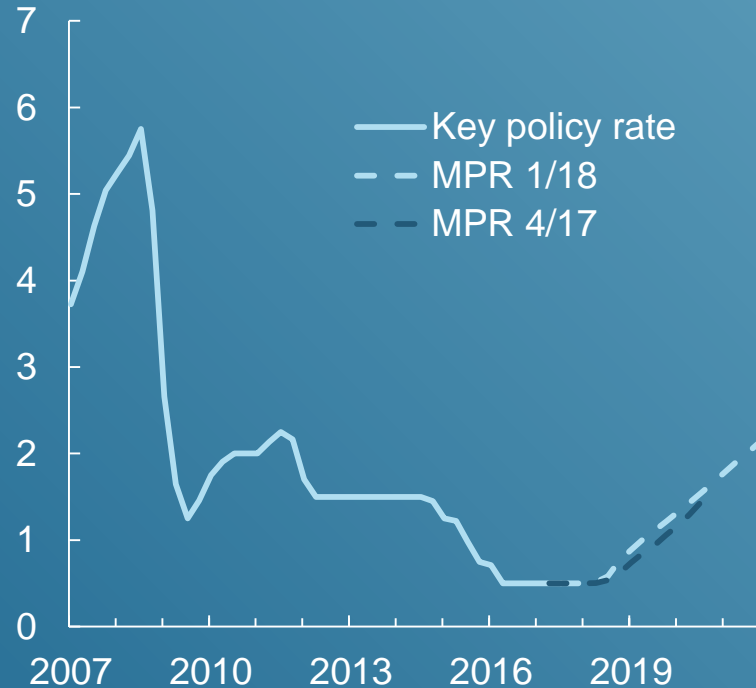


# High debt ratios and low interest burden

Share of disposable income. Percent



# Key policy rate increase drawing closer



- The Executive Board decided to keep the key policy rate unchanged at 0.5%.
- The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be raised after summer 2018.



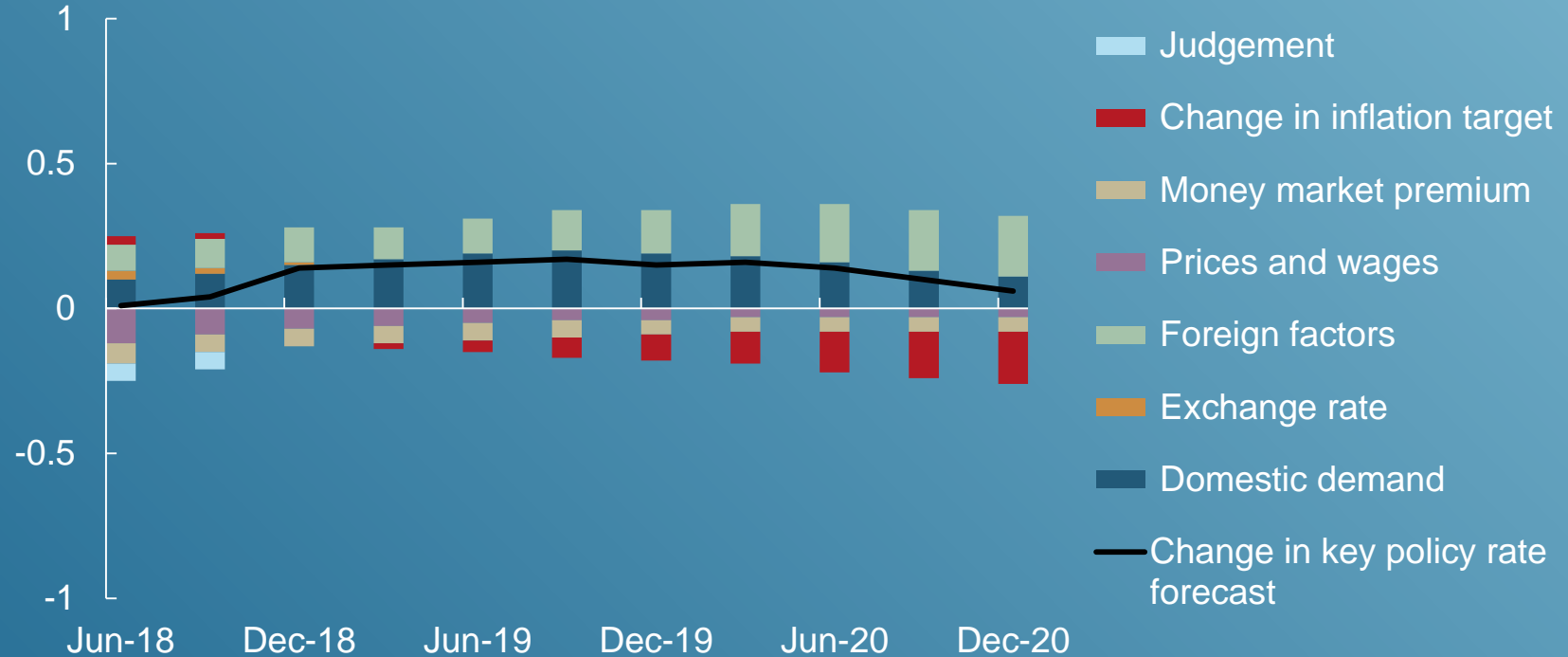
# Executive Board's assessment MPR 1/18

“Over time, lower inflation owing to a lower inflation target will result in a correspondingly lower nominal interest rate. The inflation targeting regime is flexible, and weight is given to developments in output and employment. A lower numerical target in and of itself is of little importance for the interest rate outlook in the coming period.”



# A new inflation target – limited importance

Factors behind changes in key policy rate forecast. Percentage points



# Conclusion

- Flexible inflation targeting works well.
- The new regulation will not result in significant changes in the conduct of monetary policy.
- The first increase in the key policy rate is drawing closer – this is good news.



# Further reading



- <https://www.norges-bank.no/en/Published/Publications/Monetary-Policy-Report-with-financial-stability-assessment/2018/118/>



# OUTLOOK FOR THE NORWEGIAN ECONOMY

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