

Monetary policy and inflation

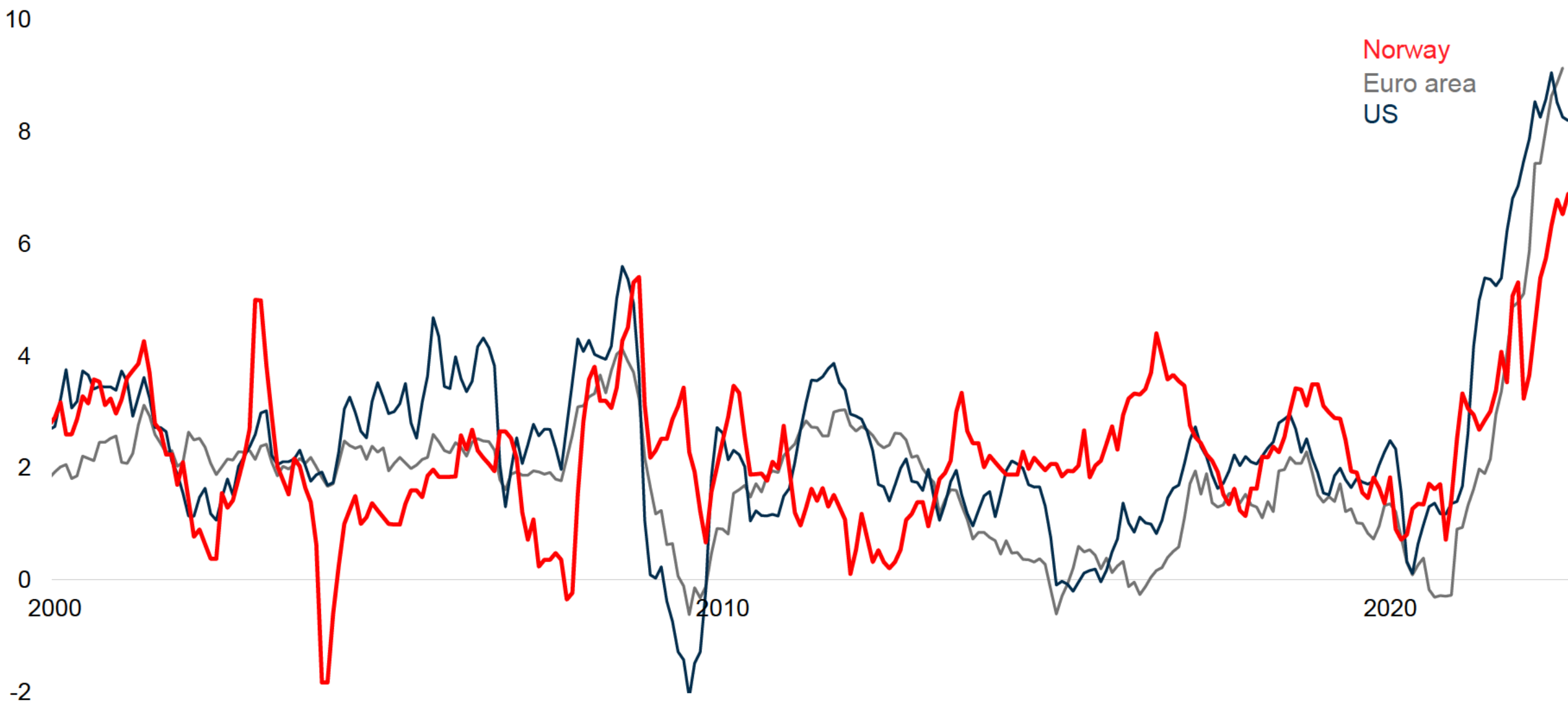
Governor Ida Wolden Bache, Oslo 20 October 2022

High inflation in many countries¹⁾

Consumer prices¹⁾. Twelve-month change. Percent

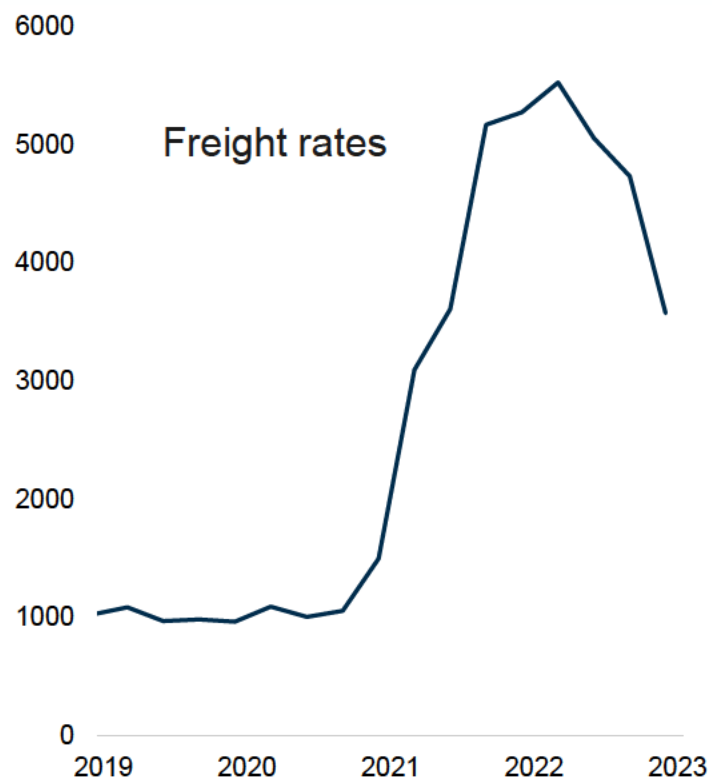
Source: Refinitiv Datastream

1) Data up until August for the euro area.

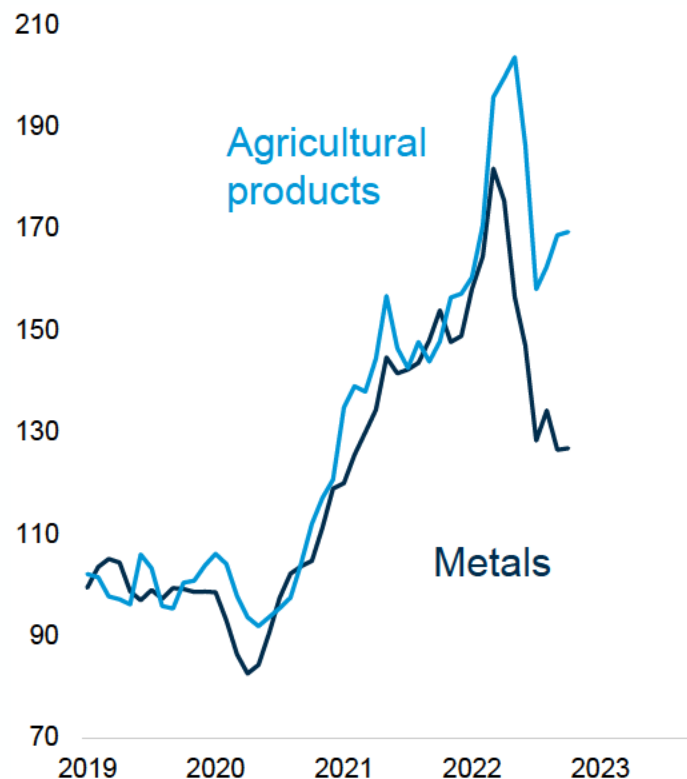


Sharp rise in global prices

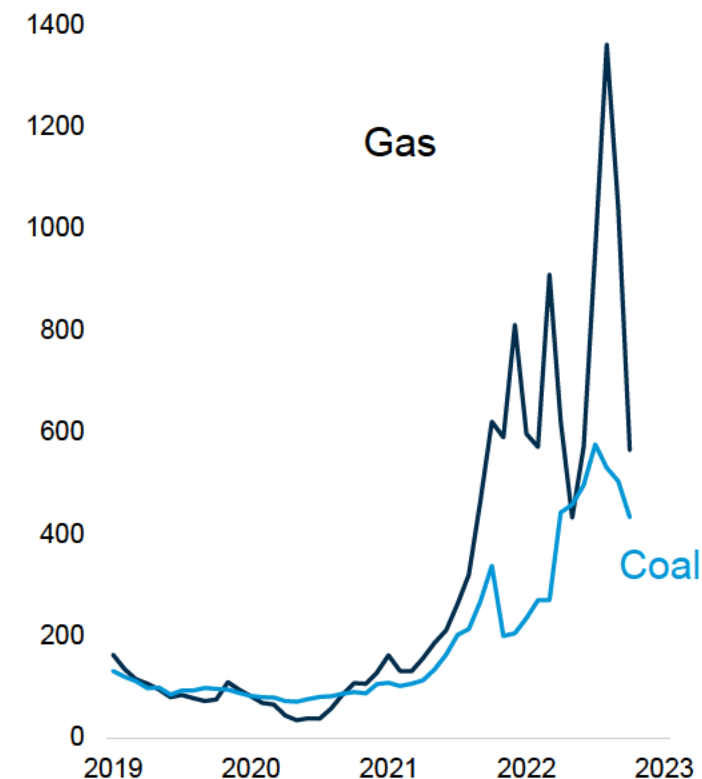
Sources: Bloomberg, Refinitiv
Datastream, Thomson
Reuters and Norges Bank



Freight rates
CCFI Europe



Commodity prices, metals and agriculture
Index. 2019 = 100

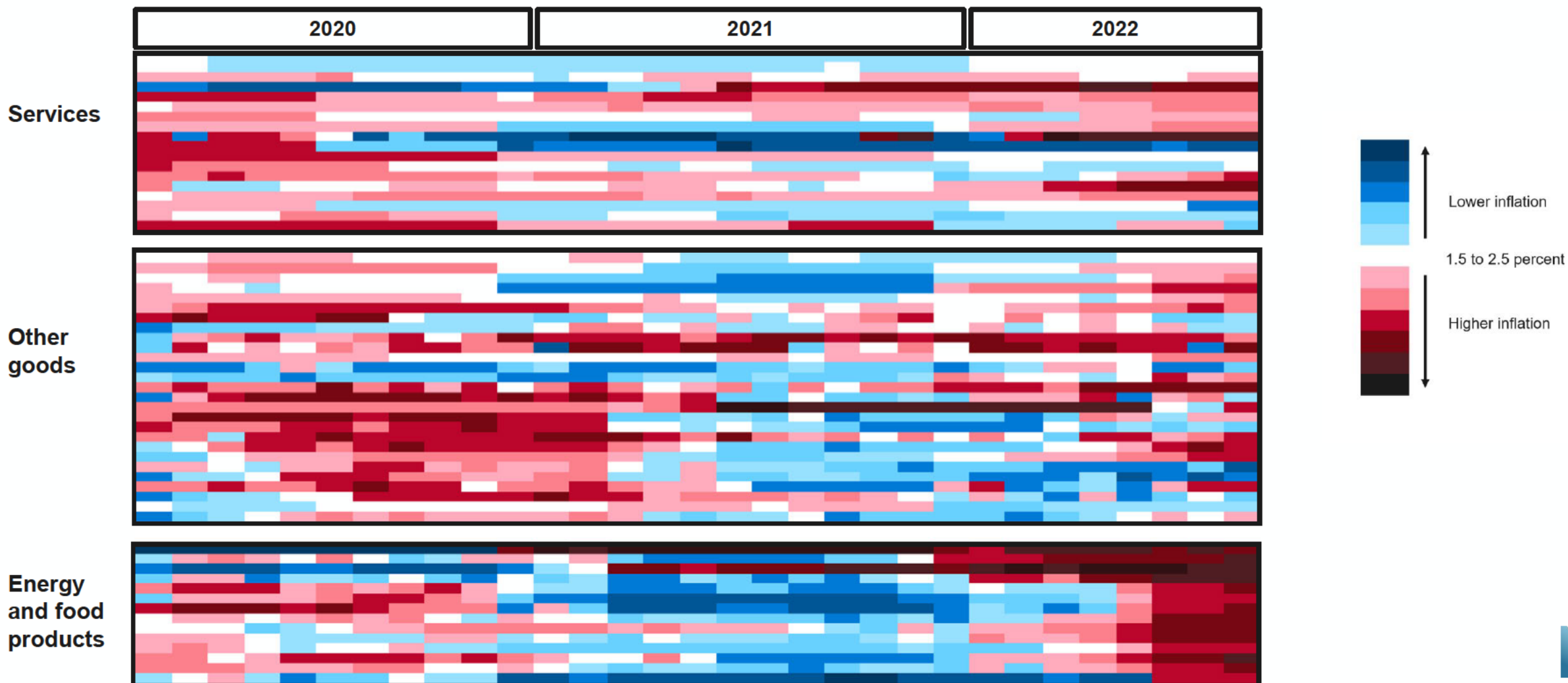


Commodity prices, gas and coal
Index. 2019 = 100

Inflation is broadly based

Twelve-month change. Percent. March 2020 – September 2022

Sources: Statistics Norway
and Norges Bank



Regulation on Monetary Policy

- Section 1 Monetary policy shall maintain monetary stability by keeping inflation low and stable.
- Section 2 Norges Bank is responsible for the implementation of monetary policy.
- 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.
- Section 4 Norges Bank shall regularly publish the assessments that form the basis of the implementation of monetary policy.



Regulation on Monetary Policy

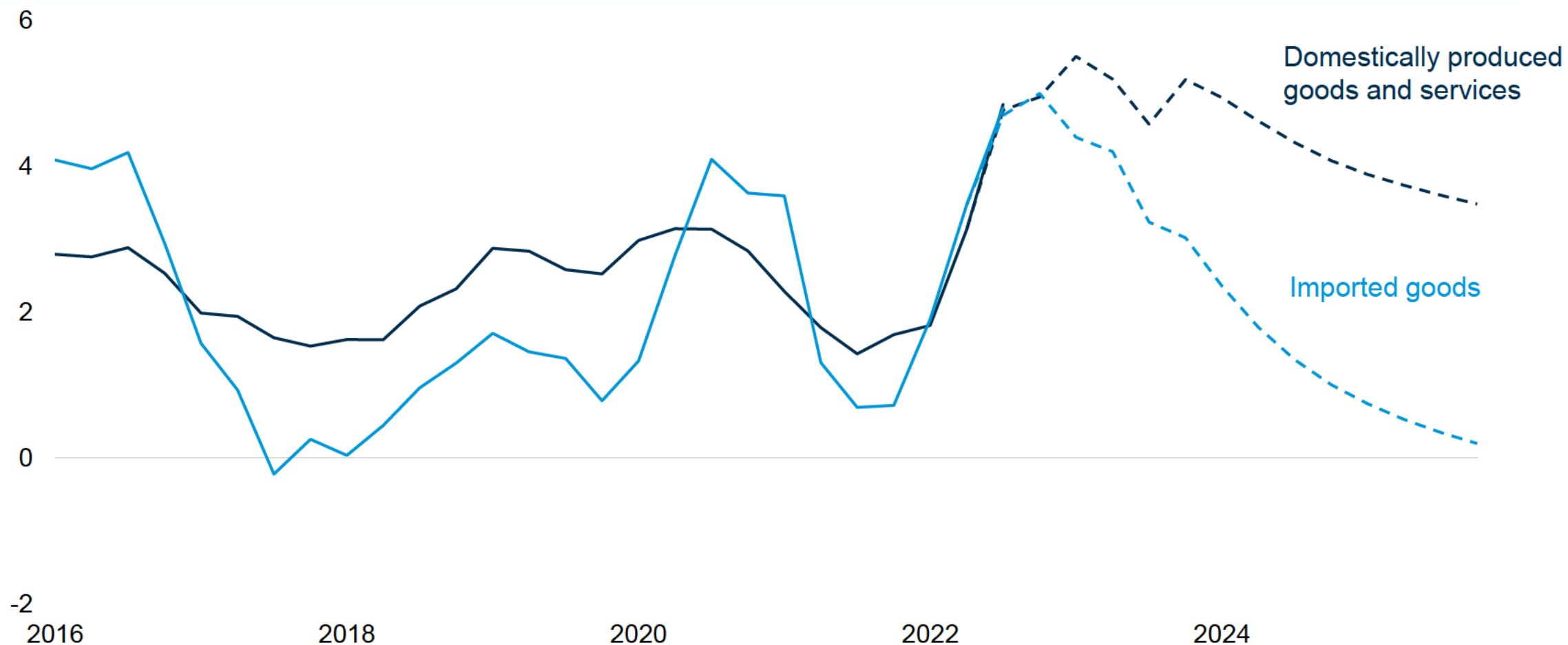
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Both domestic and imported inflation sources

Domestically produced goods and services and imported goods in the CPI-ATE. Four-quarter change. Percent

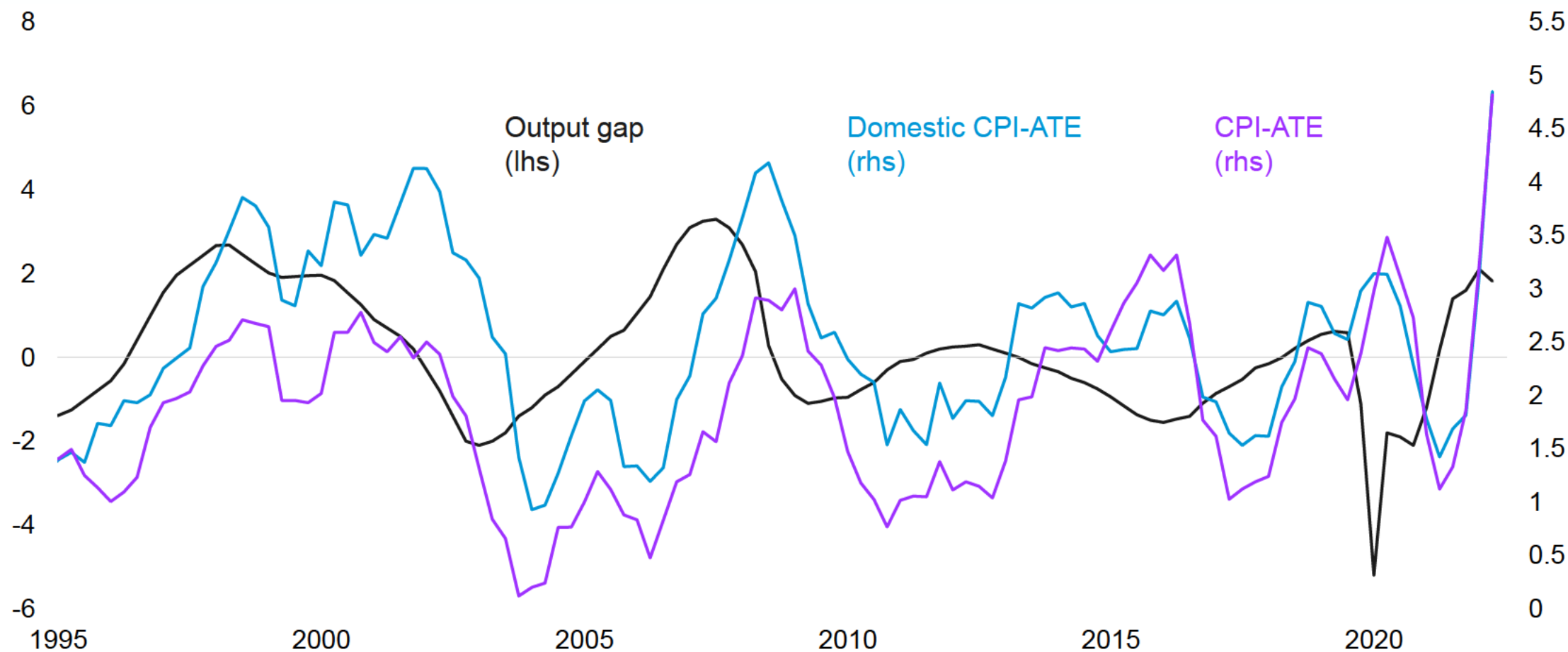
Sources: Statistics Norway and Norges Bank (MPR 3/22)



Should we stabilise domestic or total inflation?

CPI-ATE and domestically produced goods and services in the CPI-ATE. Four-quarter change. Output gap five quarters earlier

Sources: Statistics Norway and Norges Bank



Regulation on Monetary Policy

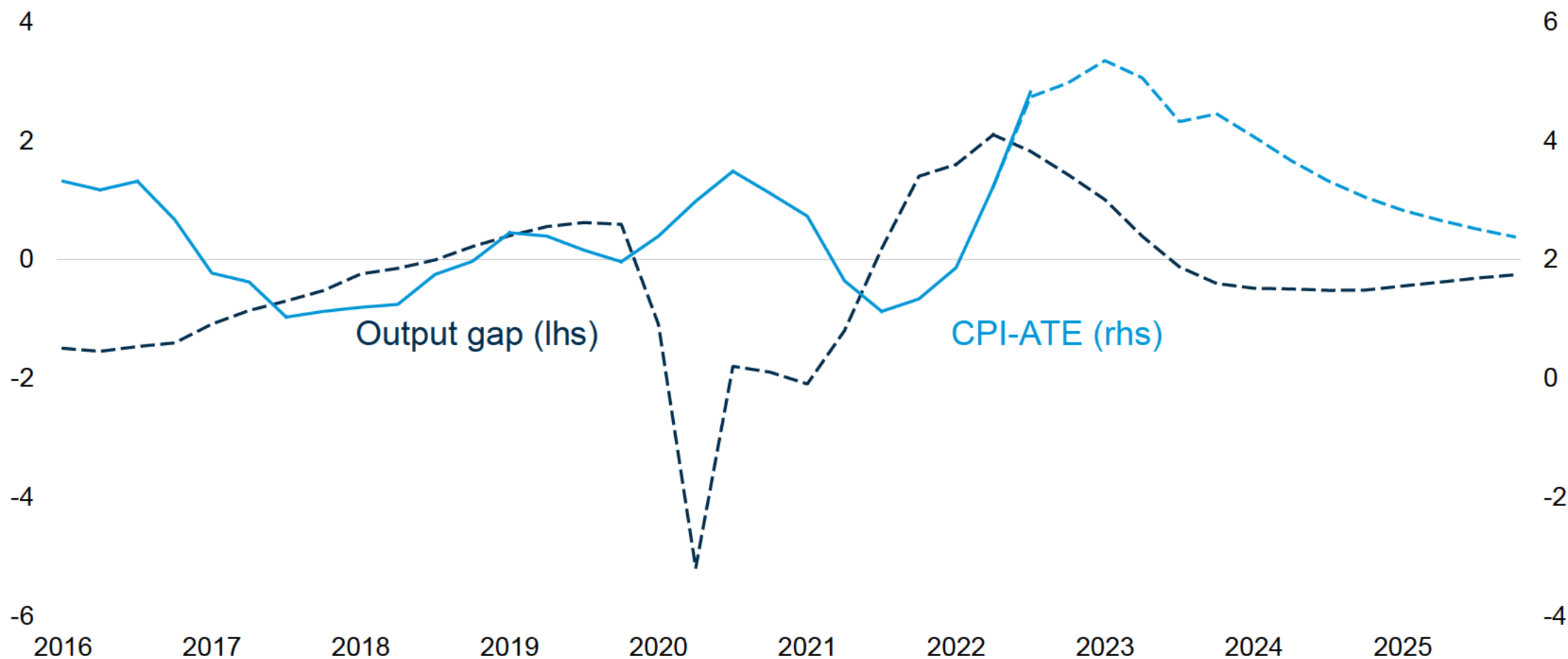
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Monetary policy trade-offs

Output gap and inflation (CPI-ATE)

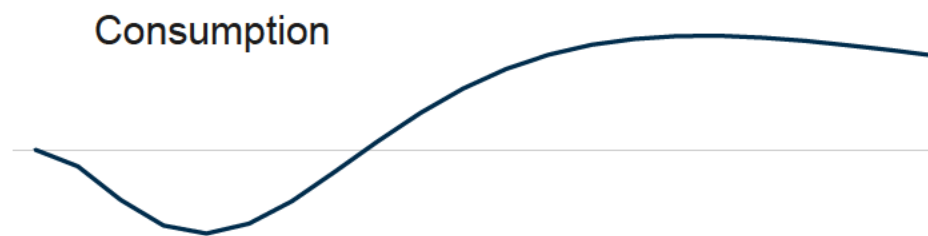
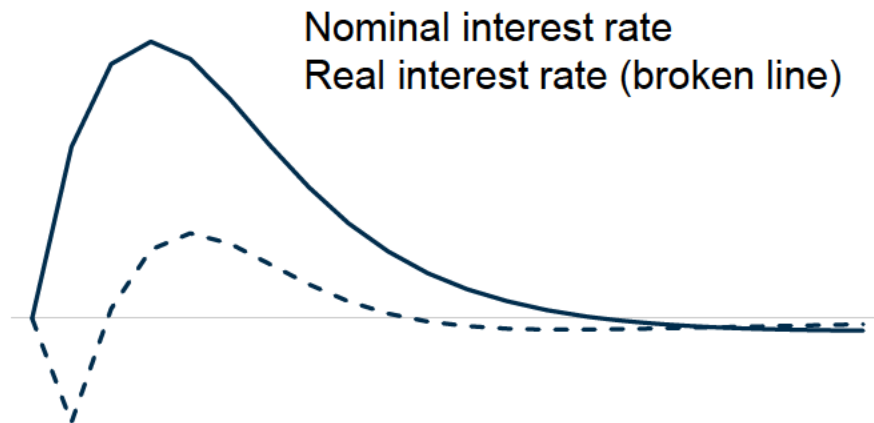
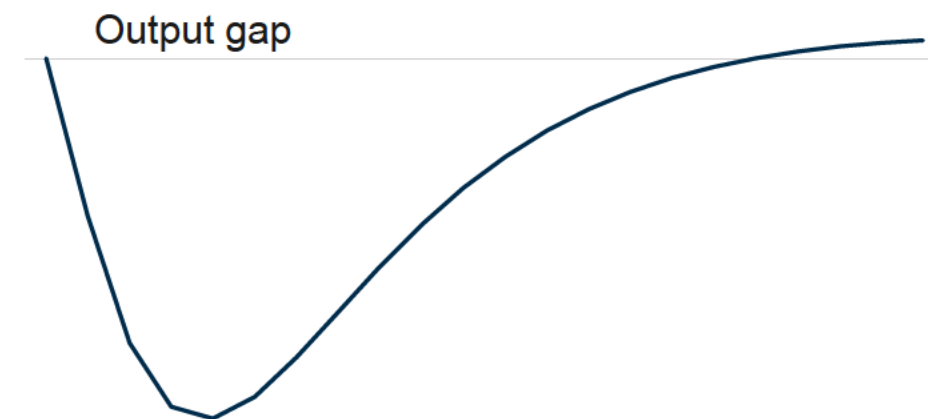
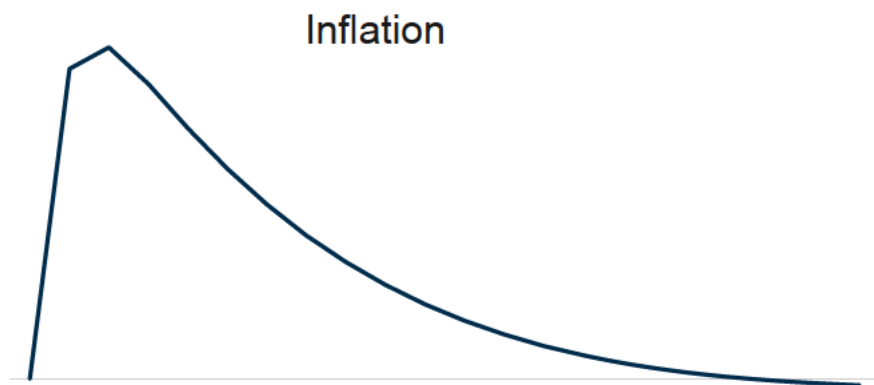
Sources: Statistics Norway
and Norges Bank (MPR 3/22)



Cost shock – monetary policy trade-offs

Source: Norges Bank

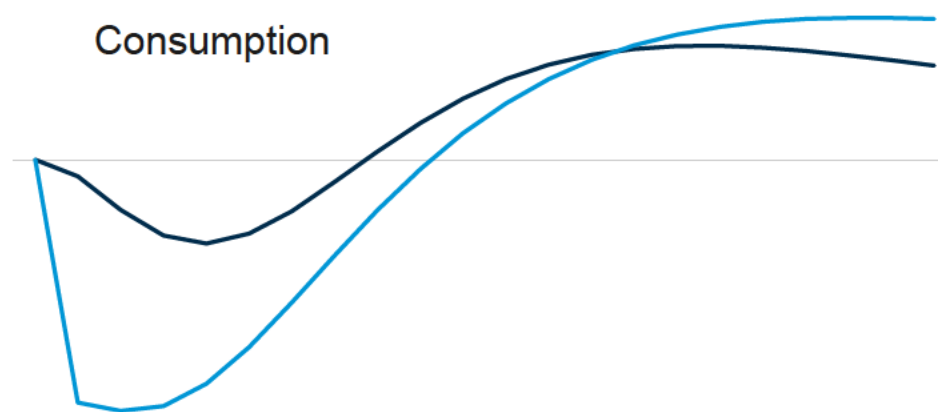
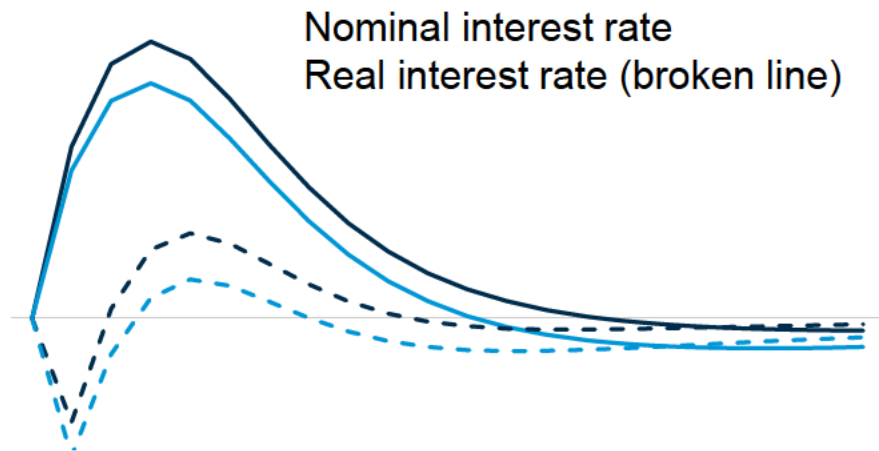
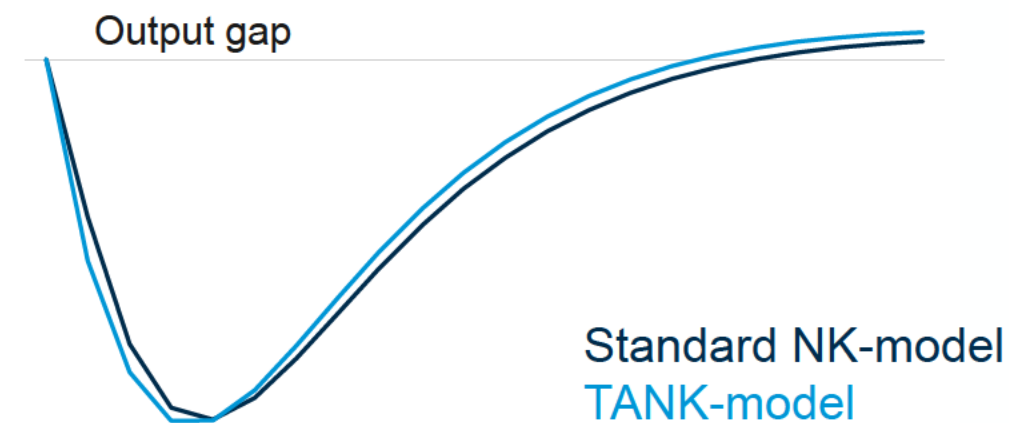
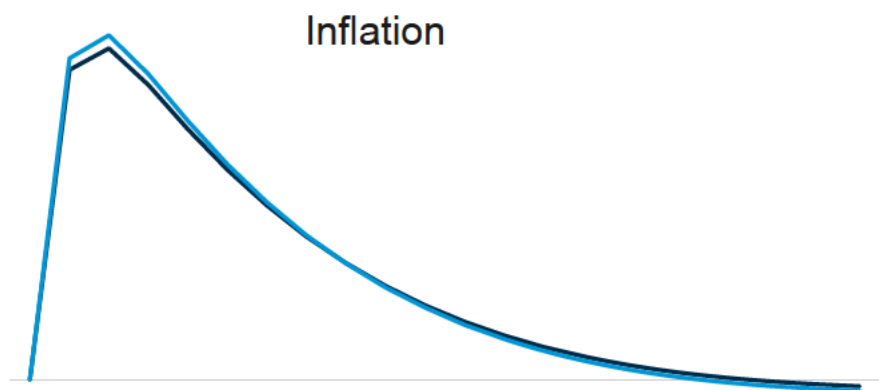
Deviation from equilibrium. Standard New Keynesian



Cost shock – monetary policy trade-offs

Source: Norges Bank

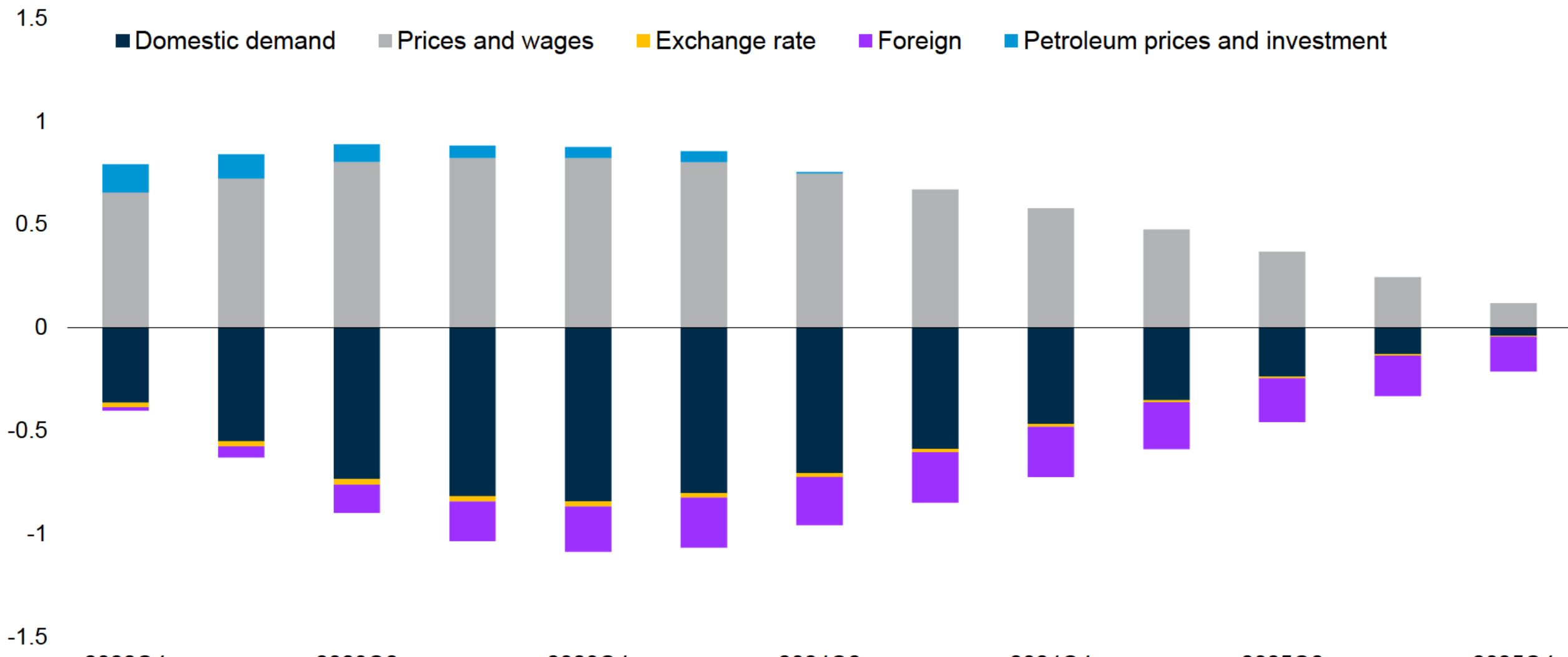
Deviation from equilibrium. Standard New Keynesian model and TANK model



Decomposition of main drivers behind rate path

Source: Norges Bank

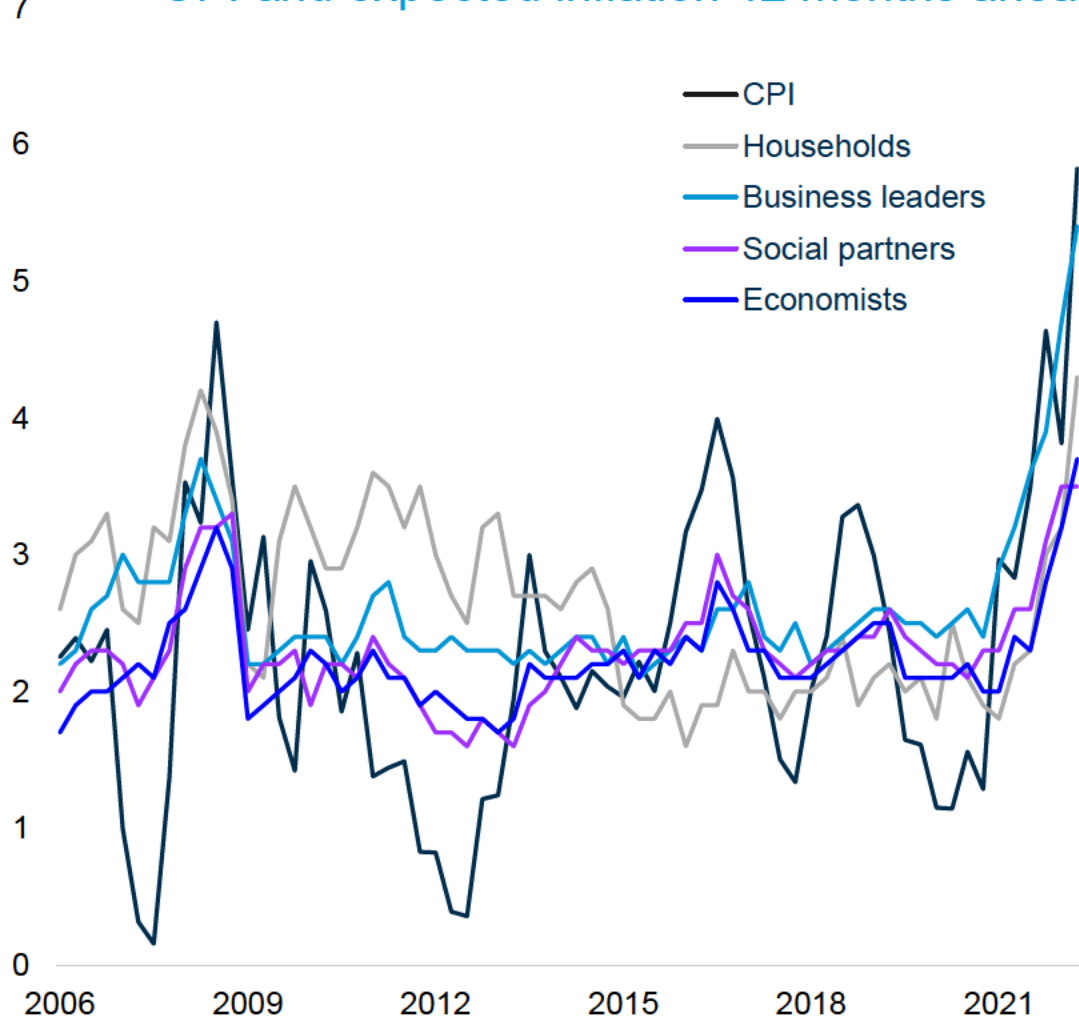
Cumulative contributions. Percentage points



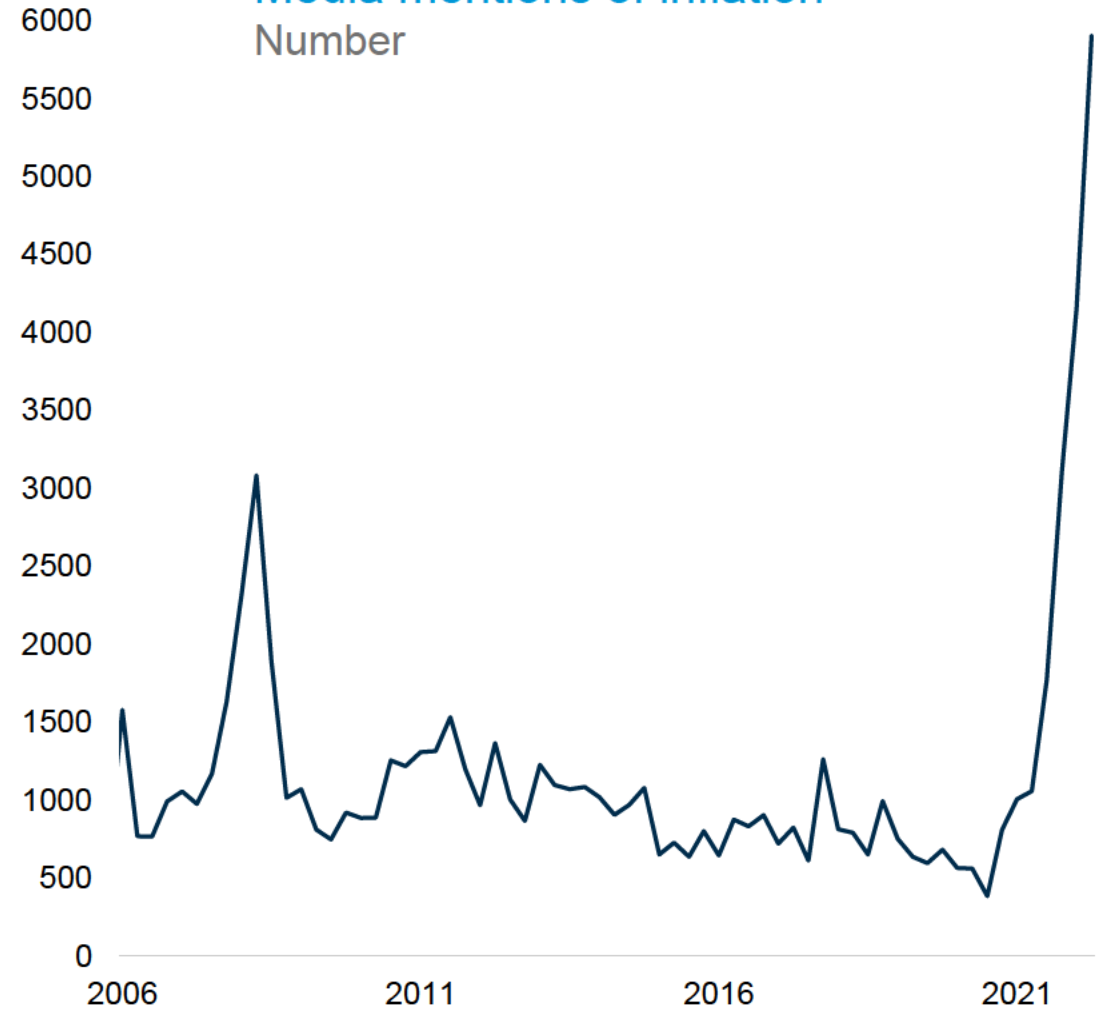
Greater attention to inflation

Sources: TNS Gallup,
Opinion, Epinion, Ipsos and
Retriver

CPI and expected inflation 12 months ahead



Media mentions of inflation

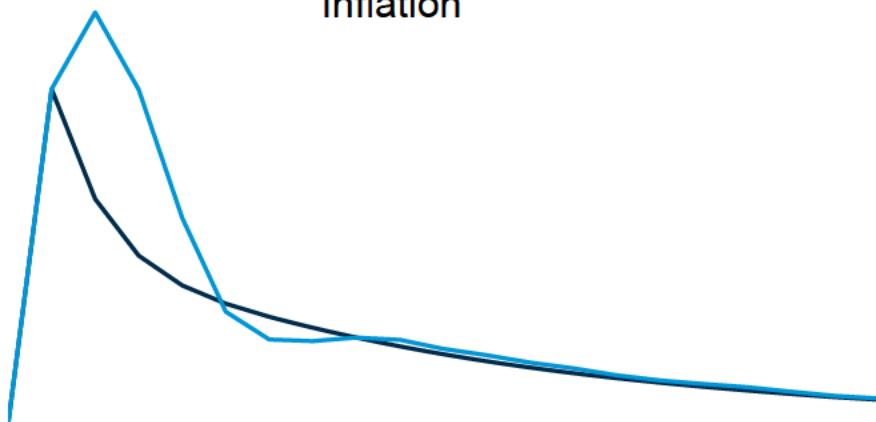


From one expectations regime to another

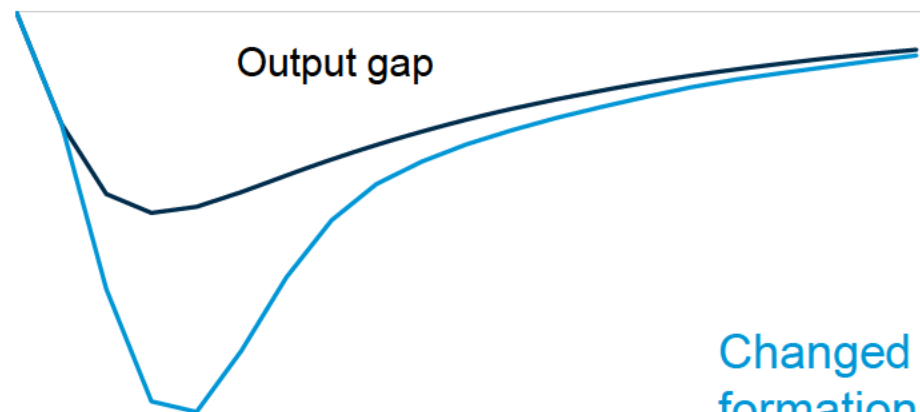
Source: Norges Bank

Deviation from equilibrium. New Keynesian model with change in expectations formation

Inflation

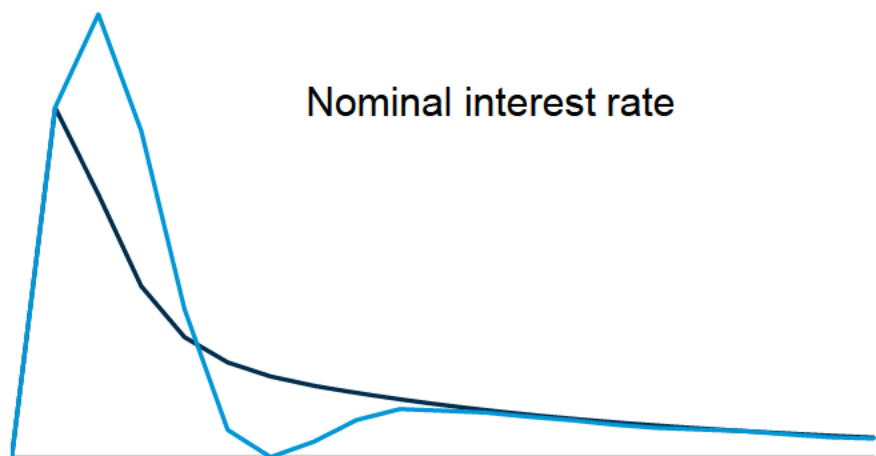


Output gap

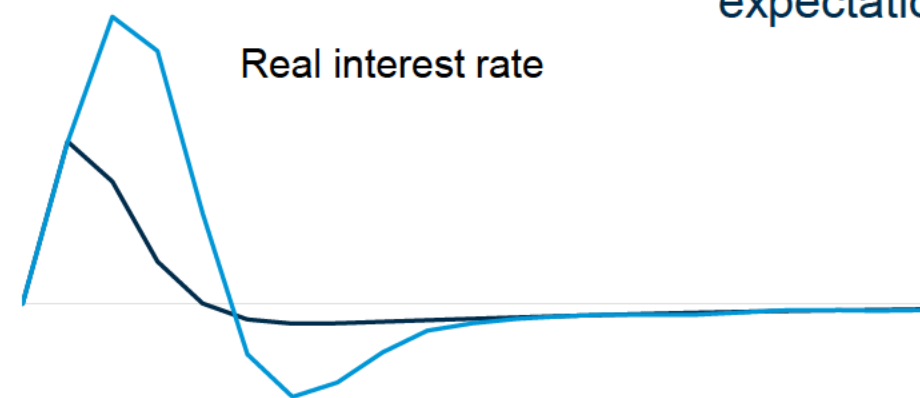


Changed expectations formation

Nominal interest rate



Real interest rate



Unchanged expectations formation

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