A DECADE OF FORWARD GUIDANCE IN NORWAY

GOVERNOR ØYSTEIN OLSEN, APRIL 8 2014
The Norwegian economy

Percent

Sources: Statistics Norway and Norges Bank

Mainland GDP

Unemployment rate (ILO)

Key policy rate

Introduction of inflation target

CPI (core)

Inflation target

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Timeline: The first years of Norges Bank forward guidance

January 1999: Qualitative statements
March 2001: Introduction of inflation target
July 2004: Interest rate strategy for the next 4 months
March 2005: Criteria for an appropriate interest rate path
November 2005: Forecast of interest rate path
Our interest rate forecast is conditional

Projections from Monetary Policy Report 1/14. Percent

Sources: Statistics Norway and Norges Bank
The system for monetary policy analysis and forecasting

- «Now-casting» (SAM)
- Regional network
- Qualitative information and reviews
- Monetary policy analysis
- Empirical and theoretical models
- Policy model (NEMO)
Criteria for an appropriate interest rate path
Analysis from Monetary Policy Report 3/12. Percent

Key policy rate

Output gap

Core inflation

Sources: Statistics Norway and Norges Bank
Decomposition of change in the interest rate path

Factors behind change in path between MPR 3/12 and MPR 4/13. Percentage points

Source: Norges Bank
Decomposition of change in the interest rate path: Forecasts

Actual decomposition in MPR 3/11 and market analysts’ forecasts
Changes in money market rates after policy announcements


Sources: Thomson Reuters and Norges Bank
December 2013:
Small market reactions after policy announcement

Percent

Actual market rates
Norges Bank’s previous market rate path\(^1\)
Norges Bank’s new market rate path\(^1\)
Market rate path day before
Market rate path day after

\(^1\) Norges Bank’s market rate path is calculated as Norges Bank’s forecast for the key policy rate plus an estimated 3-month interbank risk premium.

Source: Norges Bank
December 2008: Market rates shifted down markedly after policy announcement

Percent

Norges Bank’s market rate path is calculated as Norges Bank’s forecast for the key policy rate plus an estimated 3-month interbank risk premium.

Source: Norges Bank
Interest rate expectations one year ahead

Sources: Opinion and Norges Bank