The central bank’s instruments

Governor Svein Gjedrem

Centre for Monetary Economics (CME)
6 September 2010
Sovereign debt to GDP in the G7
Per cent

Source: IMF Global Financial Stability Report
The loss function

\[ L_t = (\pi_t - \pi^*)_2 + \lambda(y_t - y^*_t) + \delta(i_t - i_{t-1})^2 + \kappa(i_t - i_{t\text{enkel}})^2 \]
Key policy rate
Per cent. 2008 Q1 – 2016 Q4

Source: Norges Bank
Change in interest rate forecast over time

Norges Bank

Key policy rate
MPR 3/05 - 1/10
MPR 2/10

Reserve Bank of New Zealand
Successive projections of 90 day interest rates

Sources: Norges Bank and Archer (2005)
Publication of interest rate forecasts – how does the market react?

Basis points. Absolute difference between forecast and market two years ahead. From MPR 3/05 to 2/10.

Source: Norges Bank
How does the market react to the publication of the interest rate forecast?

Basis points. Absolute average difference in relation to the new forecast. Number of quarters ahead. From MPR 3/05 to 2/10

Source: Norges Bank
Central bank balance sheet - stylised

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange reserves</td>
<td>Notes and coins</td>
</tr>
<tr>
<td>Lending to banks</td>
<td>Treasury deposits</td>
</tr>
<tr>
<td></td>
<td>Deposits from banks (=central bank liquidity)</td>
</tr>
</tbody>
</table>
Liquidity in the banking system
In billions of NOK. Daily figures. 1 January 2000 – 2 September 2010

Source: Norges Bank