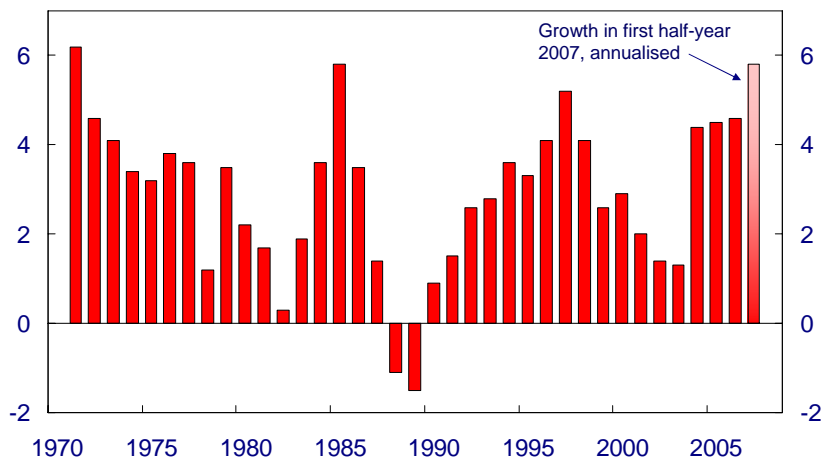


The economic situation, global uncertainty and monetary policy

Deputy Governor Jarle Bergo
 ACI Norway, 6 September 2007

Mainland GDP

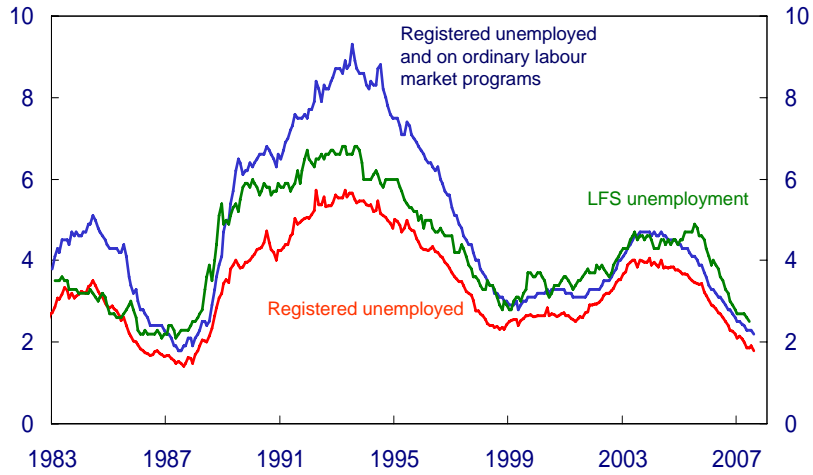
Annual growth in volume. Per cent. 1971 – 2007



Sources: Statistics Norway and Norges Bank

Unemployed

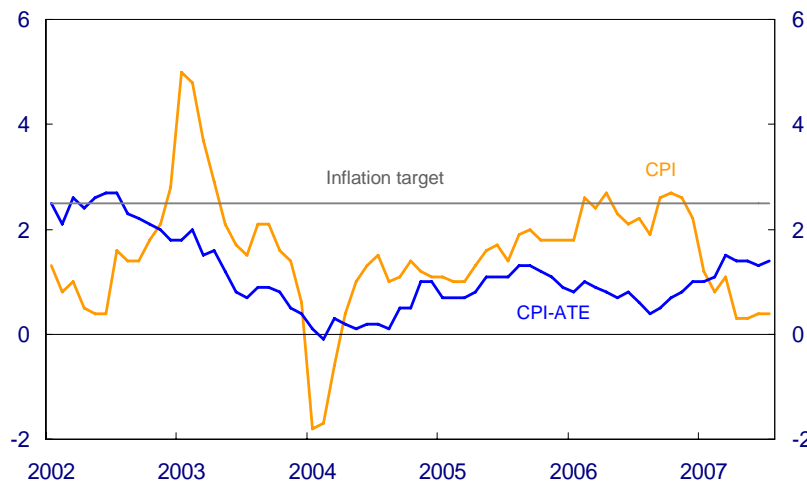
Percentage of labour force. Seasonally adjusted. Jan 83 – Aug 07



Sources: Norwegian Labour and Welfare Organisation (NAV) and Statistics Norway

Inflation

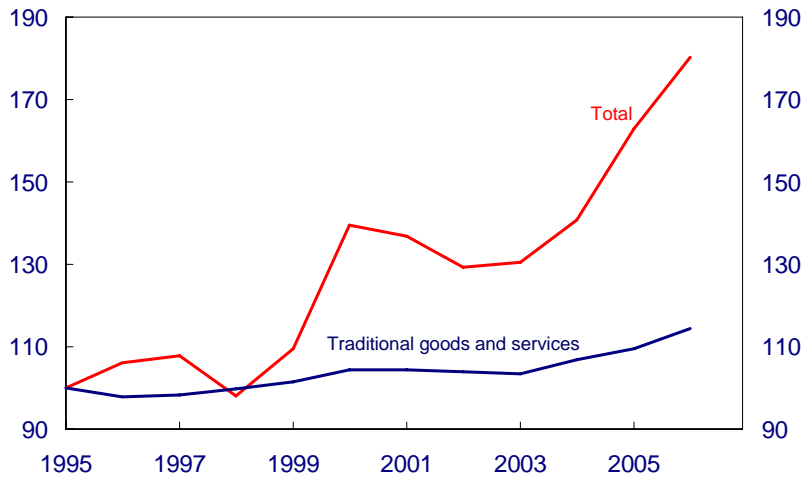
CPI and CPI-ATE. 12-month change. Per cent



Source: Statistics Norway

Terms of trade

Index, 1995 = 100. 1995 – 2006



Sources: Statistics Norway and Norges Bank

Monetary policy in Norway

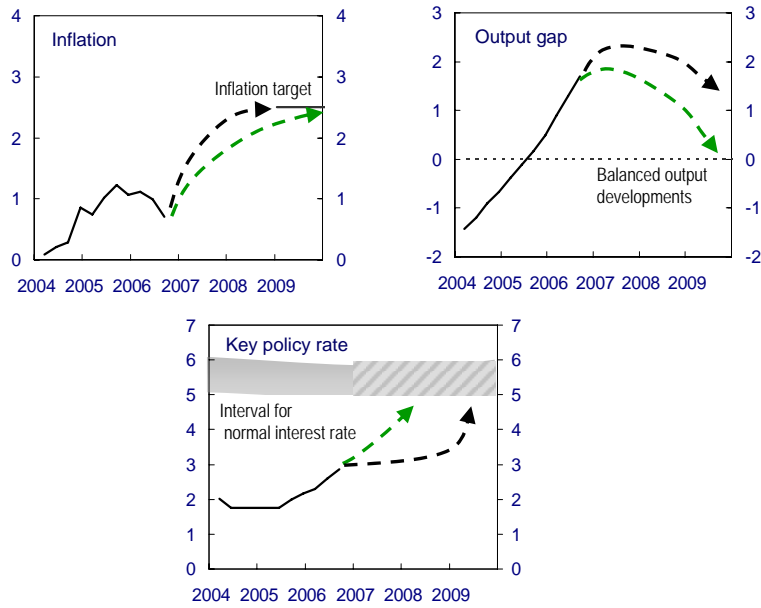
Objective:

- Low and stable inflation – approximately 2.5 per cent over time

Implementation:

- A flexible inflation targeting regime
- The interest rate is set with a view to stabilising inflation close to target in the medium term
- The horizon will depend on the disturbances to which the economy is exposed

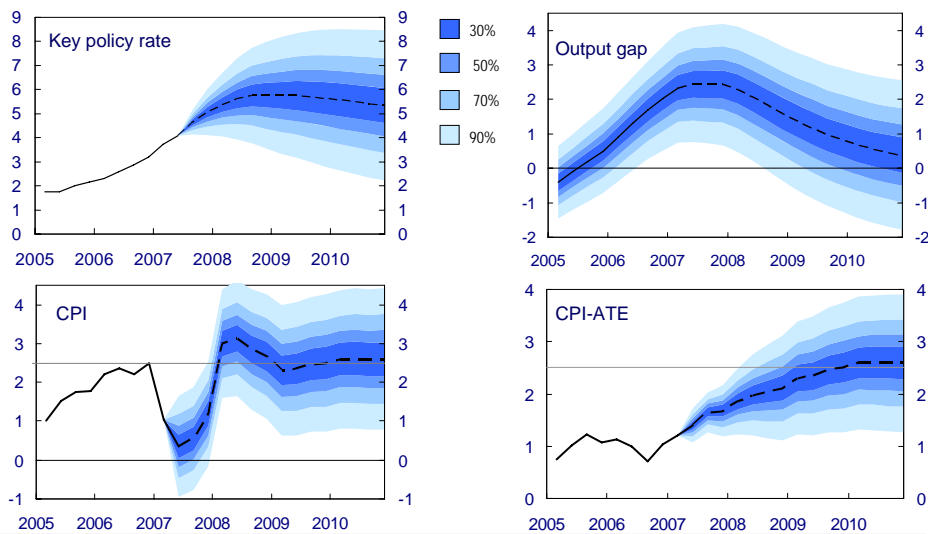
How to set the interest rate?



Sources: Statistics Norway and Norges Bank

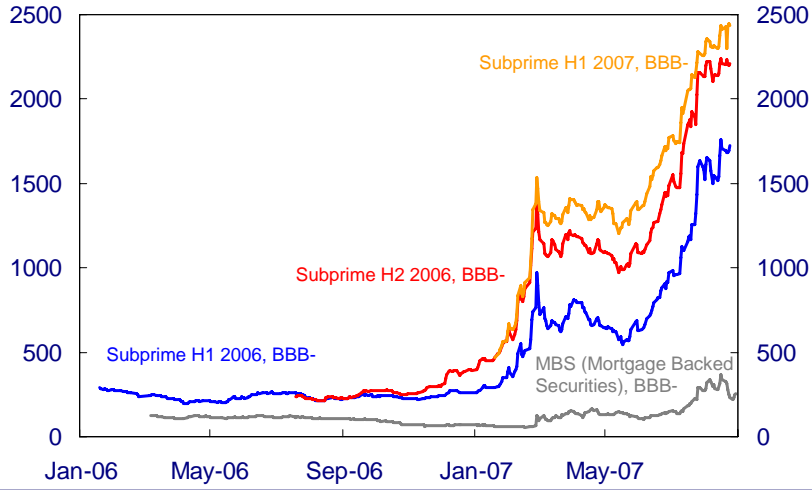
Baseline scenario in Monetary Policy Report 2/07

Per cent. 2005 Q1 – 2010 Q4



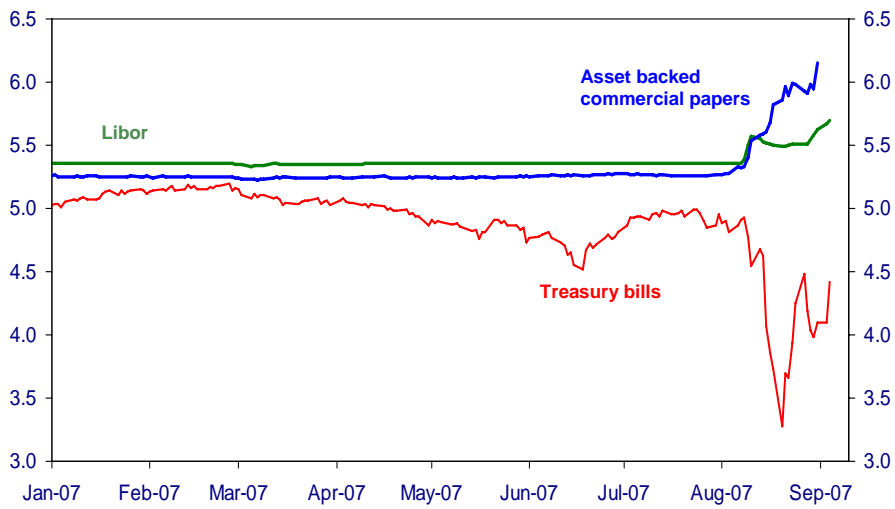
Sources: Statistics Norway and Norges Bank

Credit spreads on bonds secured on subprime loans and ordinary mortgage loans with rating BBB-
Basis points. 19 January 2006 – 30 August 2007



Source: Lehman Brothers

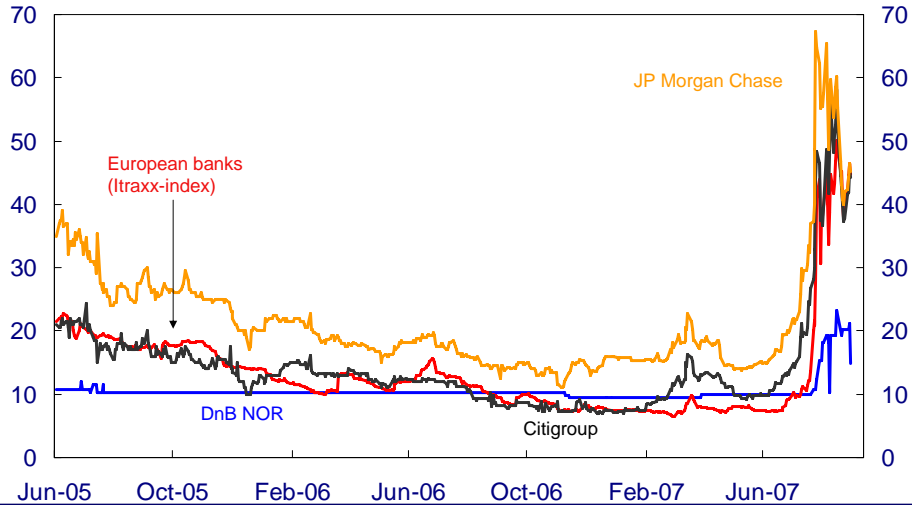
US interest rates with varying degree of risk
90-day rates. Daily figures



Source: Reuters (EcoWin)

Price of hedging credit risk. 5-year CDS prices for banks

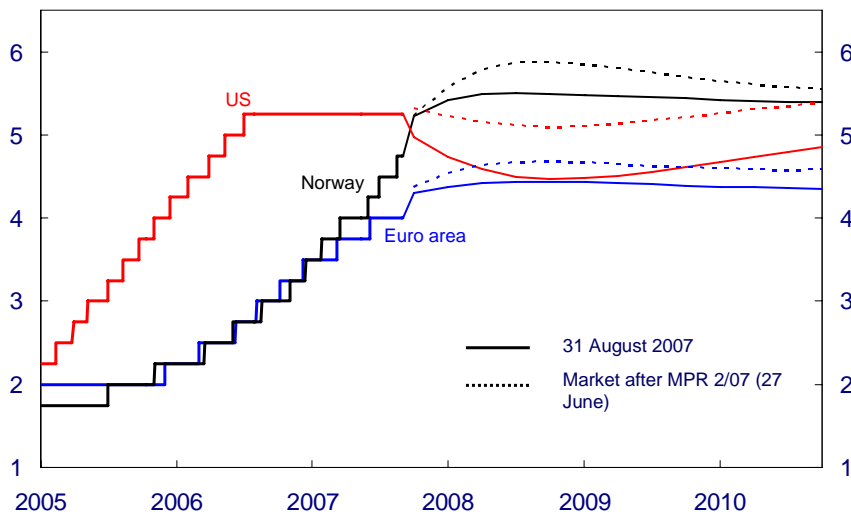
Basis points. 1 June 2005 – 31 August 2007



Sources: Bloomberg, Reuters and Thomson Datastream

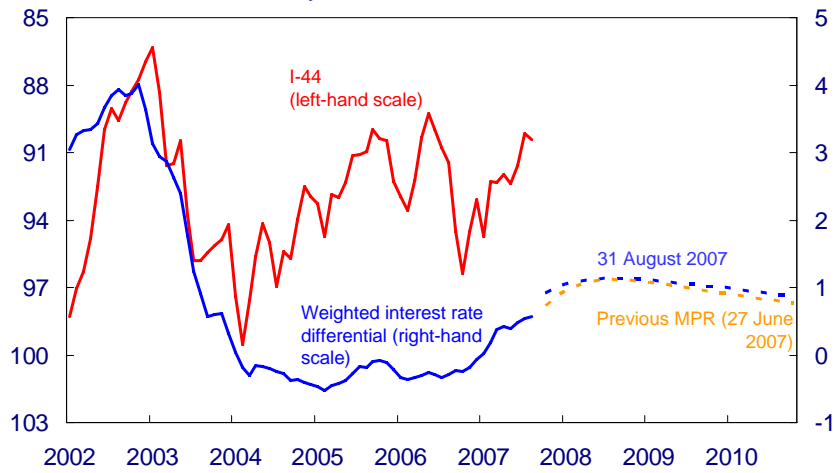
Policy rates and forward rates

Per cent. Forward rates at 27 June and 31 August 2007



Sources: Reuters (EcoWin), Bloomberg and Norges Bank

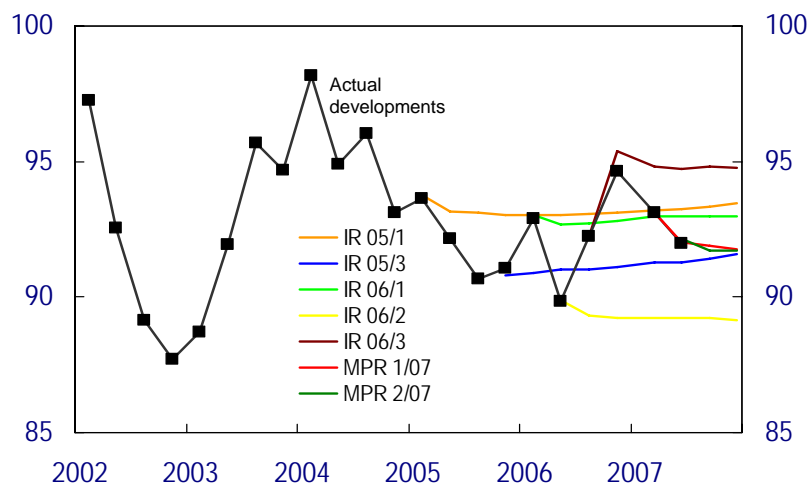
3-month interest rate differential and import-weighted exchange rate (I-44)¹⁾ January 2002 – December 2010



¹⁾ A rising curve denotes an appreciation of the krone.

Sources: Reuters (EcoWin), Bloomberg and Norges Bank

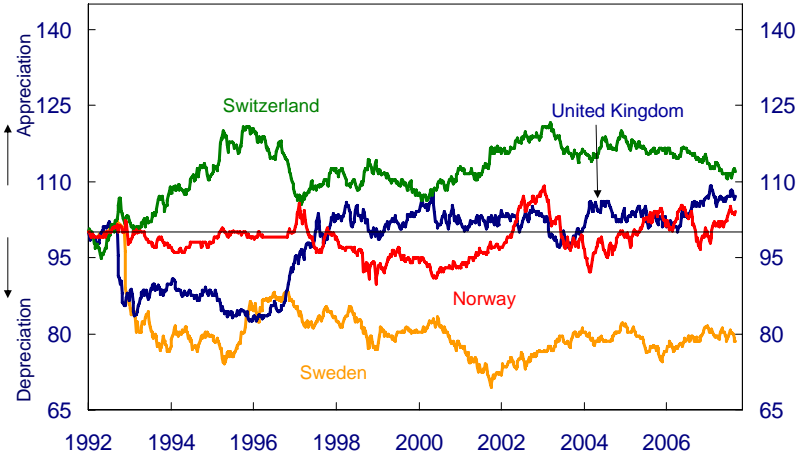
Import-weighted exchange rate (I-44) Actual developments and projections. 2002 Q1 – 2007 Q4



Source: Norges Bank

Trade-weighted exchange rate

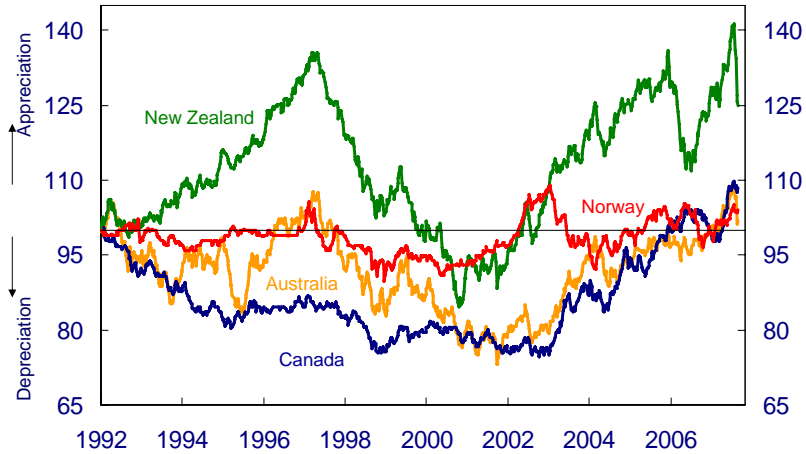
Index. Week 1 1992 = 100



Source: Reuters (EcoWin)

Trade-weighted exchange rate – exporters of commodities

Index. Week 1 1992 = 100

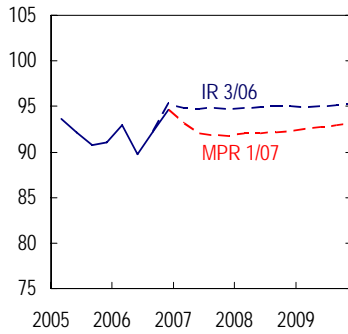


Source: Reuters (EcoWin)

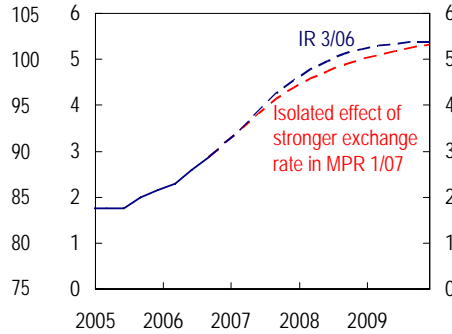
How does a change in the exchange rate influence the interest rate path?

Example from MPR 1/07

Import-weighted exchange rate in the baseline scenario in IR 3/06 og MPR 1/07



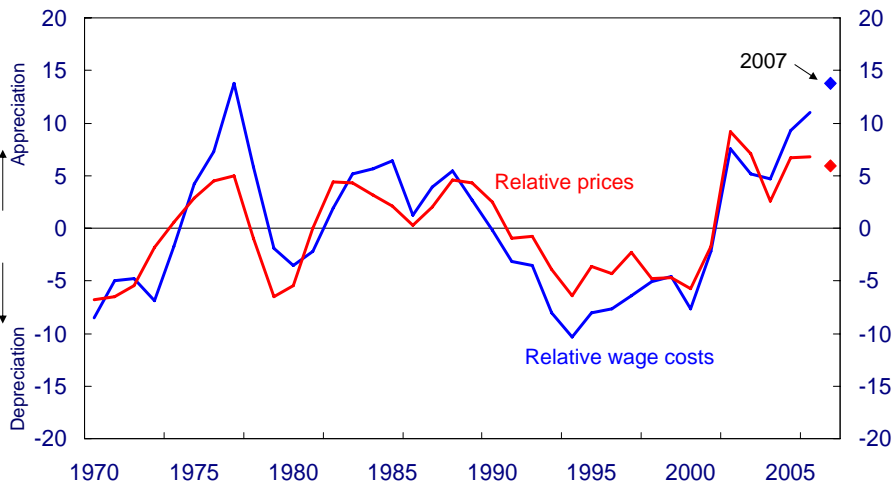
Key policy rate in the baseline scenario in IR 3/06 and the isolated effect of a stronger exchange rate



Source: Norges Bank

Real exchange rates

Deviation from mean 1970-2006. Per cent. 1970-2006¹⁾



¹⁾ The numbers for 2007 are based on projections from MPR 2/06 and TWI so far this year

Sources: Statistics Norway, Technical Reporting Committee on Income Settlements, Ministry of Finance and Norges Bank