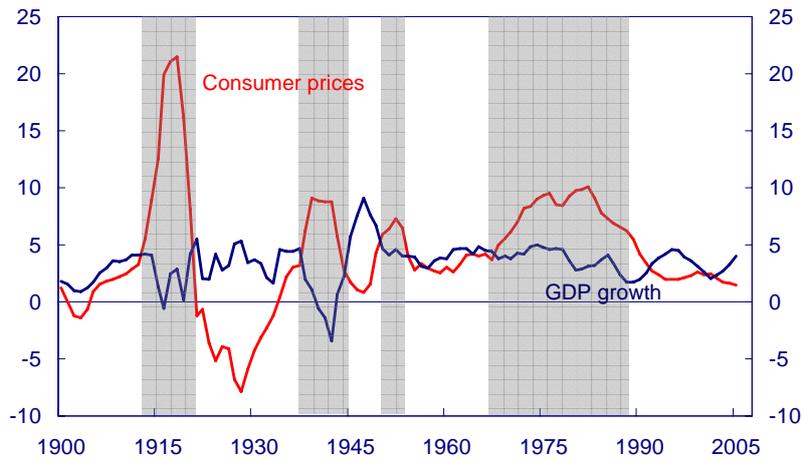


# Interest rate developments

Governor Svein Gjedrem

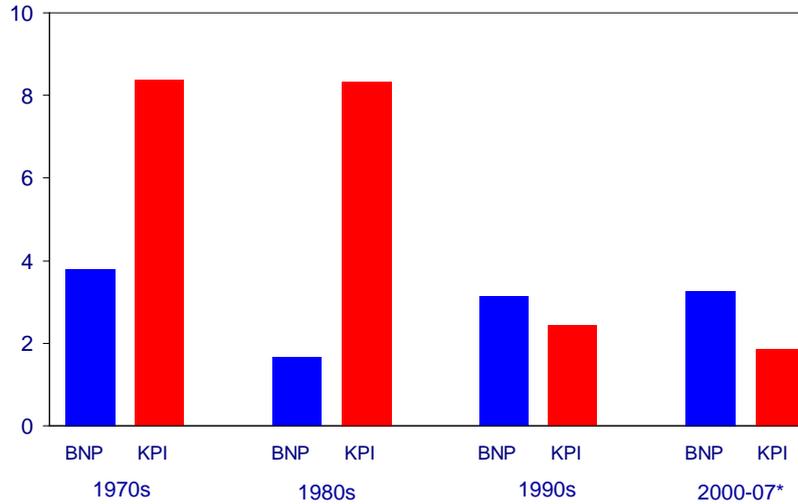
Norwegian Federation of State Employees' Unions  
 Annual conference  
 28 November 2007

## Consumer prices and gross domestic product Annual percentage rise. 5-year moving average



### No trade-off between economic growth and inflation

Average annual rise in CPI and GDP. Mainland Norway. Per cent

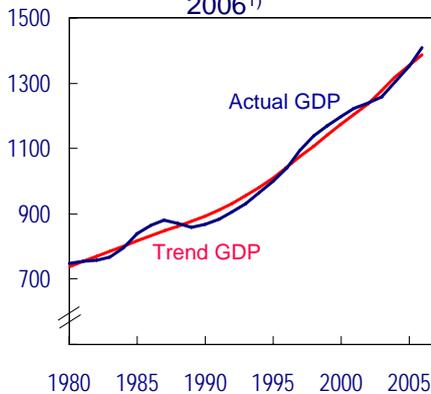


\*) Including Norges Bank's estimate for 2007

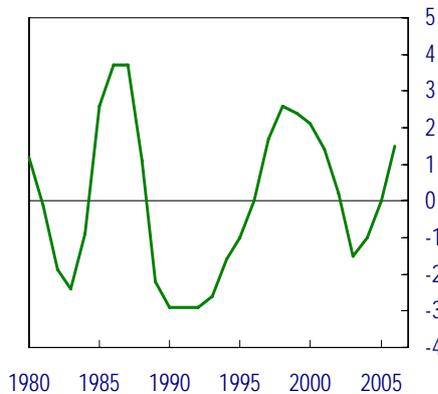
Sources: Statistics Norway and Norges Bank 3

### Monetary policy can contribute to smoothing cyclical fluctuations in the short to medium term

Actual and trend GDP. Mainland Norway. In billions of NOK. 1980-2006<sup>1)</sup>



GDP deviation from trend 1980-2006



<sup>1)</sup> Projection for 2006

Sources: Statistics Norway and Norges Bank 4

## Economic policy guidelines in Norway since March 2001

- Monetary policy
  - low and stable inflation – close to 2.5 per cent over time
  - flexible inflation targeting regime
  
- Fiscal policy
  - guideline for petroleum revenue spending:  
can use expected real return on the Government Pension Fund – Global  
(4 per cent)

## The division of labour in economic policy

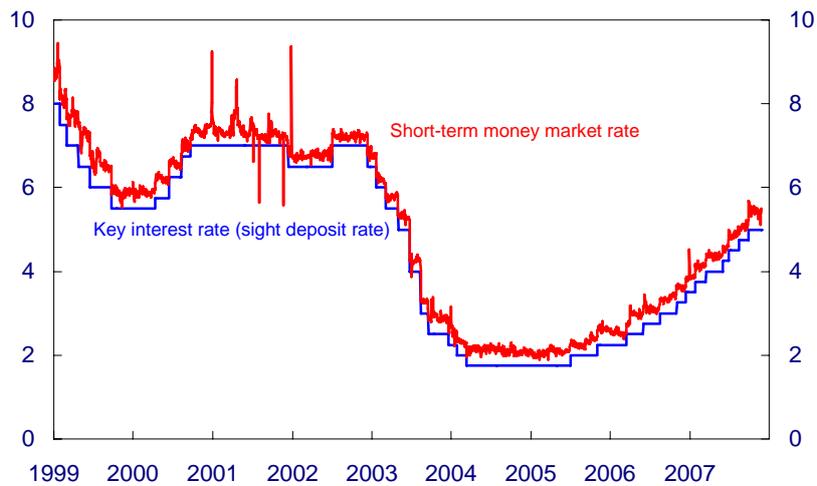
Monetary Policy	➡	Price stability
Fiscal Policy	➡	Real exchange rate and the size of the exposed sector
Wage formation, incentives and structures	➡	Employment and economic growth

### Interplay in economic policy

- Norges Bank’s response pattern is consistent with the inflation target set by the Government and the Storting
- Social partners:
  - take Norges Bank’s response to their actions into account
- Norges Bank:
  - sets the interest rate depending on the effects of wage developments on inflation

### Norges Bank’s monetary policy instrument

Interest rate on banks’ deposits in Norges Bank (sight deposit rate). Per cent



## The labour market and monetary policy

Monetary policy operates through three channels:

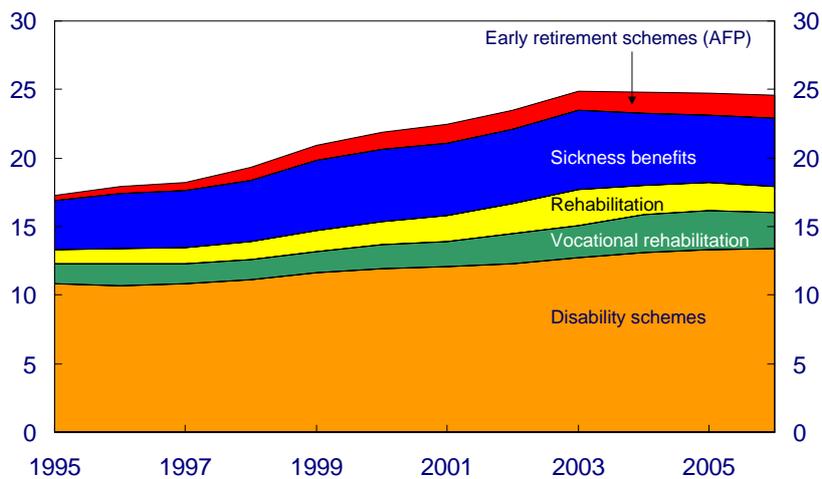
- aggregate demand
- the exchange rate
- expectations

The labour market affects the conduct of monetary policy:

- a tight labour market implies high capacity utilisation, higher wage growth and higher inflation

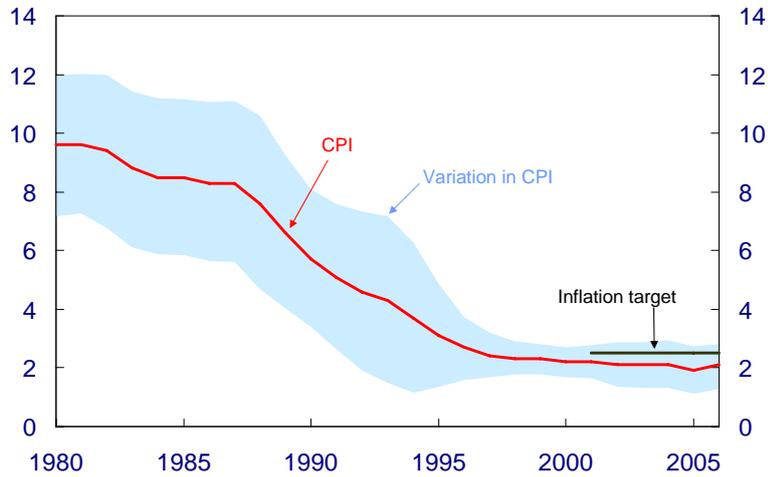
## Persons on benefit and early retirement schemes

Per cent of labour force



### Inflation

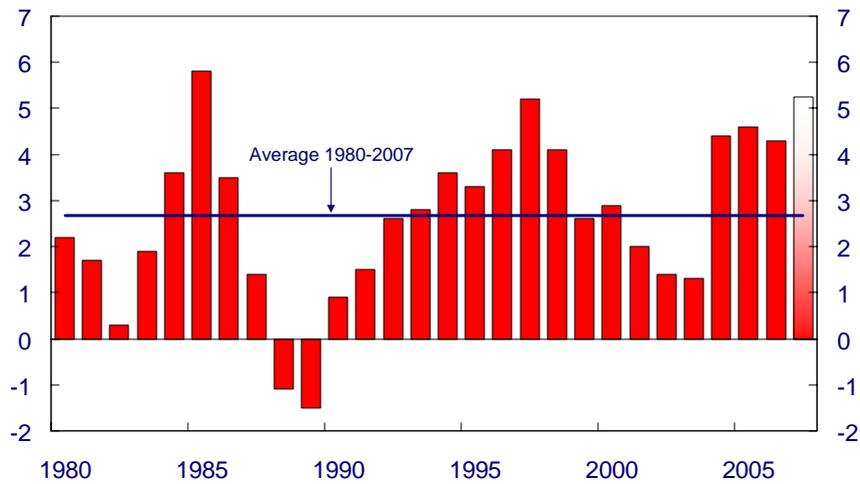
Moving 10 year-average and variation in CPI. Per cent



Sources: Statistics Norway and Norges Bank 11

### Strong economic growth

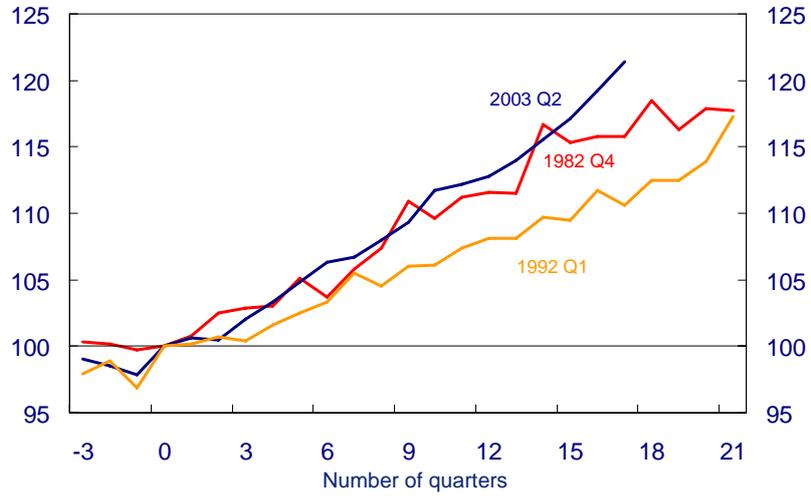
GDP mainland Norway. Annual growth. Per cent



Sources: Statistics Norway and Norges Bank 12

### Prolonged cyclical upswing

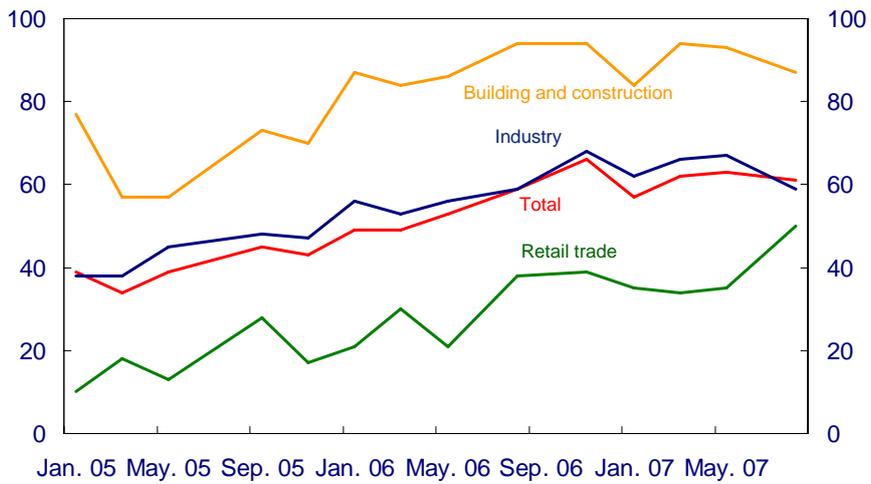
GDP mainland Norway. Index. Quarter 0 = 100. Seasonally adjusted



Sources: Statistics Norway and Norges Bank 13

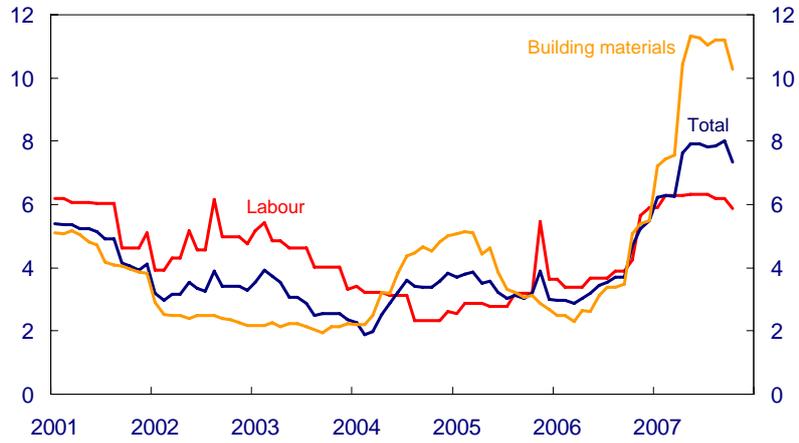
### Capacity utilisation

Regional network. Share of respondents that report they will have problems accommodating an increase in demand. Per cent



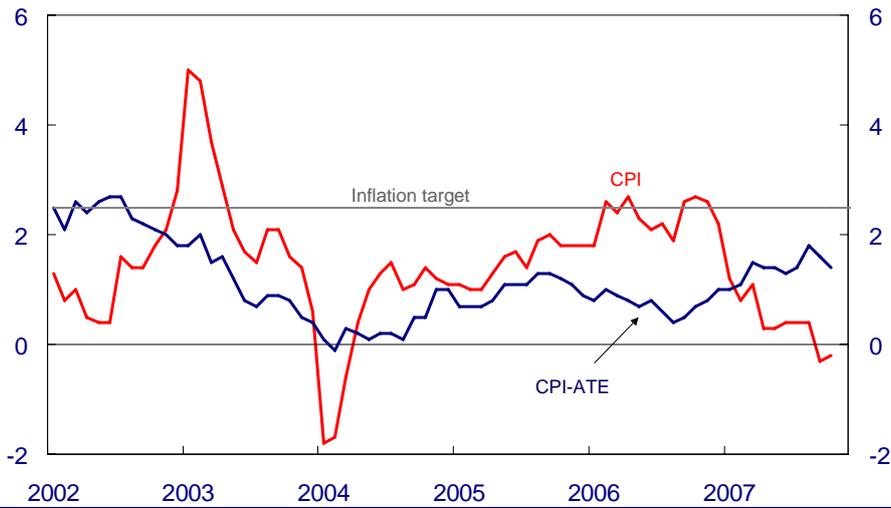
Source: Norges Bank 14

### Construction cost index 12-month change. Per cent



Source: Statistics Norway 15

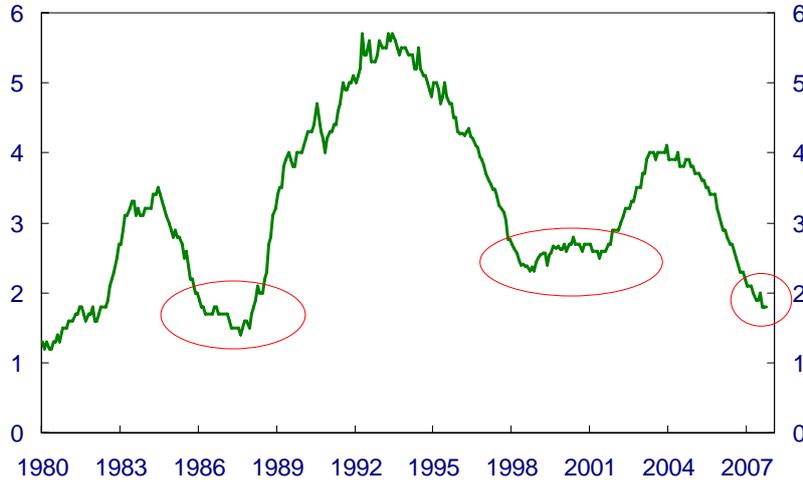
### Low inflation CPI and CPI-ATE. 12-month change. Per cent



Source: Statistics Norway 16

### Tight labour market

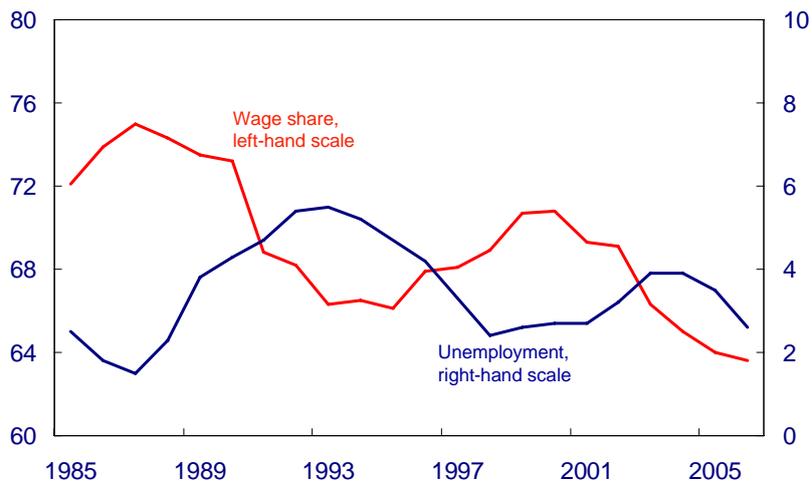
Registered unemployed. Percentage of labour force



Source: Norwegian Labour and Welfare Organisation (NAV)

### Wage share<sup>1)</sup> and registered unemployment

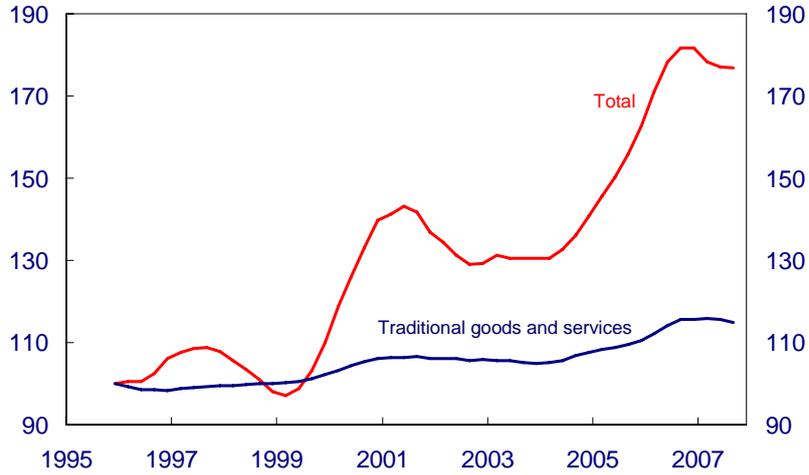
Per cent. 1985 – 2006



<sup>1)</sup> Labour costs as share of factor income. Market-oriented enterprises in mainland Norway.

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

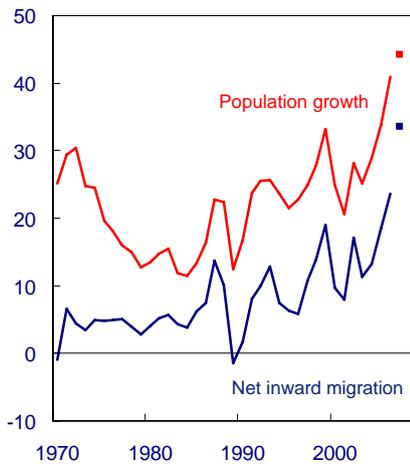
### Terms of trade Index, 95 Q4 = 100



Sources: Statistics Norway and Norges Bank

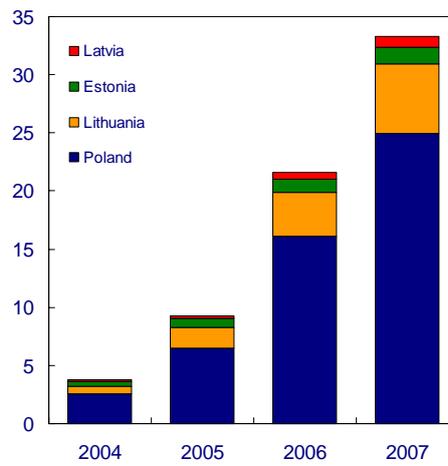
### Population growth and net inward migration

In thousands. 1970-2007<sup>1)</sup>



### Registered employees from new EU countries

1000s of persons in the period Jan.-Oct.

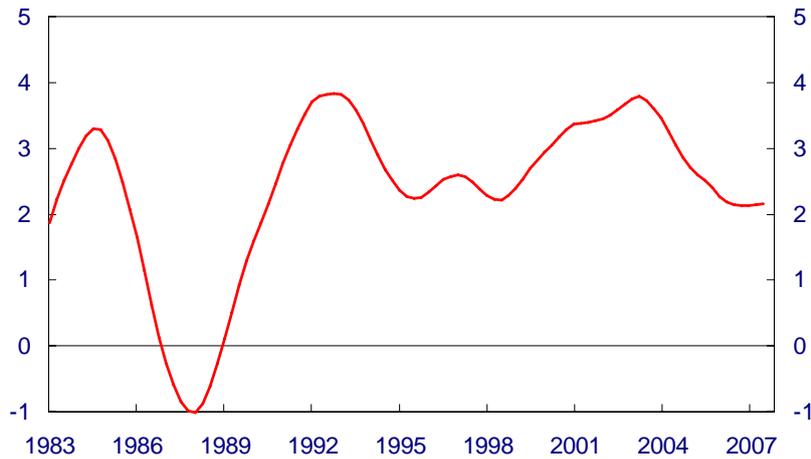


<sup>1)</sup> 2007= sum Q4 2006 – Q3 2007.

Sources: Statistics Norway and Central Office - Foreign Tax Affairs

### Productivity growth in the business sector<sup>1)</sup>

Trend. Annual growth in per cent

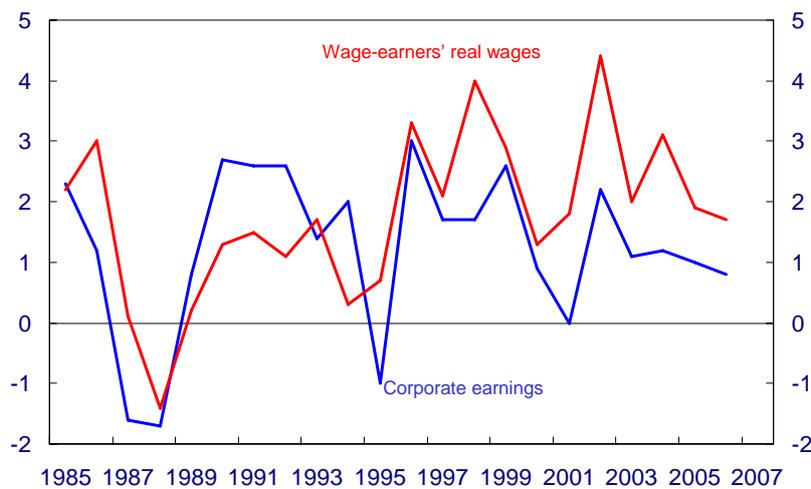


1) Mainland Norway excluding public sector, export industry, electricity supply and housing services

Sources: Statistics Norway and Norges Bank

### Wage-earners' real wages and corporate earnings

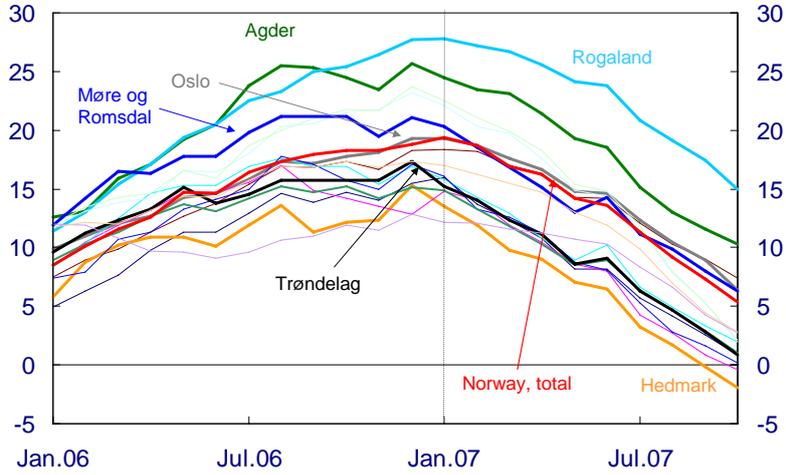
Annual growth. Per cent



Sources: Statistics Norway and Norges Bank

### Regional house prices

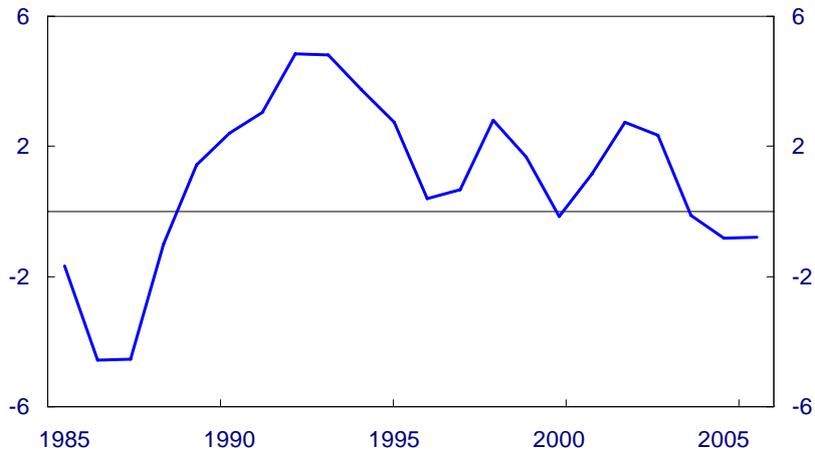
12-month change. Per cent. January 2006 – October 2007



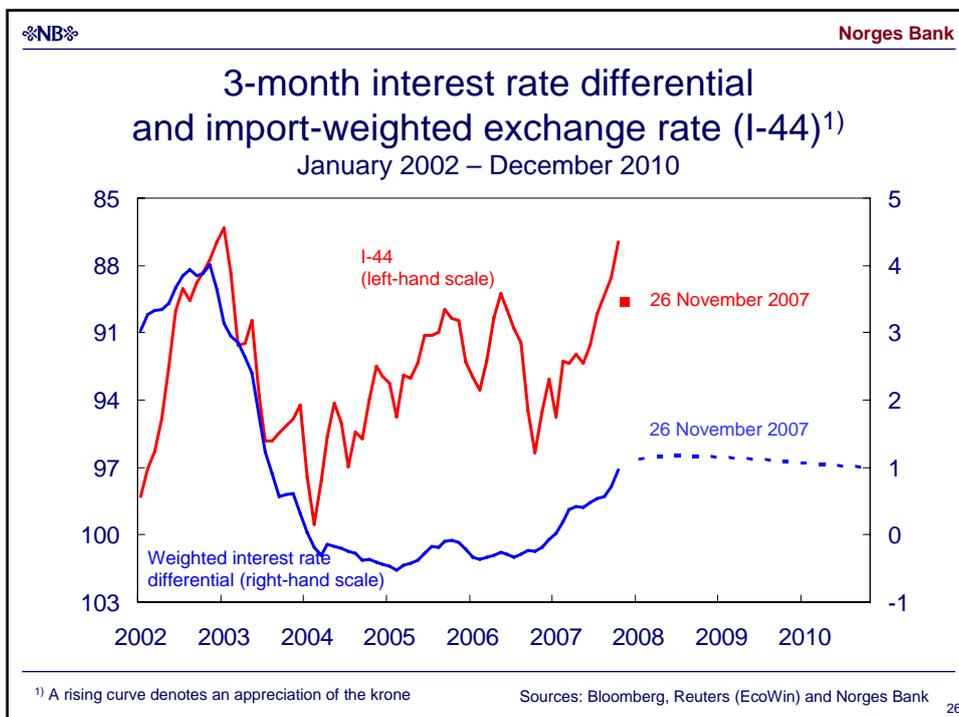
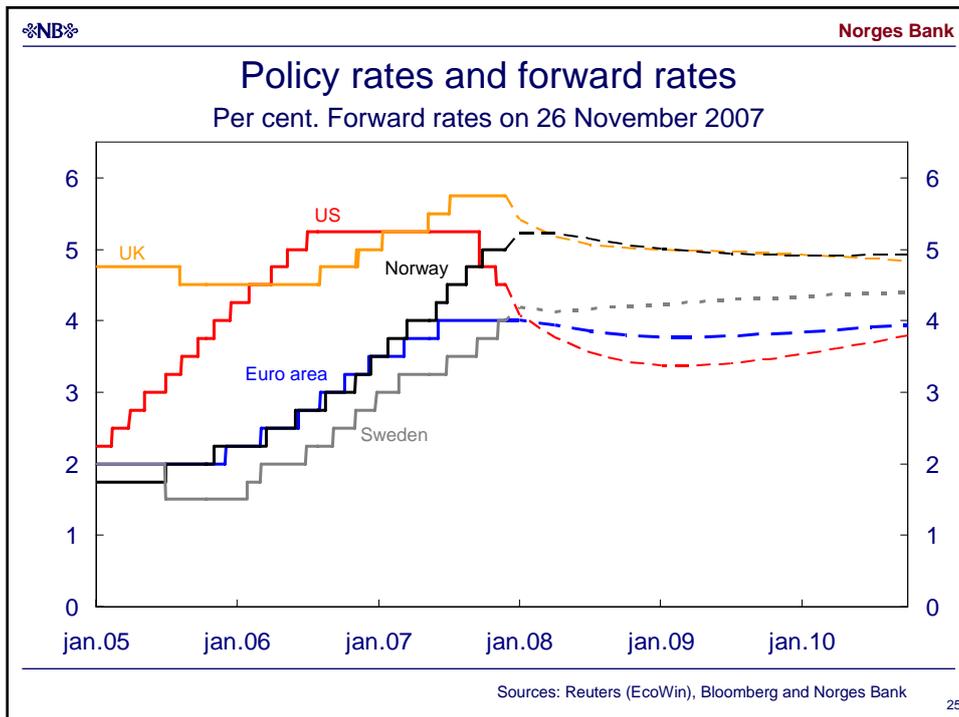
Sources: Norwegian Association of Real Estate Agents, Association of Real Estate Agency Firms, FINN.no, Econ Pöyry, Statistics Norway and Norges Bank

### Household saving

Percentage of disposable income. Excl. estimated reinvested dividend payments. Annual. 1985 – 2006



Sources: Statistics Norway and Norges Bank



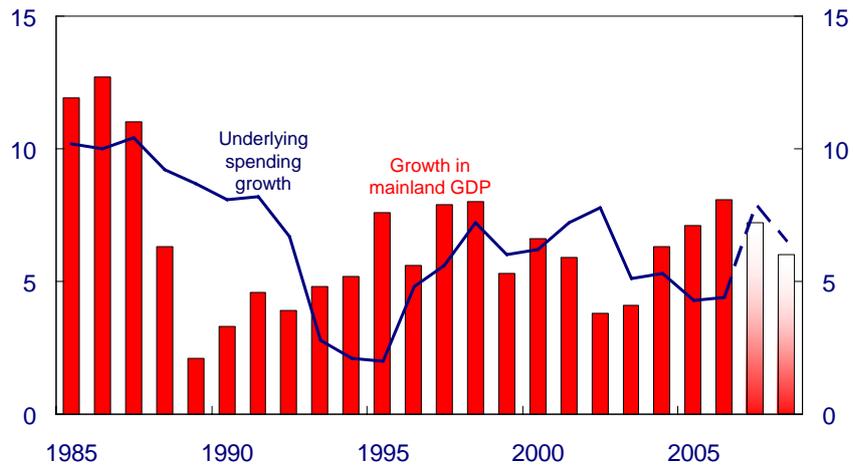
<sup>1)</sup> A rising curve denotes an appreciation of the krone

### Government Pension Fund - Global Transfers to government budget and expected real returns In billions of 2008-kroner



Source: Ministry of Finance (National Budget 2008)

### Underlying growth in spending over government budget and growth in mainland GDP Per cent. 1985 – 2008<sup>1)</sup>

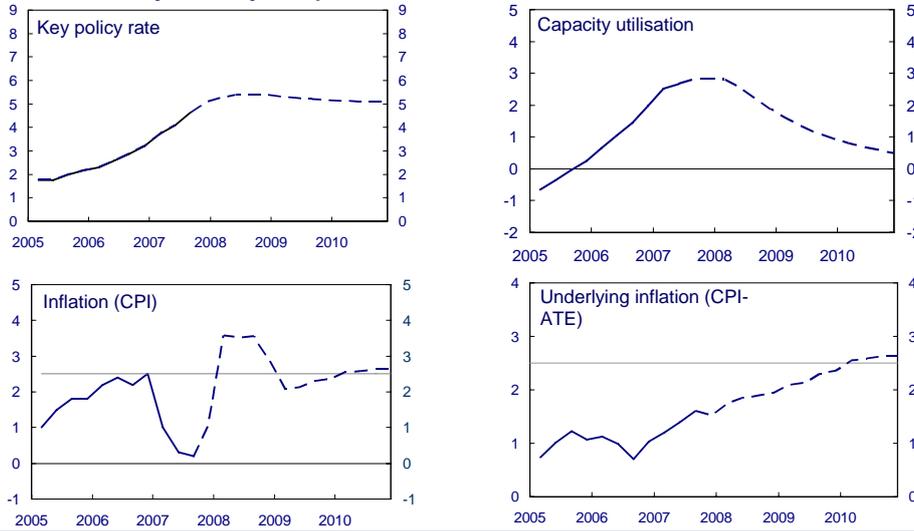


<sup>1)</sup> Estimates for 2007 and 2008 from Ministry of Finance

Sources: Ministry of Finance (National Budget 2008) and Statistics Norway

### Baseline scenario

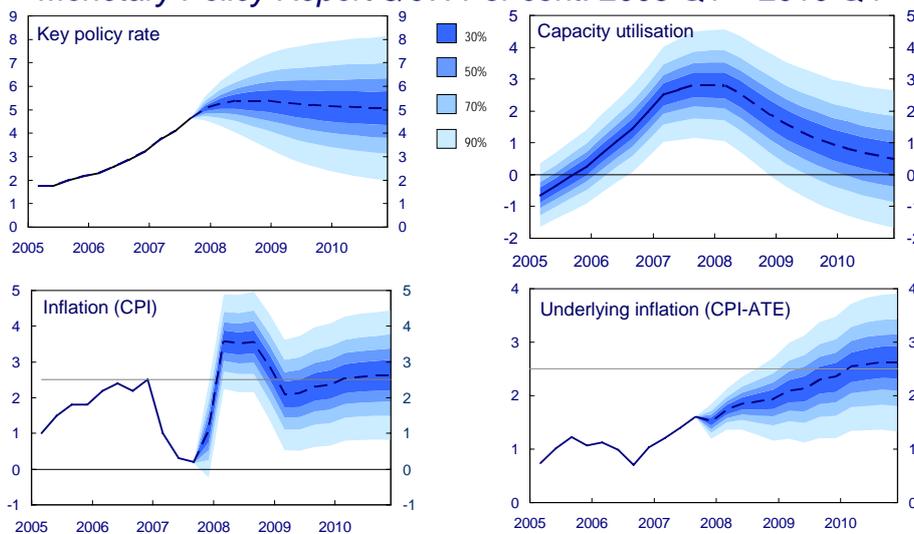
Monetary Policy Report 3/07. Per cent. 2005 Q1 – 2010 Q4



Sources: Statistics Norway Norges Bank

### Baseline scenario

Monetary Policy Report 3/07. Per cent. 2005 Q1 – 2010 Q4



Sources: Statistics Norway and Norges Bank