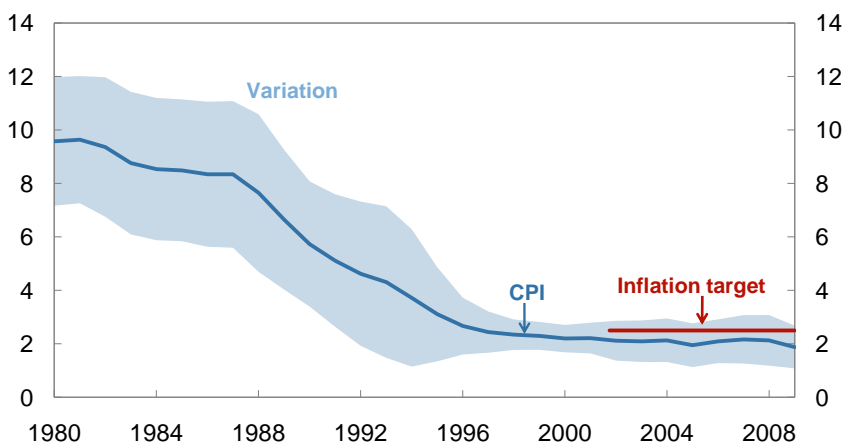


The conduct of monetary policy

*Introductory statement by Governor Svein Gjedrem
at the hearing before the Standing Committee on
Finance and Economic Affairs of the Storting,
Oslo, 14 May 2009*

Inflation

Moving 10-year average¹⁾ and variation²⁾ in CPI³⁾. Per cent. 1980 - 2009



1) The moving average is calculated 7 years back and 2 years ahead.

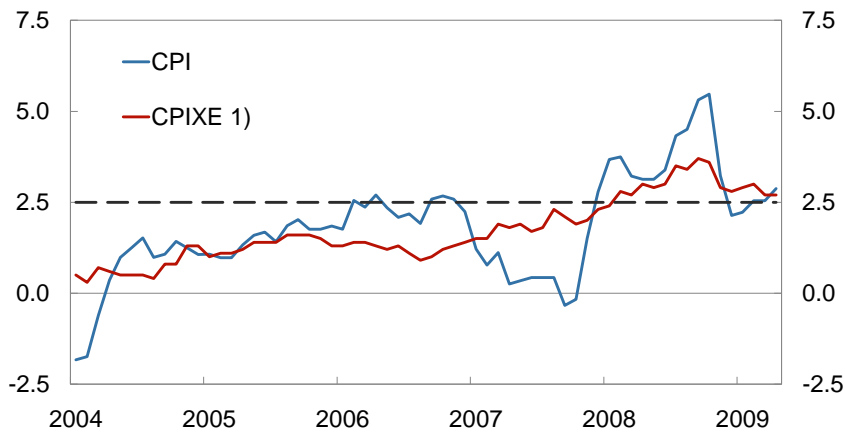
2) The band around the CPI is the variation in the CPI adjusted for tax changes and excluding energy products in the average period, measured by +/- one standard deviation.

3) Projections for 2009 – 2011 from MPR 1/09 form the basis for this estimate.

Sources: Statistics Norway and Norges Bank

Consumer prices

12-month change. Per cent. January 2004 – April 2009

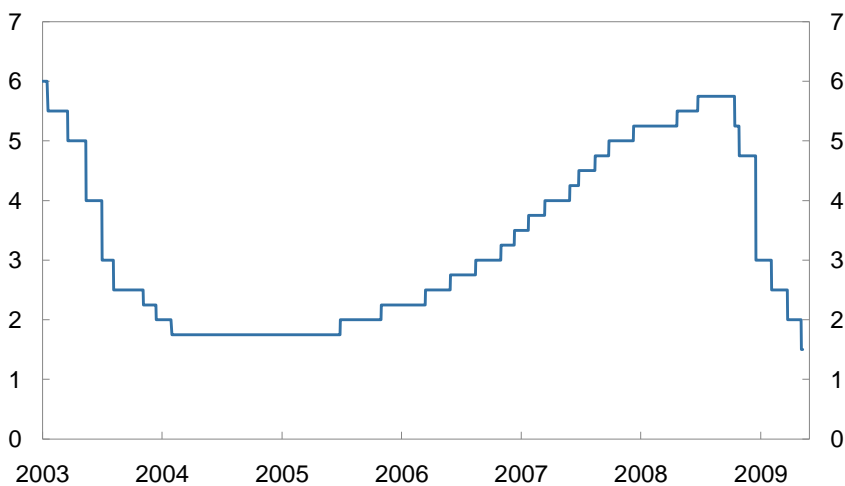


1) CPI adjusted for tax changes and excluding temporary changes in energy prices. See *Staff Memo 2008/7* from Norges Bank for a description of the CPIXE

Sources: Statistics Norway and Norges Bank

Norges Bank's key policy rate

Per cent. 1 January 2003 – 11 May 2009



Source: Norges Bank

Division of responsibility in economic policy

Wage formation,
structures and
incentives



Employment and growth

Monetary policy



Price stability

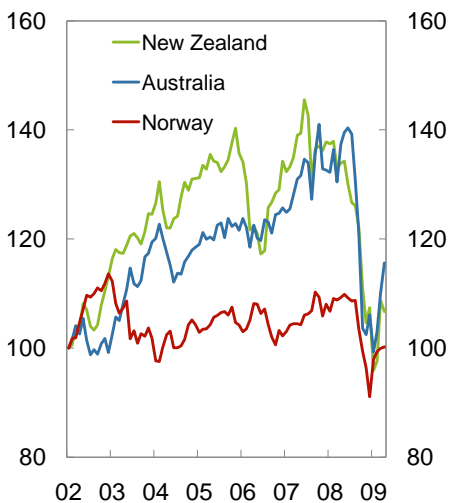
Fiscal policy



Krone exchange rate

Effective exchange rates

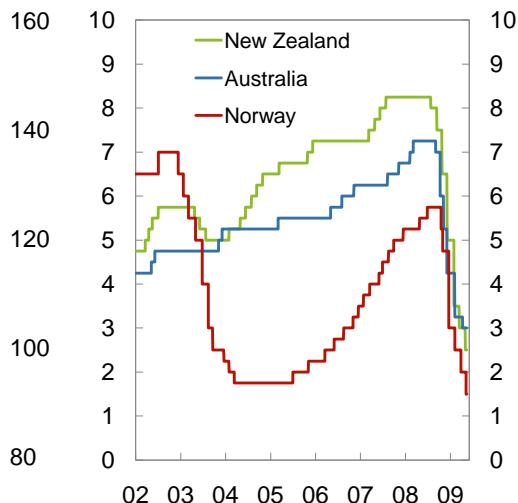
Index¹⁾. Jan. 2002 = 100. Monthly
figures. Jan. 2002 – Apr. 2009



1) A rising curve denotes a stronger exchange rate

Key policy rates

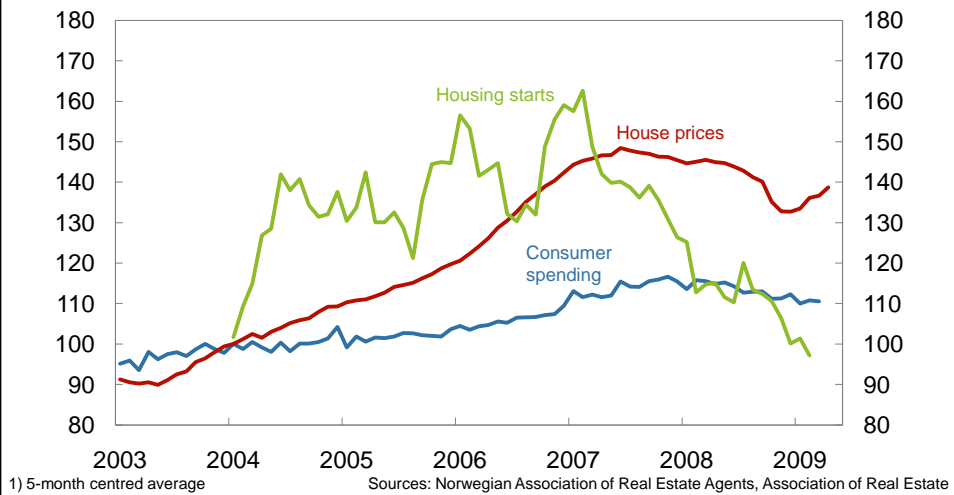
Per cent. Daily figures.
1 Jan. 2002 – 11 May 2009



Source: EcoWin / OECD

Consumer spending, house prices and housing starts¹⁾

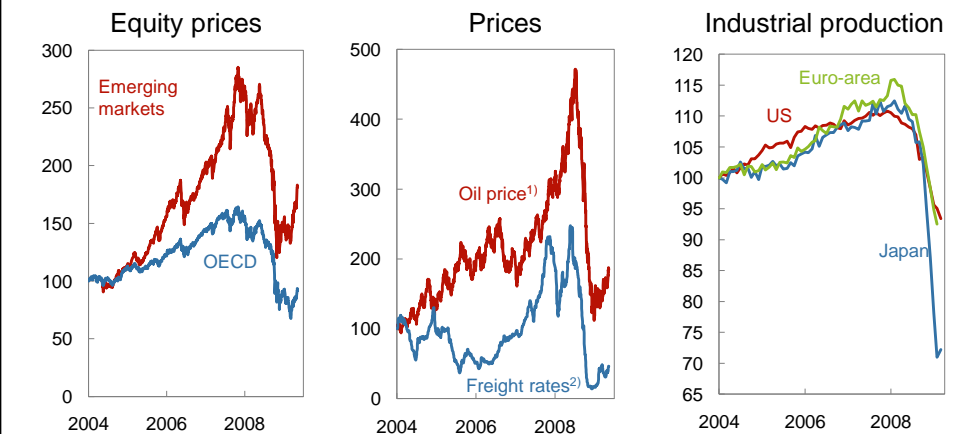
Index. 1 January 2004 = 100. January 2003 – April 2009



NORGES BANK

Fall in all countries and markets

Index. 1 January 2004 = 100. 1 January 2004 – 11 May 2009



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8

Measures

- Liquidity measures
 - Larger and longer loans
 - Easing of collateral requirements
 - Exchange rate swaps
- Monetary measures
 - Interest rate cuts
- Financing measures
 - Swap arrangement
- Measures to boost financial strength
 - Supply of risk capital
- Fiscal measures
 - Government package

Financial events and measures

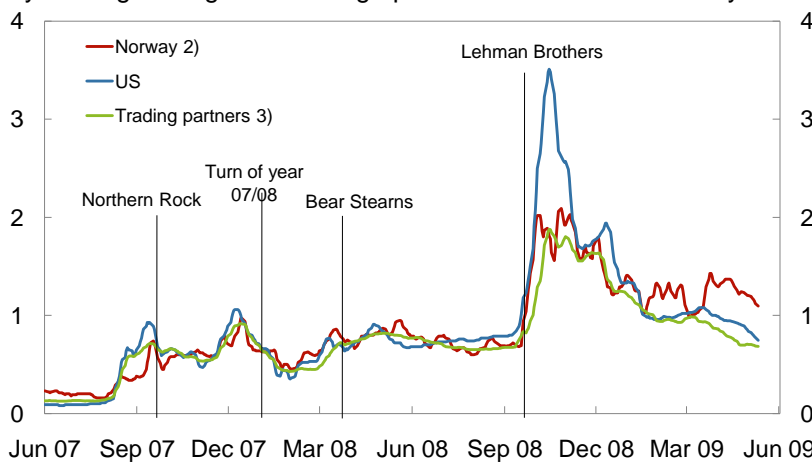
15 Sep	Lehman Brothers bankruptcy – money markets collapse
15 Sep	More liquidity – increased supply through F-loans
16 Sep	Exchange rate swaps supply USD for NOK – money markets reactivated
17 Sep	AIG emergency loan
24 Sep	Monetary policy meeting – widespread uncertainty
25 Sep	Washington Mutual into receivership – bond markets collapse Longer loans – 3-month F-loan
29 Sep	Credit arrangement with Federal Reserve – loan of up to USD 15bn
6 Oct	Easing of collateral requirements Submission proposing swap arrangement sent to Ministry of Finance
8 Oct	Exchange rate swaps supply NOK for EUR and USD
10 Oct	Loans for smaller banks – 6-month F-loan
15 Oct	Key policy rate reduced by 50bp
20 Oct	Longer loans for all banks - 6-month F-loan
24 Oct	Swap arrangement – Storting decision
29 Oct	Key policy rate reduced by 50bp
14 Nov	Swap arrangement – circular Longer loans for small banks – 2-year F-loan
24 Nov	Swap arrangement – first auction held
27 Nov	Swap arrangement – submission with adjustment proposal sent to Ministry of Finance
28 Nov	Ministry of Finance adjusts swap arrangement
17 Dec	Key policy rate reduced by 175bp
18 Dec	Submission to Ministry of Finance proposing government supply of Tier 1 capital
22 Dec	Swap arrangement – submission proposing extension of term from 3 to 5 years sent to Ministry of Finance

“[...] The Bank shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy.”

Chapter 1, Section 3 in the Norges Bank Act

Difference between money market rates and expected key policy rates ¹⁾

5-day moving average. Percentage points. 1 June 2007 – 11 May 2009



1) Expected key rates are derived from Overnight Indexed Swap (OIS) interest rates.

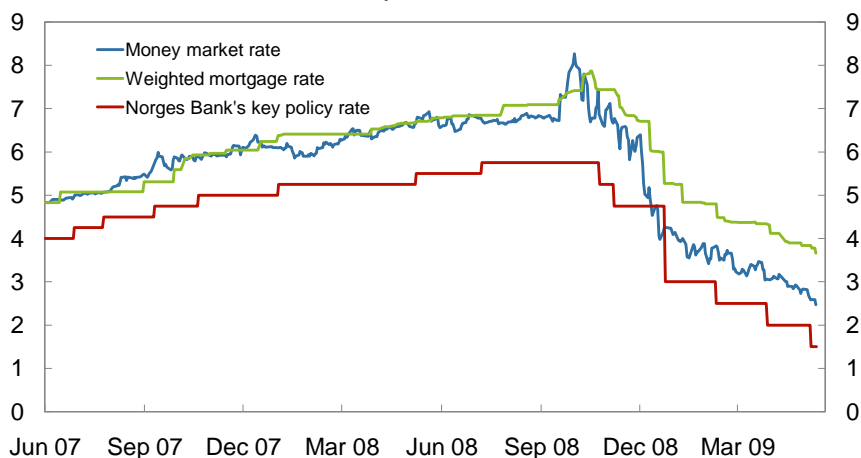
2) Projected

3) UK, euro area, Japan, Sweden and US

Sources: Thomson Reuters, Bloomberg and Norges Bank

Key policy rate, money market rate and banks' lending rate on new loans¹⁾

Per cent. 1 June 2007 – 12 May 2009

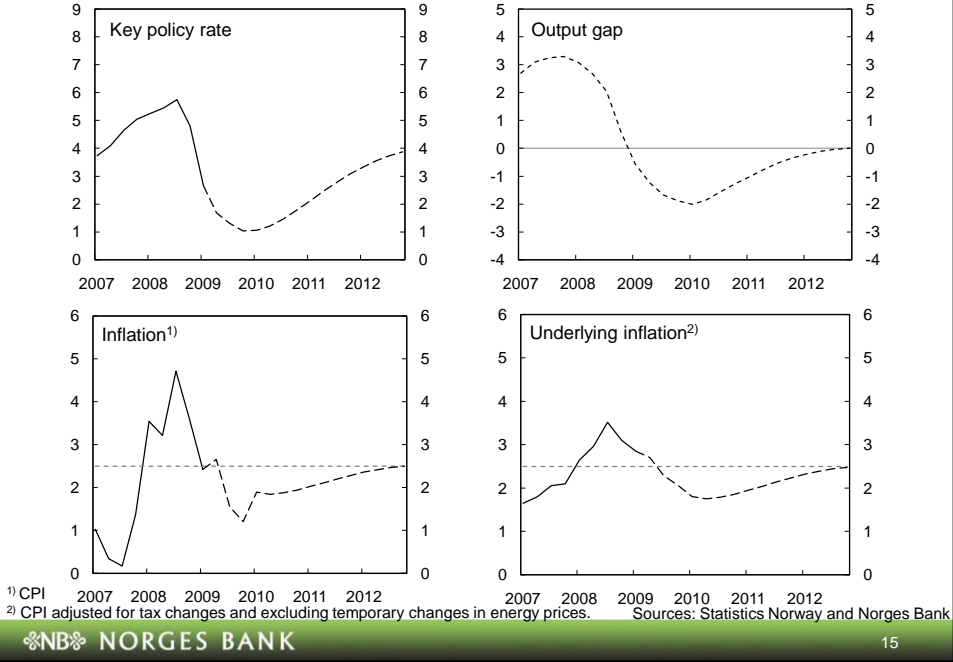


¹⁾ Nominal interest rates on new mortgage loans of NOK 1 million with floating interest rate and within 60% of purchase price. Figures for the 20 largest banks, weighted according to market share.

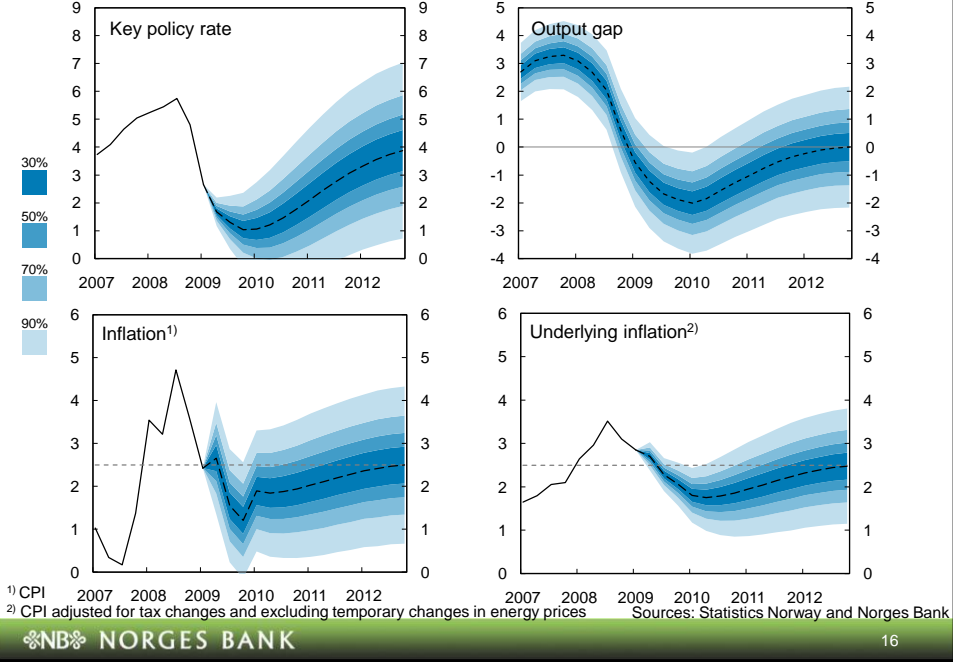
Sources: Norsk familieøkonomi AS and Norges Bank

$$\text{Real interest rate} = \text{key policy rate} + \text{interest rate premium} - \text{expected inflation}$$

Baseline scenario in *Monetary Policy Report 1/09*. Per cent

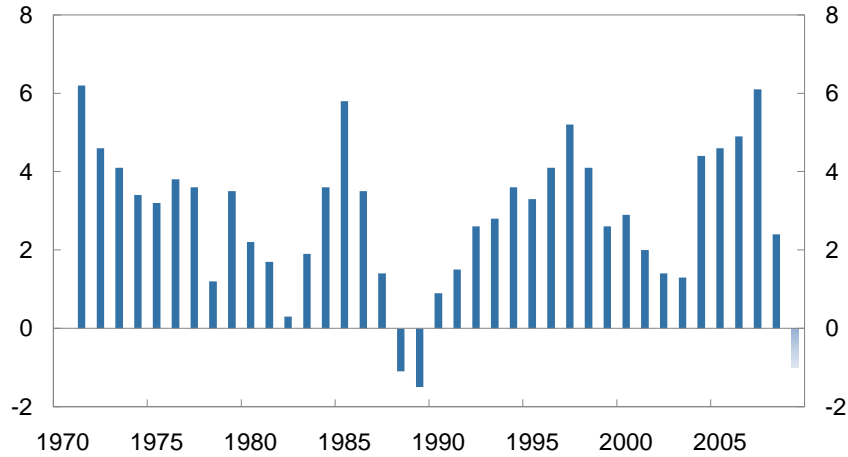


Baseline scenario in *Monetary Policy Report 1/09*. Per cent



Mainland GDP

Annual volume change. Per cent. 1970 - 2009¹⁾

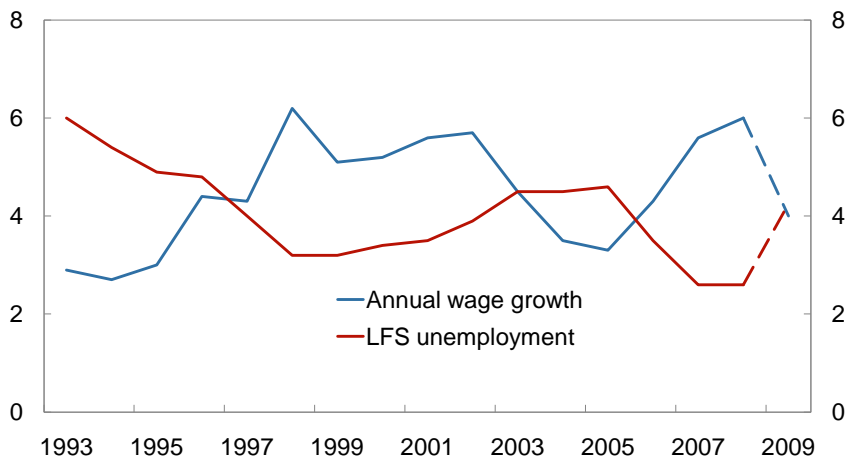


1) Projection for 2009 from MPR 1/09

Sources: Statistics Norway and Norges Bank

Annual wage growth¹⁾ and LFS unemployment

Per cent. 1993 – 2009²⁾



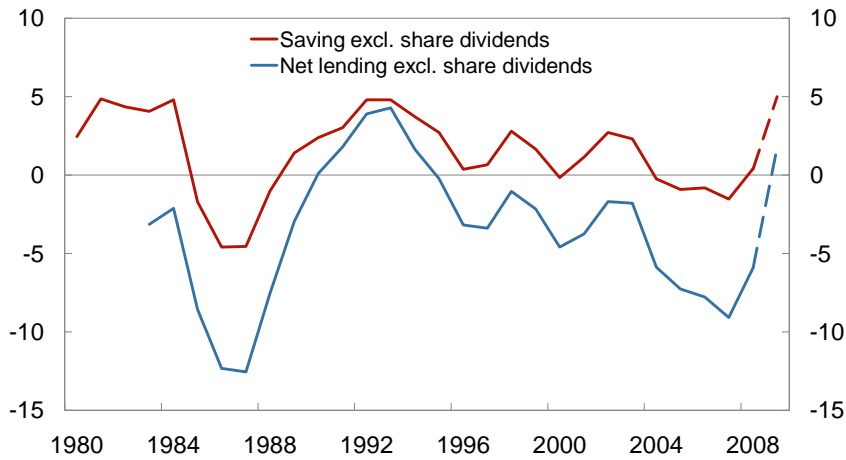
1) Average for all groups. Including estimated costs of increase in number of vacation days and introduction of mandatory occupational pensions.

2) Projections for 2009 from MPR 1/09.

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

Household saving and net lending

Share of disposable income. Per cent. 1980 – 2009¹⁾

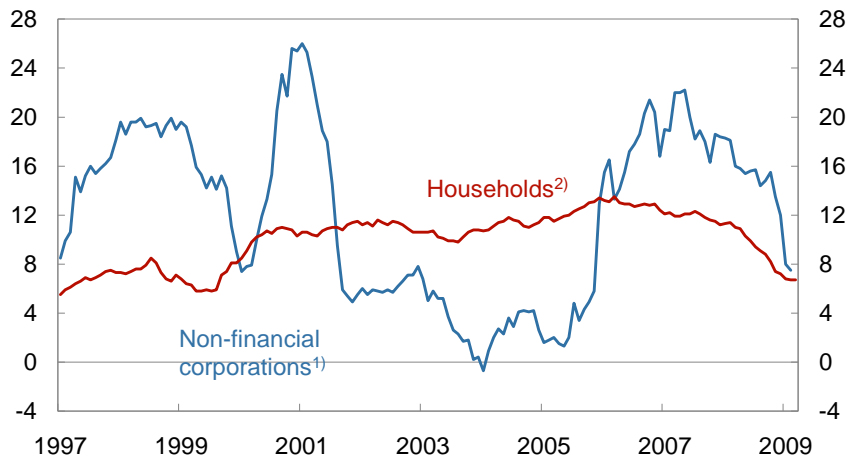


1) Projections for 2009 from MPR 1/09

Sources: Statistics Norway and Norges Bank

Credit to mainland Norway

Per cent. 12-month growth. Monthly figures. January 1997 – March 2009



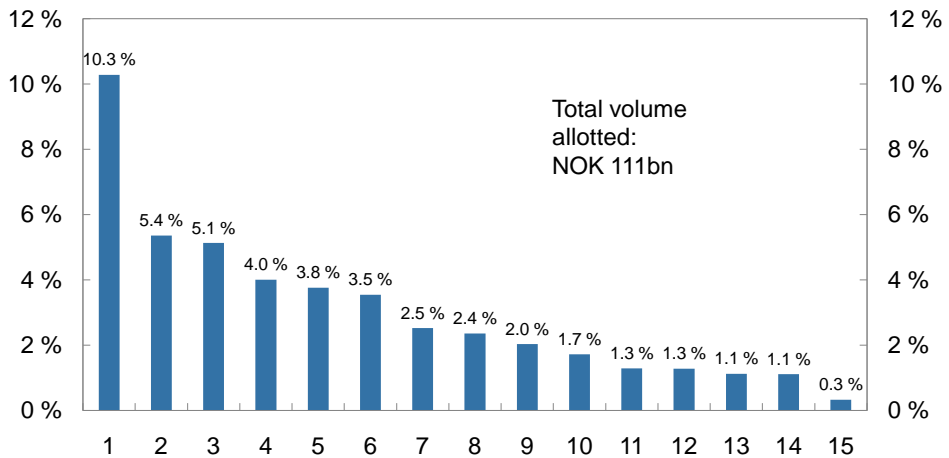
¹⁾ It is assumed that all credit to mainland Norway from foreign sources is supplied to non-financial corporations

²⁾ Credit from domestic sources (C2 households)

Source: Statistics Norway

Allotments in swap arrangement

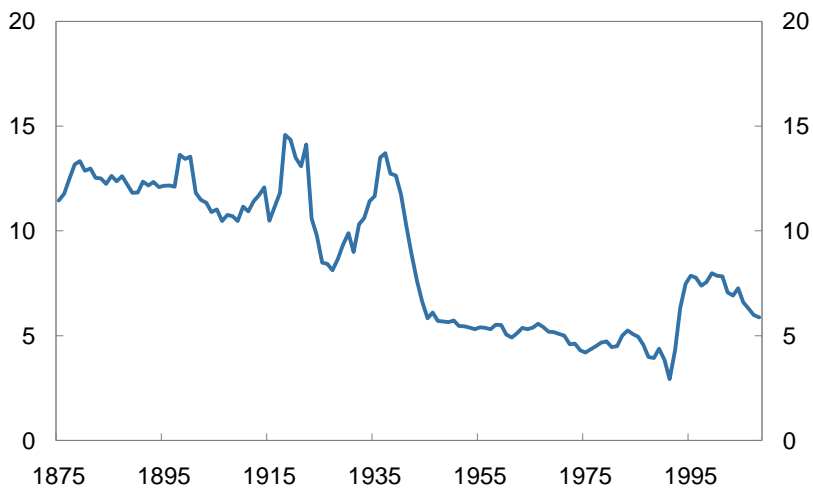
Percentage of total assets. For 15 banks or mortgage companies



Source: Norges Bank

Norwegian banks' equity capital¹⁾

Percentage of total assets. 1875 - 2008

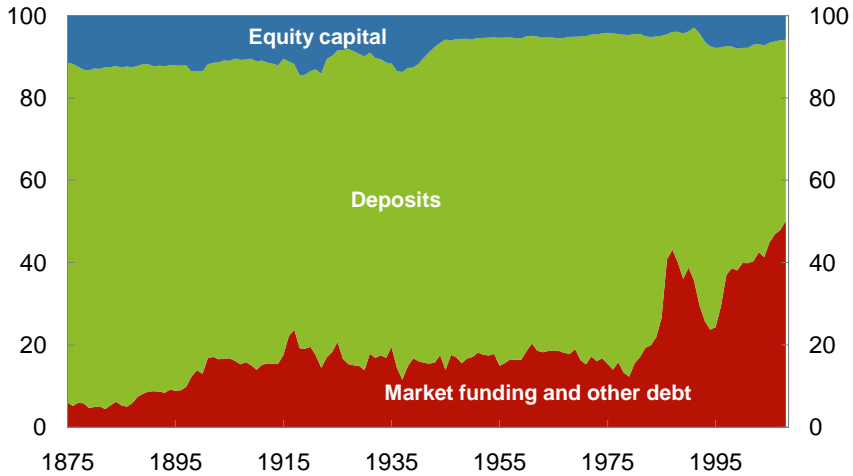


1) Includes savings and commercial banks

Sources: Klovland (2007), Statistics Norway and Norges Bank

Funding sources for banks in Norway¹⁾

Percentage of total assets. 1875 - 2008



1) Includes savings and commercial banks

Sources: Klovland (2007), Matre (1992), Statistics Norway and Norges Bank