



PROJECTIONS AND MONETARY POLICY IN THE TIME OF COVID-19

DEPUTY GOVERNOR IDA WOLDEN BACHE

Webinar Oslo Macro Group, 26 May 2020

January: Something was brewing far away

05:44 16.01 • Knut Arne J Hansen ✕

SARS-LIGNENDE VIRUS SPREER SEG



Foto: AFP

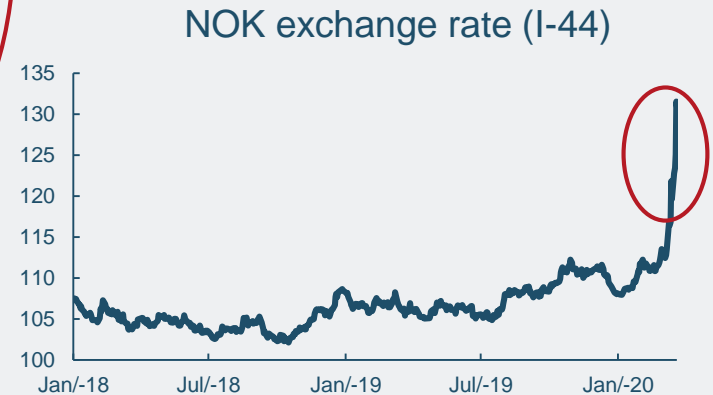
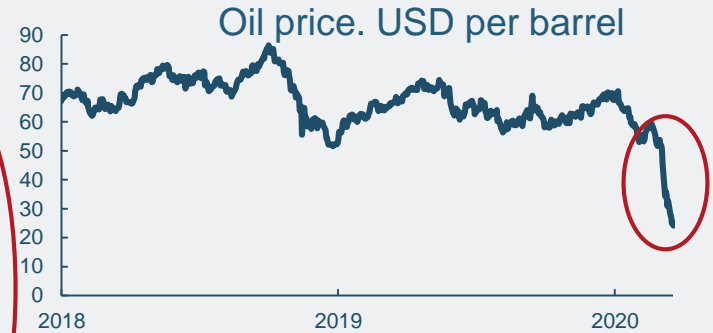
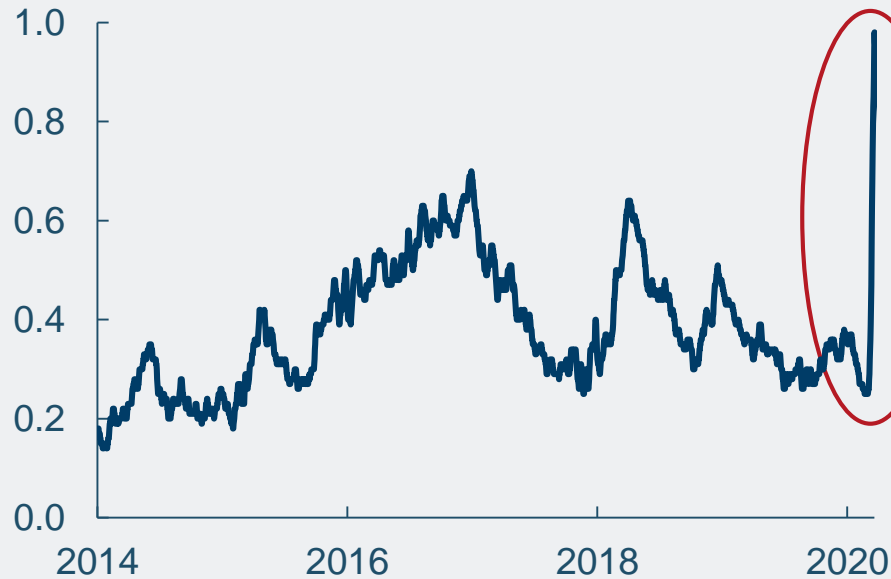
Minst én person er død og flere har blitt syke av et mystisk SARS-lignende virus i Kina. Viruset har nå også spredd seg til Japan og Thailand, skriver **CNN**. Det skal kun være registrert ett tilfelle i hvert av de to landene. Totalt skal

Viruset skal ha hatt sitt utbrudd i den kinesiske byen Wuhan, men man har fortsatt ikke funnet smitekilden. Det undersøkes om viruset kan komme fra fisker eller dyr, som SARS. Ekspertene har riktignok utelukket at det dreier seg om SARS-viruset, som tok over 750 menneskeliv.

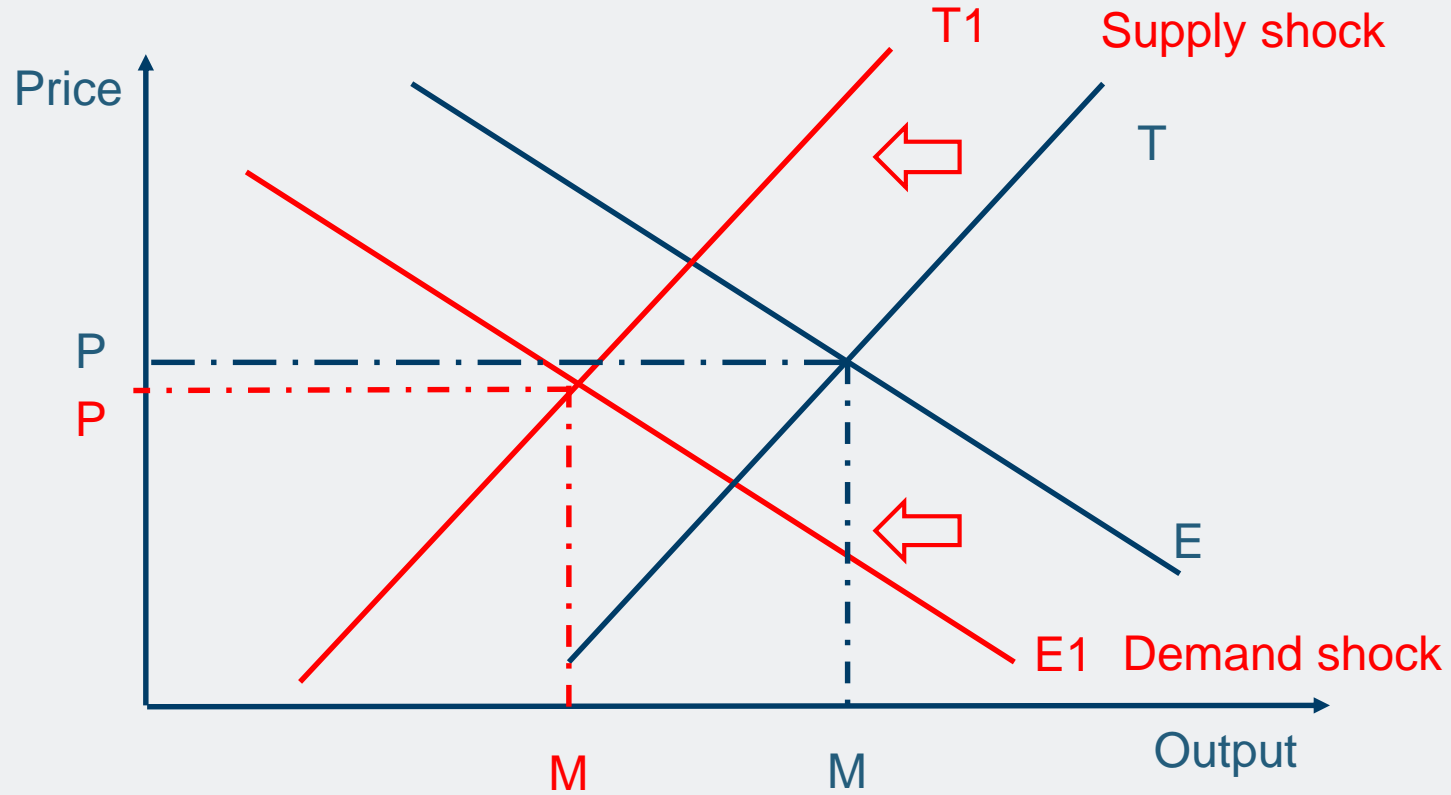
Folkehelseinstituttet **informerer om viruset på sine hjemmesider**. Risikoen for at det skal komme personer med smitte til Europa er lav, men kan ikke utelukkes, skriver de. Risikoen for smitte til helsepersonell vurderes også som lav.

March: The outlook changed dramatically

Three-month Nibor premium. Percentage points

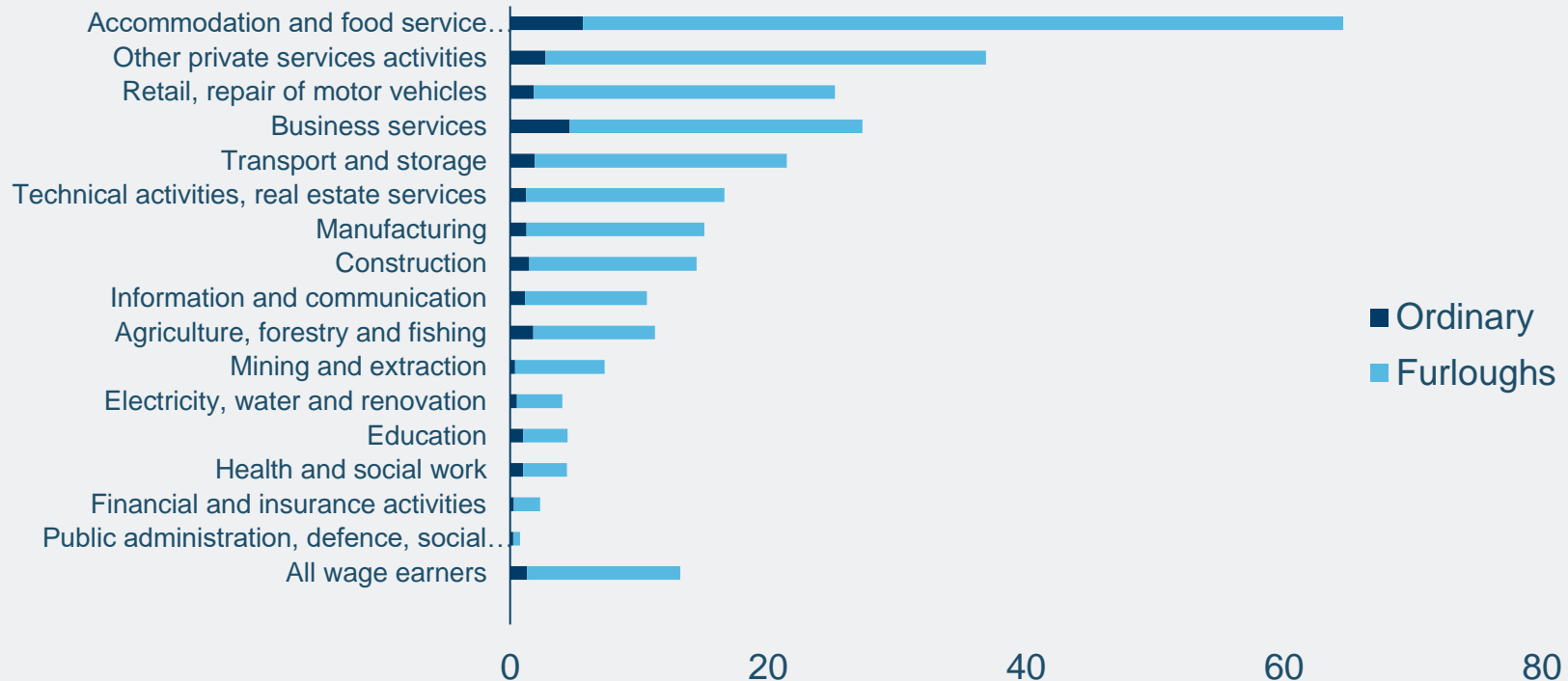


Supply or demand shock?



Pandemic's impact is highly uneven

Applications for unemployment benefits, 9 March - 28 April. Share of employees. Percent



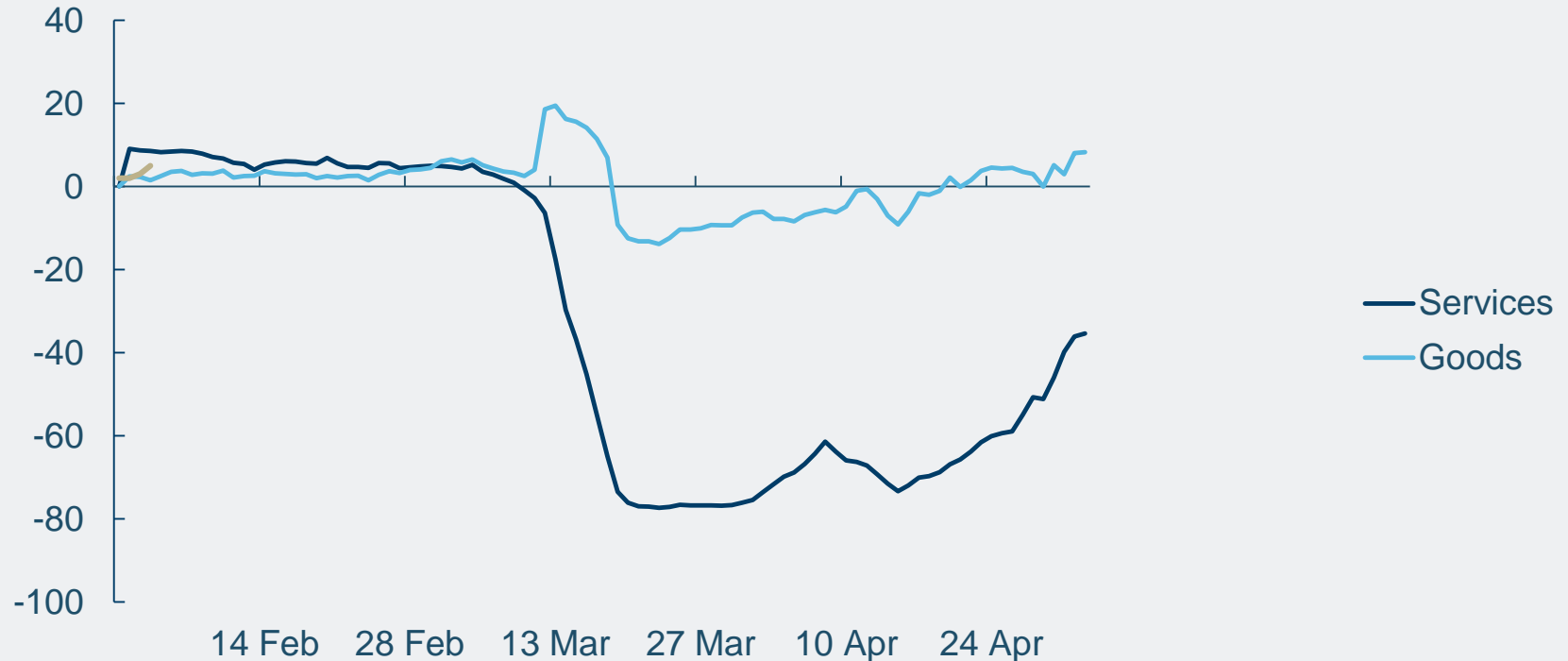
Questions we asked ourselves

- How should we make and communicate projections when uncertainty is so high?
- Are our models still relevant?



A useful indicator: Use of debit cards

Value of debit card transactions via BankAxept in 2020 relative to 2019. Percent



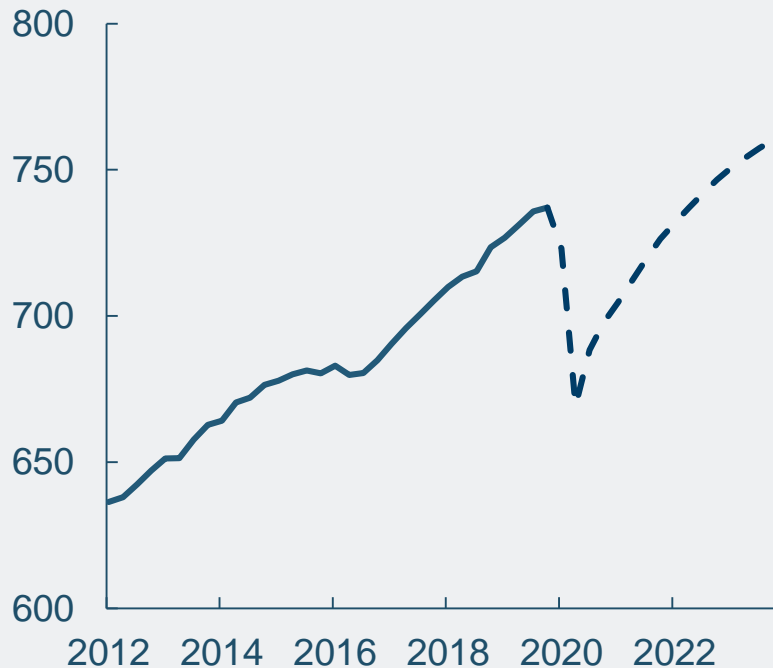
Many useful research papers

- “Standard” macro model
 - What type of shock? Supply or demand? : Guerrieri et al (2020)
- Representative agents models + SIR
 - Endogenous social distancing: Toxvaerd (2020)
 - Choice of policy strategy: Jones et al (2020), Bodenstein et al (2020), Farboodi et al (2020)
 - Optimal policy measures: Eichenbaum et al (2020), Alvarez et al (2020)
- Heterogeneous agents models + SIR
 - Distributional effects: Glover et al (2020)
 - Optimal measures and heterogeneity: Kaplan et al (2020)

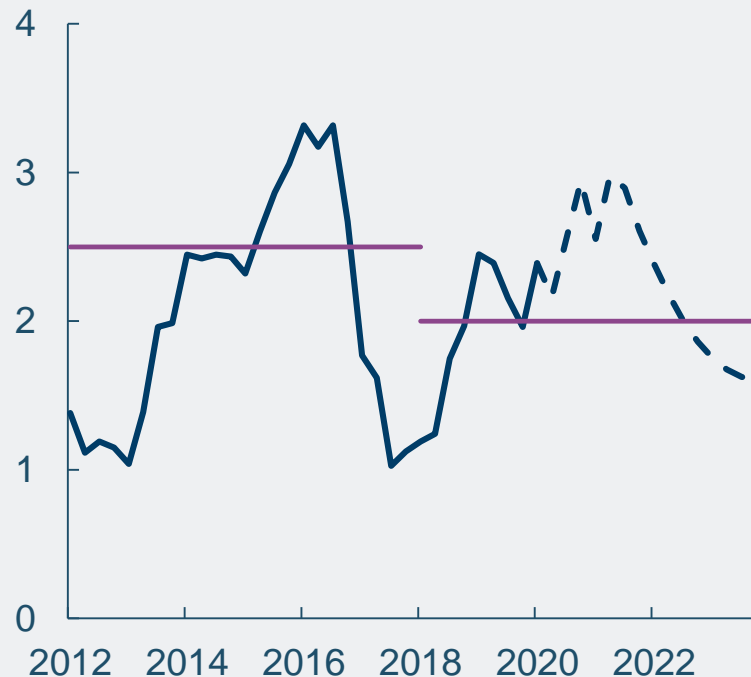


Baseline scenario,¹⁾ May monetary policy meeting

Quarterly mainland GDP. In billions of NOK



CPI-ATE. Four-quarter change. Percent

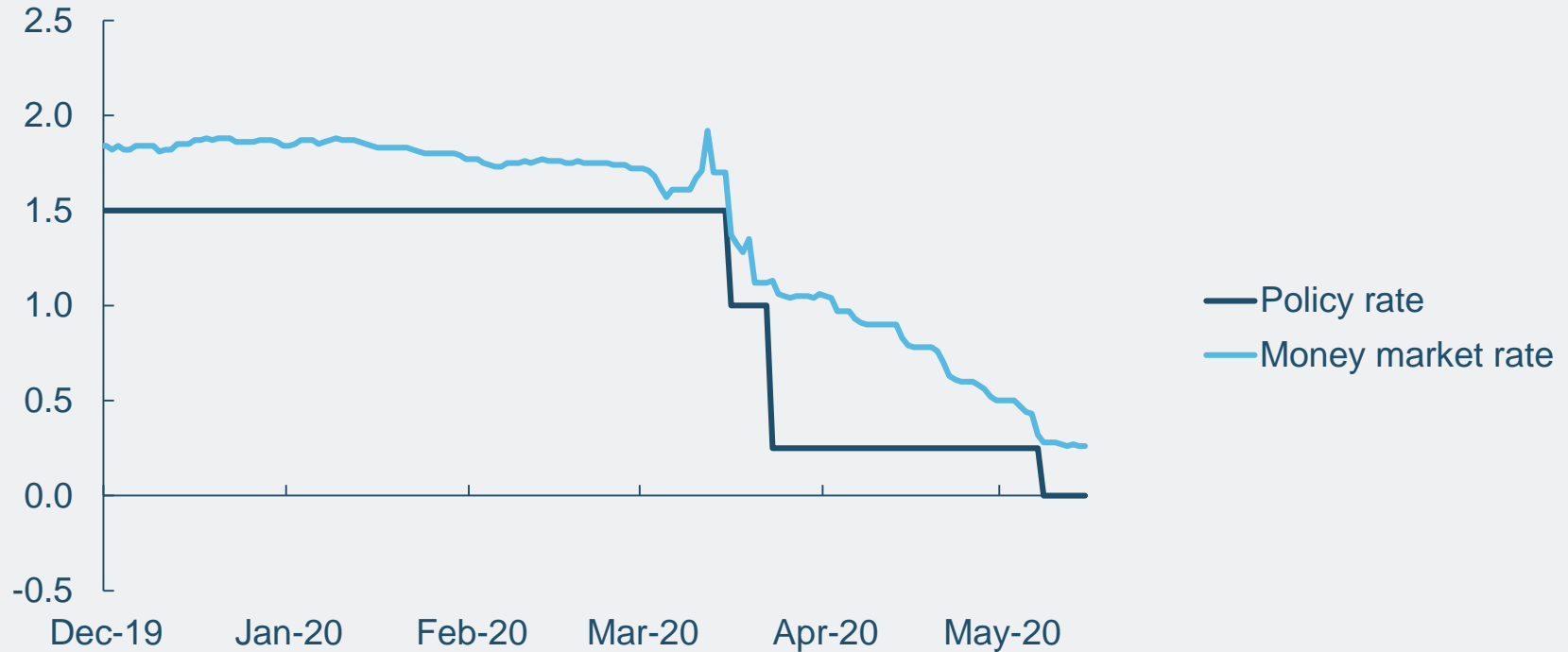


1) Projections from *Monetary Policy Update, May 2020*.
Sources: Statistics Norway and Norges Bank



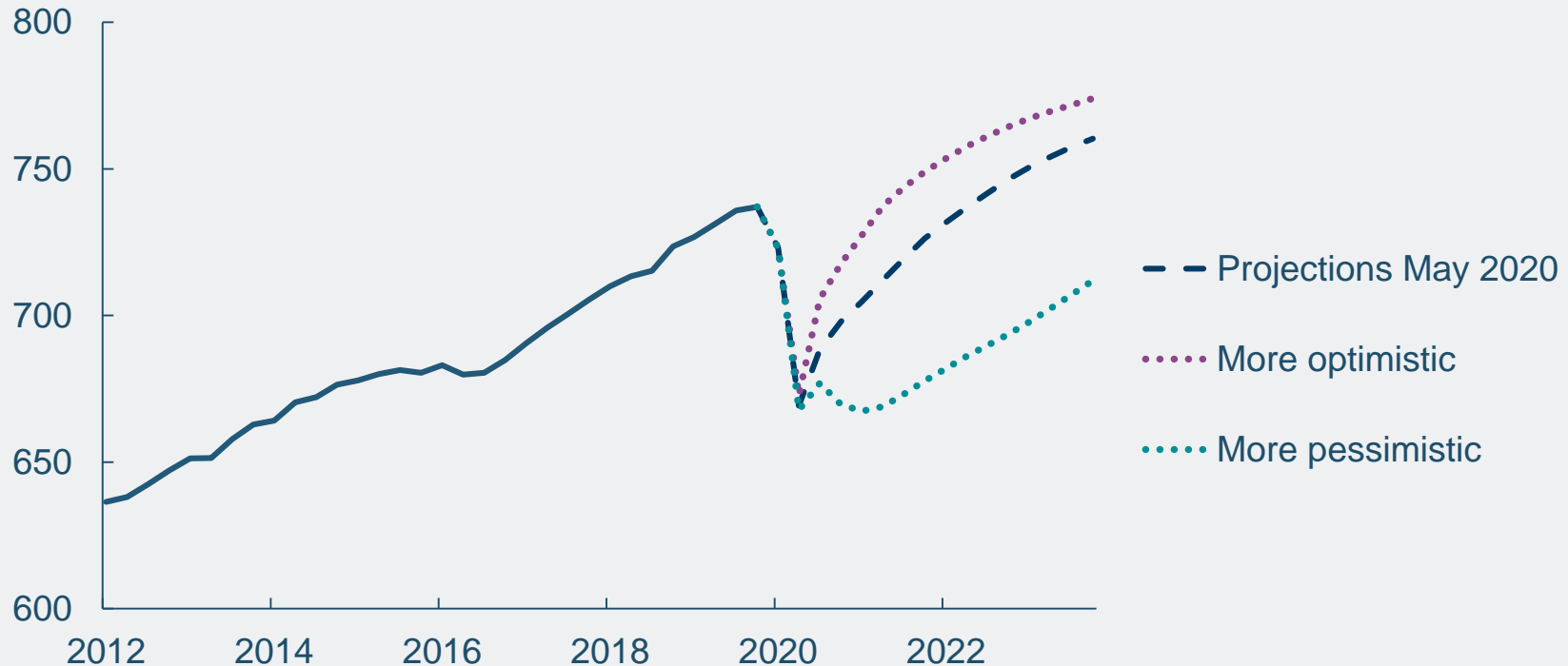
Policy rate reduced to zero

Money market rate (three-month Nibor) and policy rate. Percent



Uncertainty unusually high

Quarterly mainland GDP Norway.¹⁾ In billions of NOK



1) Projections from *Monetary Policy Update*, May 2020.
Sources: Statistics Norway and Norges Bank



“THE FUTURE AIN’T WHAT IT USED TO BE”

(Often credited to Yogi Berra)





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