Transparency and central bank communication

Speech by Deputy Governor Jan F. Qvigstad
at a seminar in Banca d’Italia, Rome
4 November 2008

Chart 1. Baseline scenario in MPR 2/08

Key policy rate
Output gap
CPI
CPIXE

Sources: Statistics Norway and Norges Bank

1) CPIXE: CPI adjusted for tax changes and excluding temporary fluctuations in energy prices
Chart 2. Alternative scenarios in MPR 2/08

Key policy rate

Output gap

Sources: Statistics Norway and Norges Bank

Chart 3. Projected interest rate path

Source: Norges Bank
Chart 4. Delta accounting of the interest rate path: Factors behind changes in the interest rate path since MPR 1/08

Percentage points

08 Q3 09 Q1 09 Q3 10 Q1 10 Q3 11 Q1 11 Q3

Lower growth abroad
Higher risk premium in the money market
Higher interest rates abroad
Higher inflation in Norway
Higher demand in Norway
Changes in the interest rate path

Source: Norges Bank

Chart 5. Surprise effects in 12-month rate after policy announcements

Market rates as exogenous assumptions
Interest rate forecasts

Source: Norges Bank
<table>
<thead>
<tr>
<th>Natural order of transparency</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>mandate – price stability</td>
<td>ca. 40</td>
</tr>
<tr>
<td>numerical inflation objective</td>
<td>22</td>
</tr>
<tr>
<td>general strategy that guides central bank decisions</td>
<td>*</td>
</tr>
<tr>
<td>reasons for decisions</td>
<td>35</td>
</tr>
<tr>
<td>assessment of inflationary pressures</td>
<td>27</td>
</tr>
<tr>
<td>current economic conditions, output gap</td>
<td>27</td>
</tr>
<tr>
<td>outlook for future growth of output relative to supply and inflation</td>
<td>27</td>
</tr>
<tr>
<td>principal risks around outlook and balance of risks</td>
<td>13</td>
</tr>
<tr>
<td>intentions for future policy interest rates</td>
<td>5</td>
</tr>
</tbody>
</table>

1) Our own estimates based on BIS list of central banks

* General lack of transparency or hard to obtain information regarding loss functions etc.

Source: IMF, BIS, central bank websites and Norges Bank