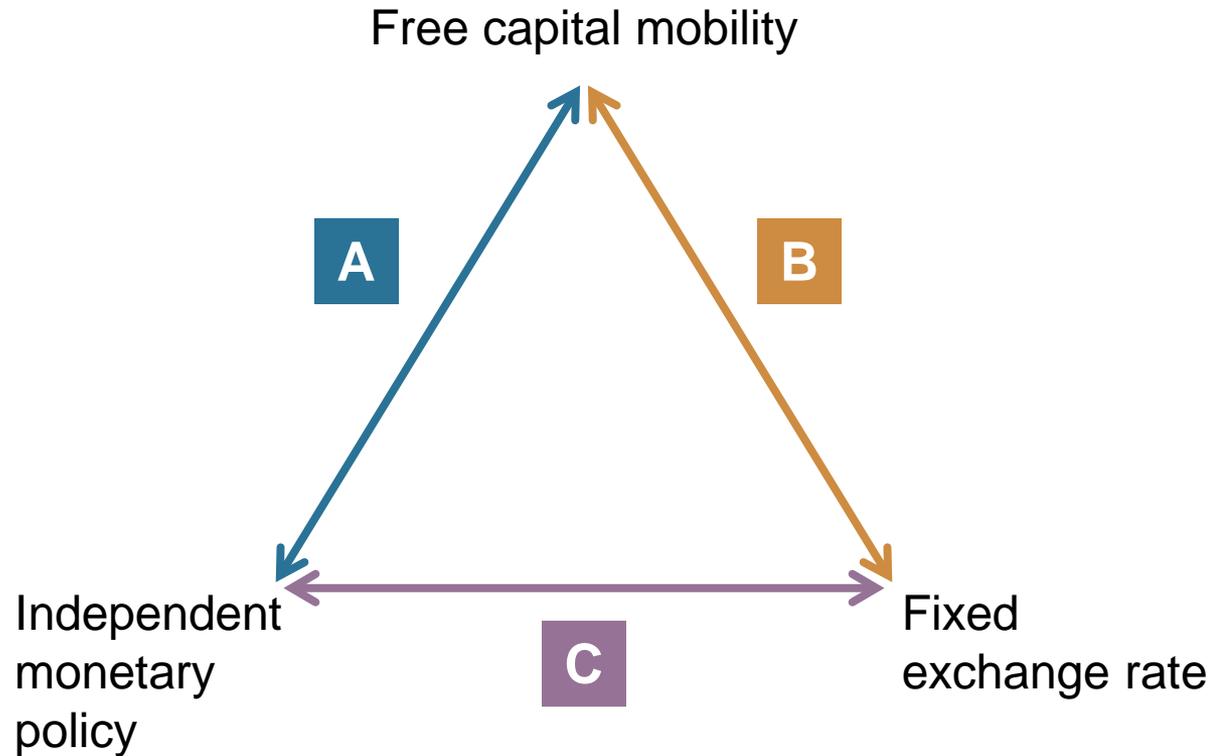




# WHO DECIDES THE INTEREST RATE IN NORWAY?

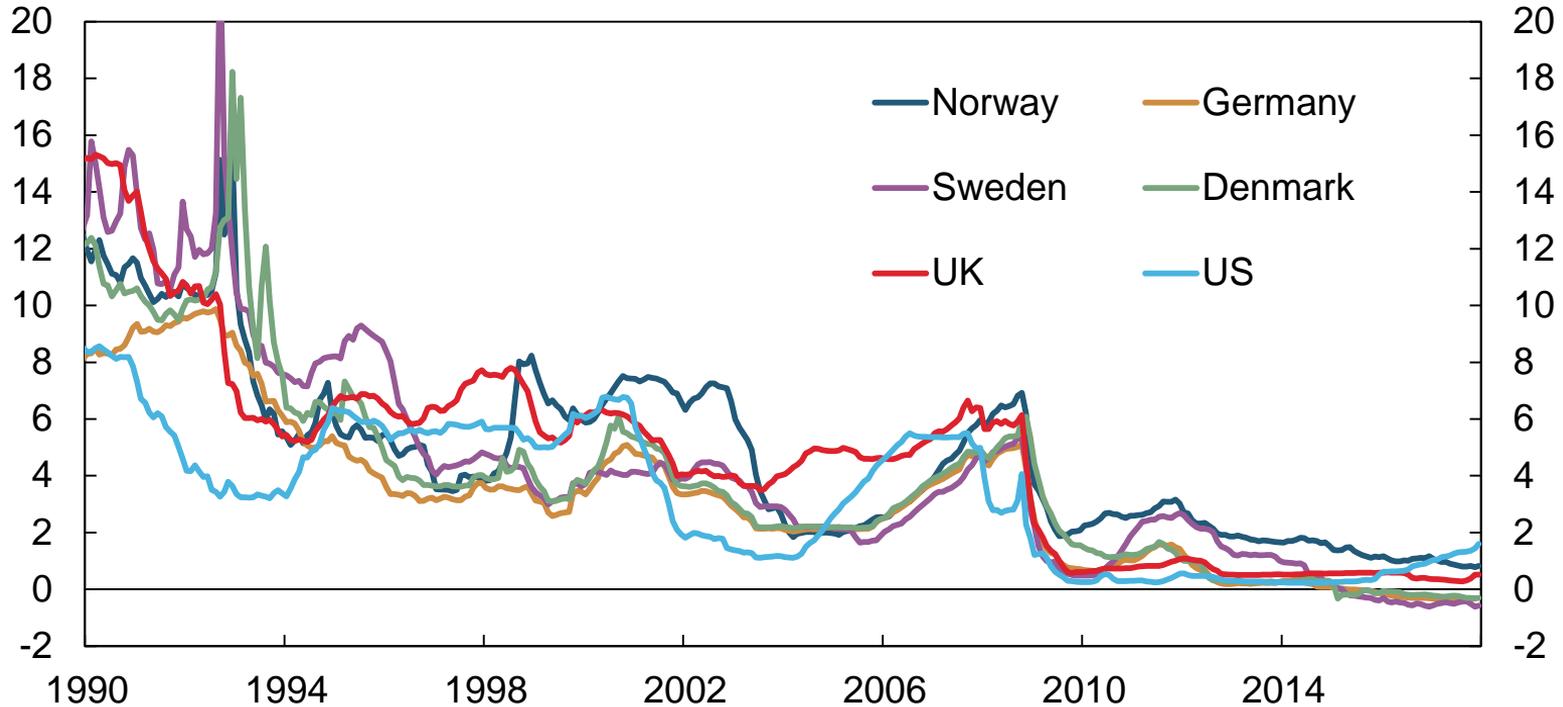
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# Macroeconomic policy trilemma



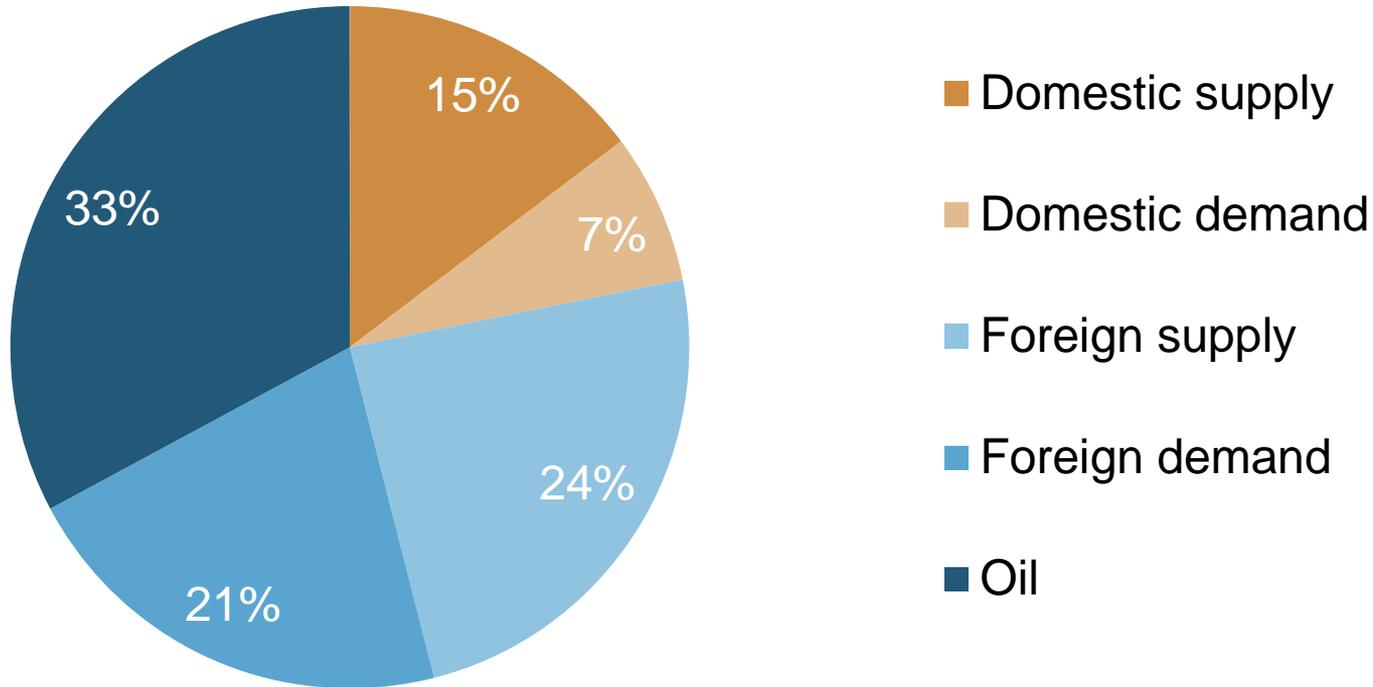
# Strong correlation among short rates

Three-month money market rates. Percent



# Global shocks predominate

Share of fluctuations in mainland GDP explained by various factors

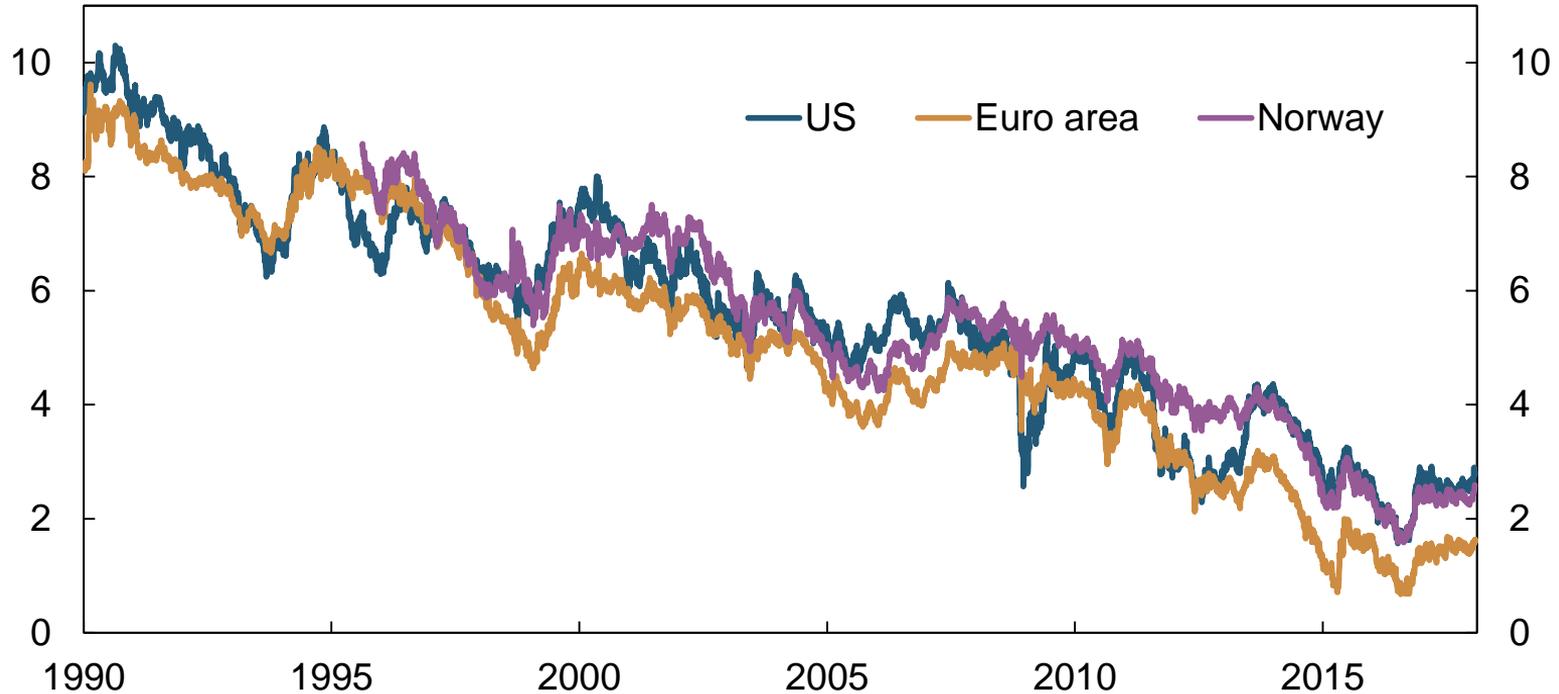


Source: Bergholt, Larsen and Seneca (2017) "Business cycles in an oil economy". *Journal of International Money and Finance*



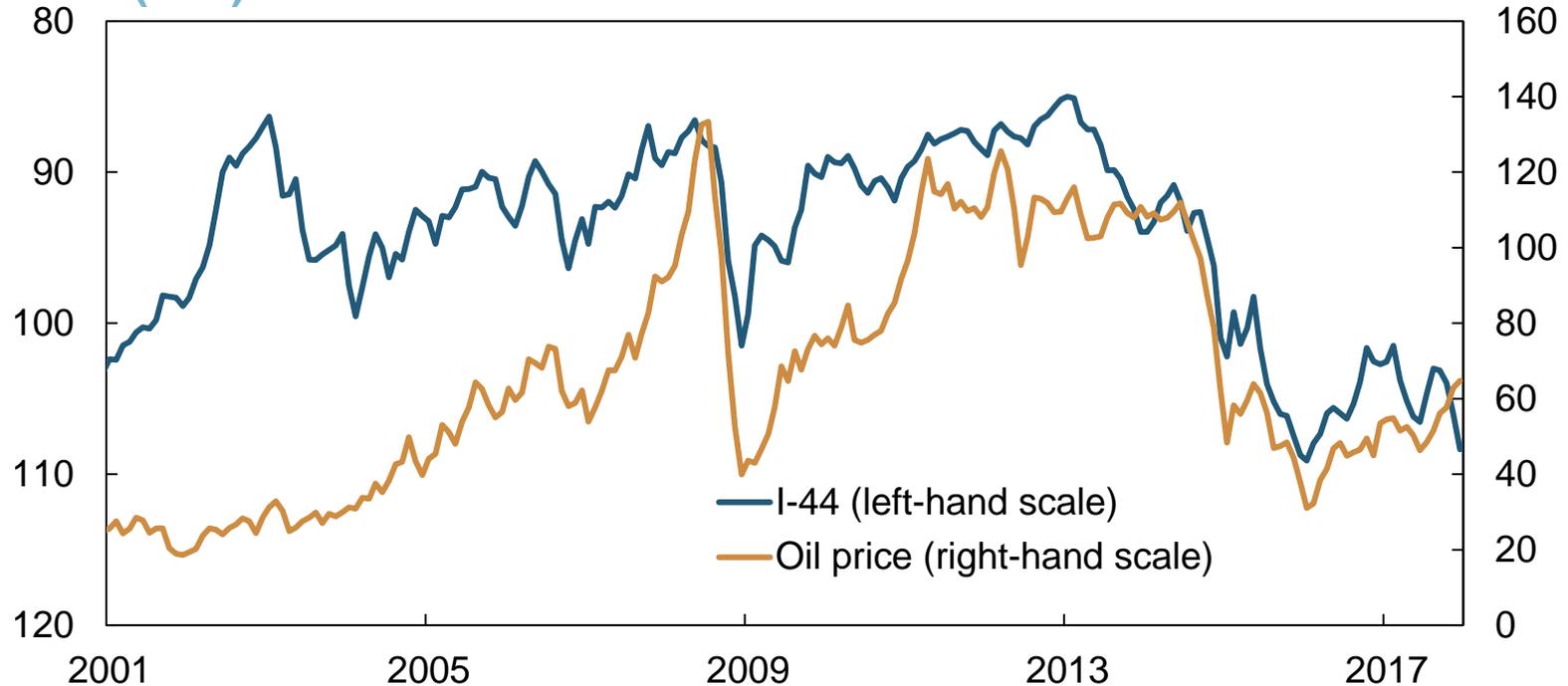
# Trend decline in long-term interest rates

Yield on five-year bonds in five years based on swap rates. Percent



# The Norwegian krone is a shock absorber

USD per barrel. Brent Blend and import-weighted exchange rate index (I-44)<sup>1)</sup>



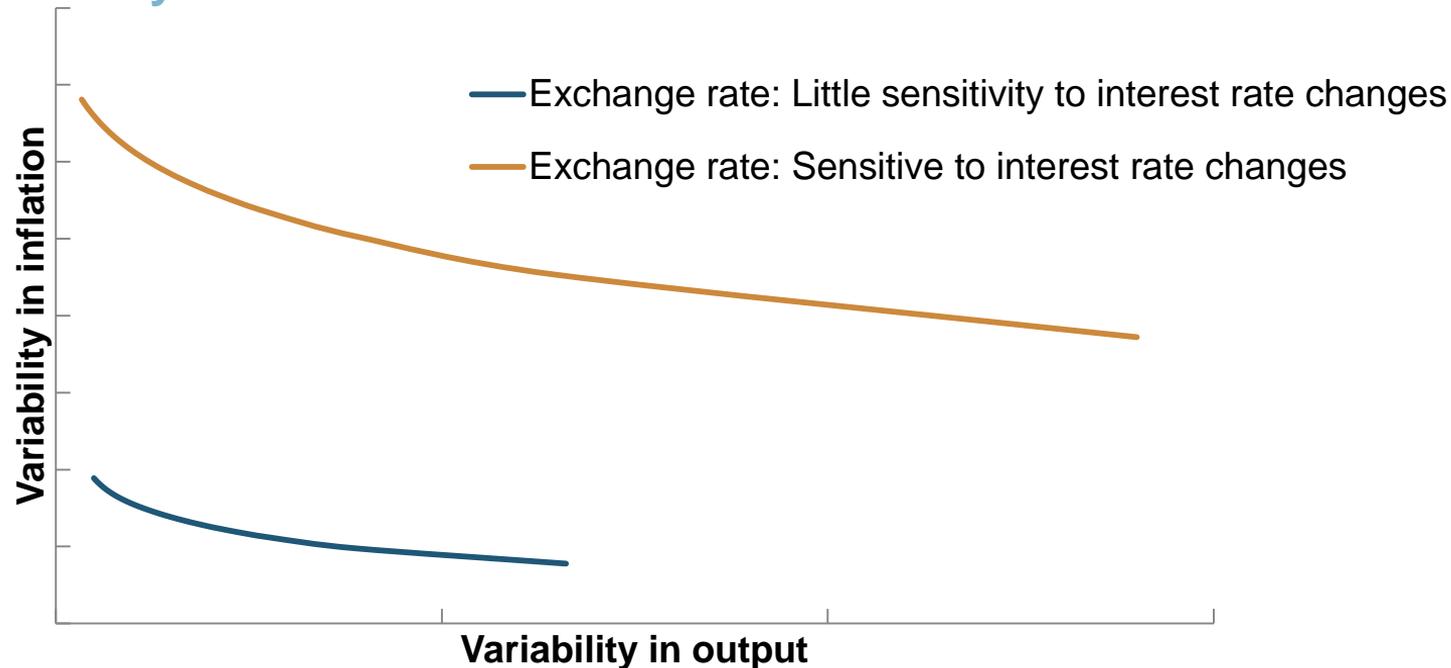
1) A positive slope denotes a stronger krone exchange rate.

Sources: Thomson Reuters and Norges Bank



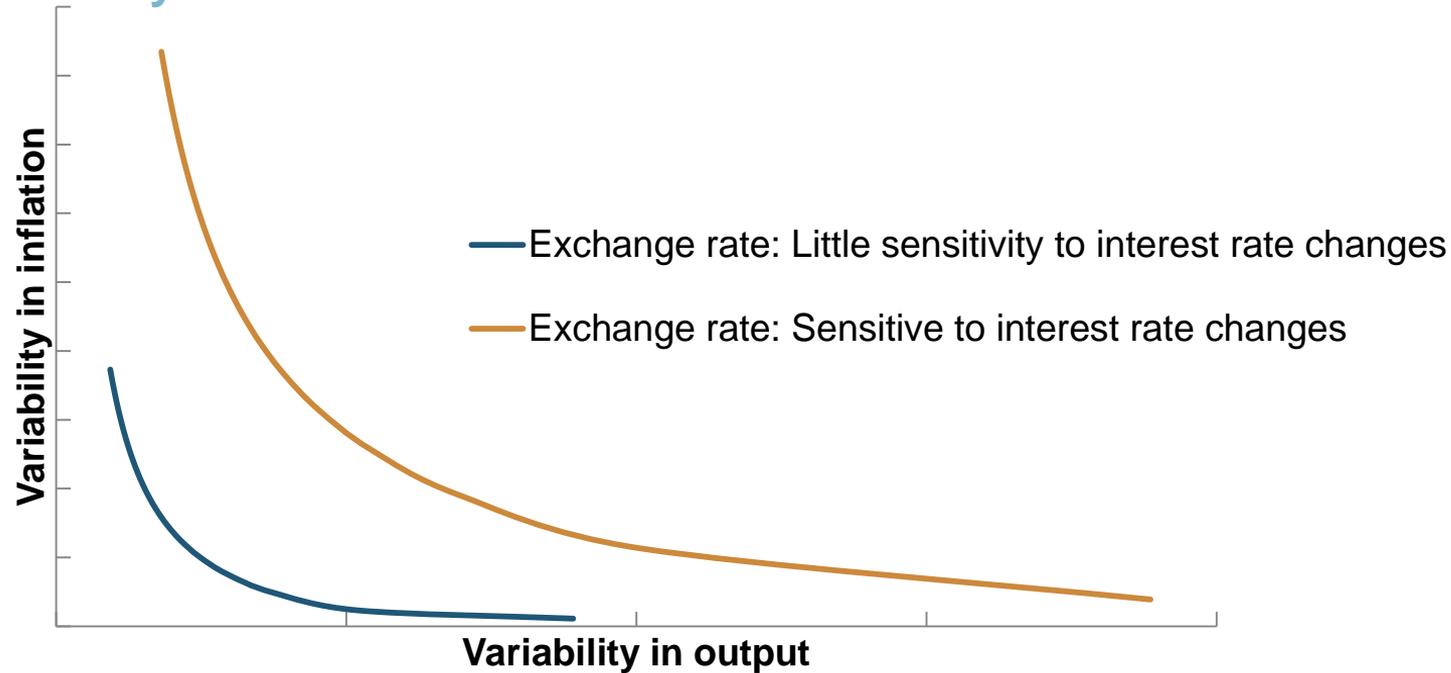
# Trade-off in event of unexpected change in foreign interest rates

Variability in inflation and output for different weights for the real economy in the loss function



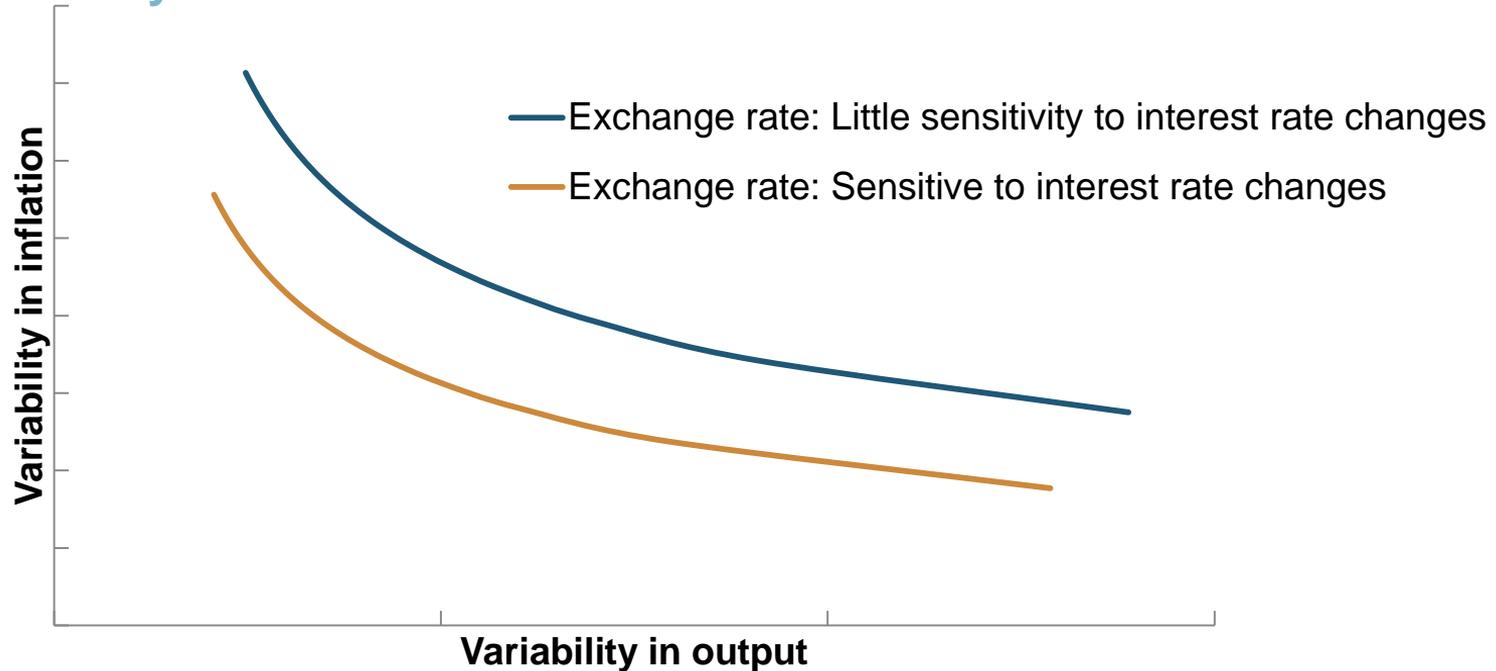
# Trade-off in event of unexpected change in house prices

Variability in inflation and output for different weights for the real economy in the loss function



# Trade-off in event of exchange rate shock<sup>1)</sup>

Variability in inflation and output for different weights for the real economy in the loss function



1) Risk premium shock to the exchange rate.

Source: Norges Bank



# Summary

- A floating exchange rate provides monetary policy independence
- In the face of globalisation, the trade-offs between monetary policy considerations may become more demanding
- Fiscal space and a resilient financial sector are important





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