

Monetary policy challenges and experiences

Deputy Governor Jarle Berge

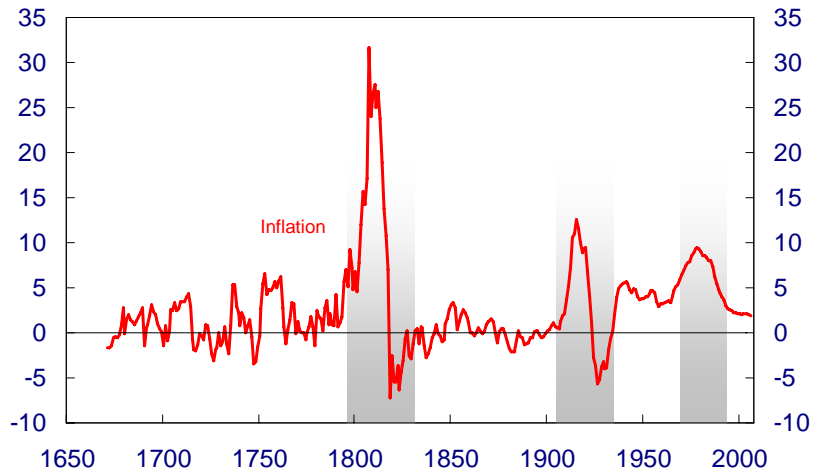
The Norwegian Shipping Club, Oslo
4 September 2006

The four pillars of stabilisation policy

	Fiscal policy	Monetary policy
1990s	The oil fund mechanism	Floating exchange rate
2001	Fiscal rule for steady phasing in of petroleum revenues	Inflation target

Inflation in Norway

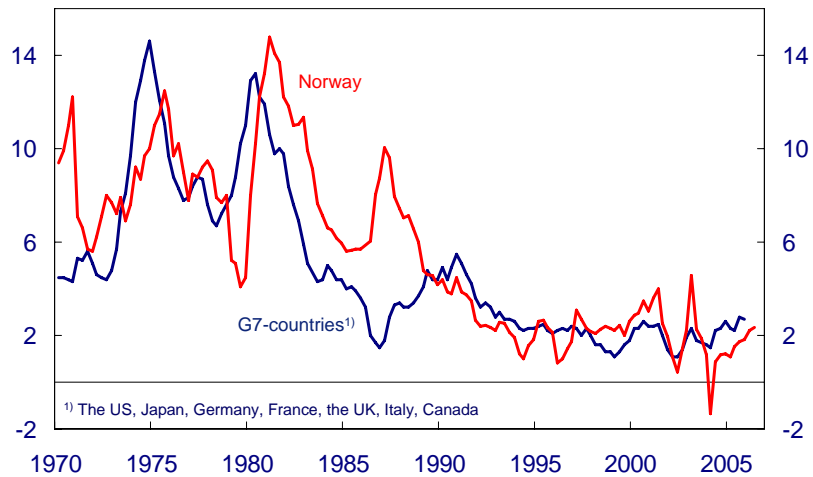
11 year moving average. Yearly growth rate. Per cent



Sources: Ola H.Grytten (2004) and Norges Bank

Inflation in the G7 countries and in Norway

Annual change. Per cent



Sources: OECD, Statistics Norway and Norges Bank

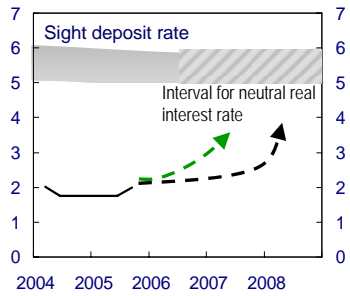
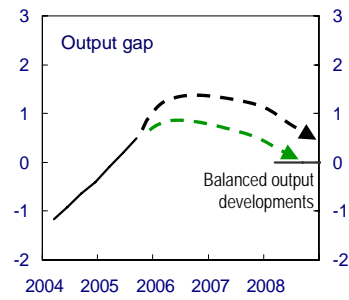
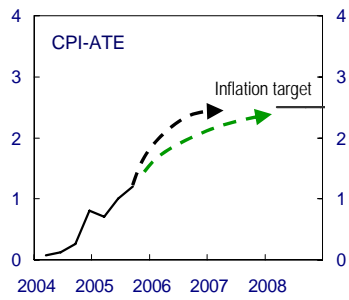
Monetary policy in other countries

- **Bank of England**
 - The Bank's monetary policy objective is to deliver price stability – low inflation – and, subject to that, to support the Government's economic objectives including those for growth and employment.
 - www.bankofengland.co.uk/monetarypolicy/framework.htm
- **European Central Bank**
 - The (Maastricht) Treaty establishes a clear hierarchy of objectives for the Eurosystem. It assigns overriding importance to price stability
 - www.ecb.int/mopo/intro/html/objective.en.html
- **Federal Reserve Bank**
 - to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates
 - www.federalreserve.gov/pf/pdf/pf_2.pdf

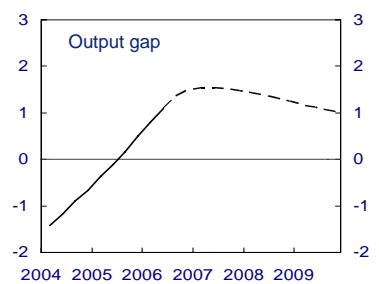
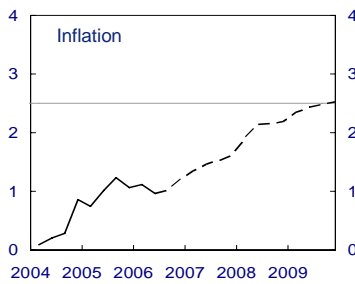
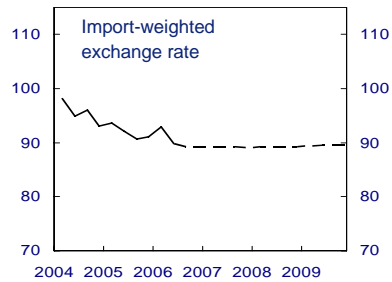
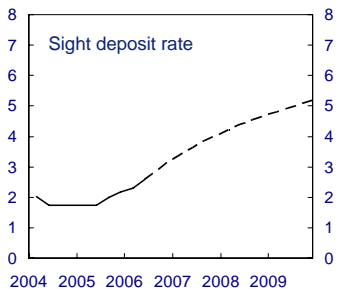
Monetary policy in Norway

- The operational objective of monetary policy is low and stable inflation, with annual consumer price inflation of approximately 2.5% over time.
- Norges Bank operates a flexible inflation targeting regime, so that weight is given to both variability in inflation and variability in output and employment.
- Norges Bank sets the interest rate with a view to stabilising inflation at the target within a reasonable time horizon, normally 1–3 years

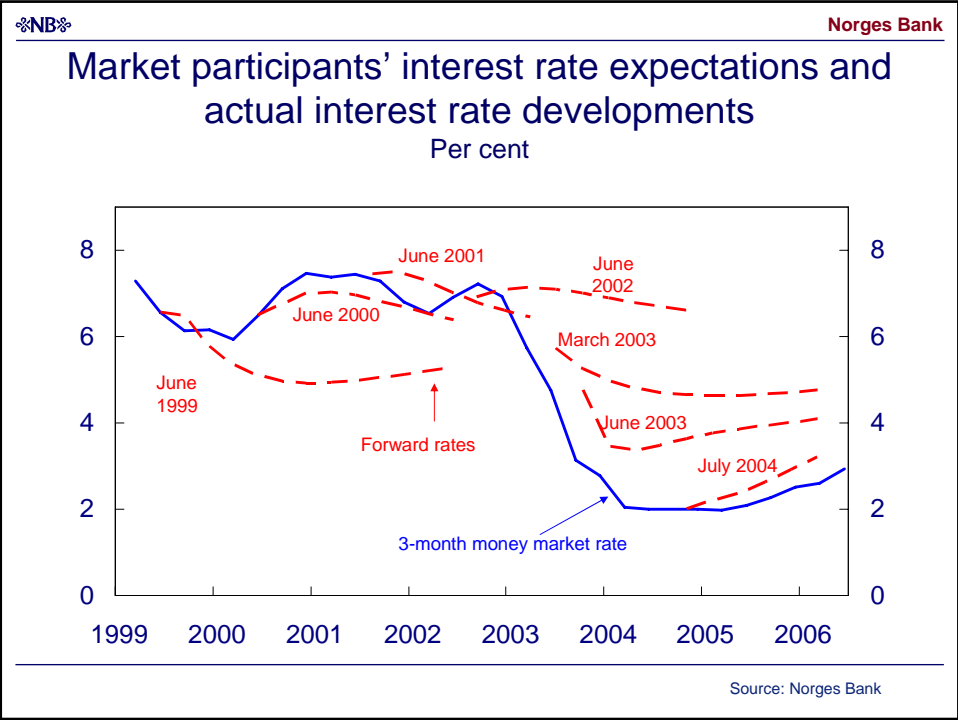
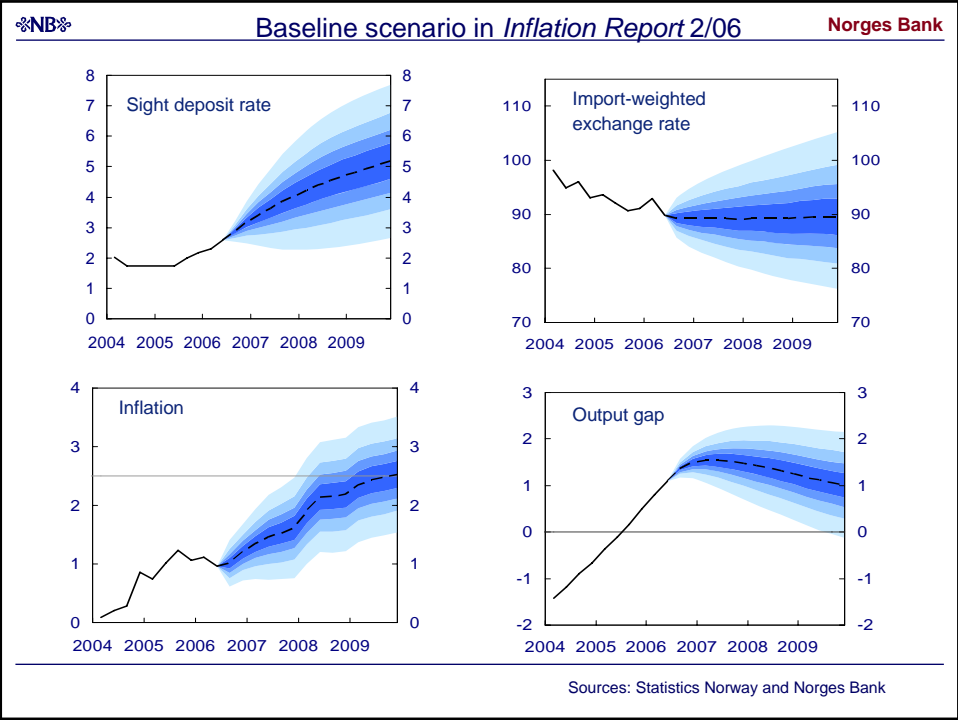
How shall the policy rate be set?



Baseline scenario in *Inflation Report 2/06*

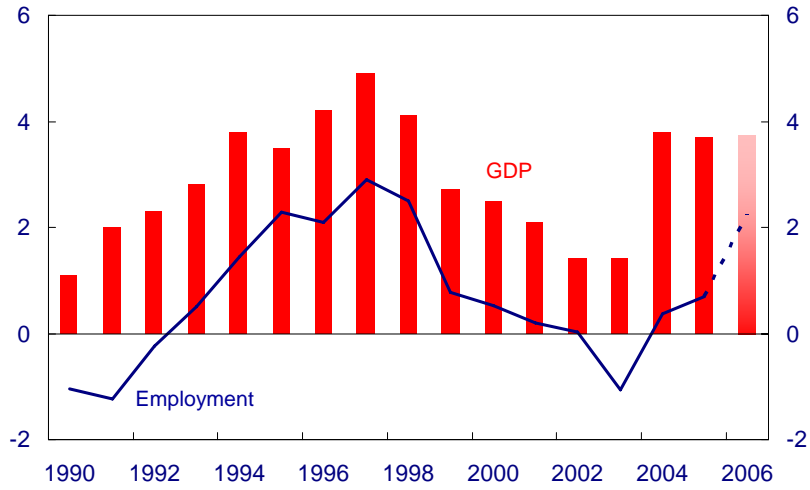


Sources: Statistics Norway and Norges Bank



GDP and employment in mainland Norway

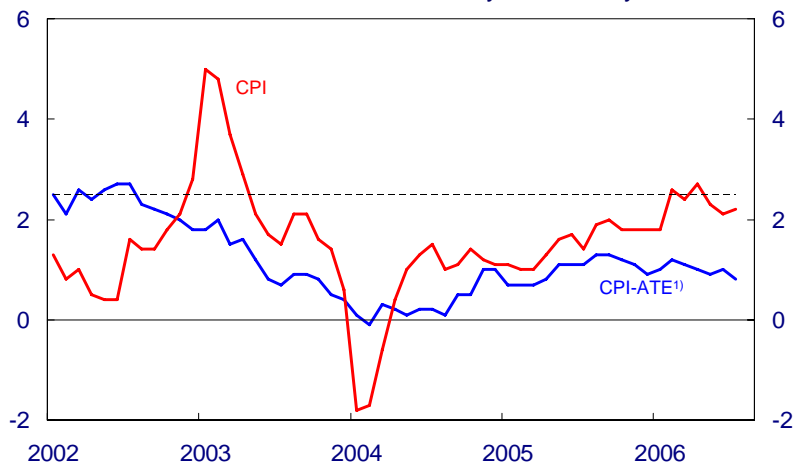
Annual growth. Per cent



Sources: Statistics Norway and Norges Bank

Inflation

12-month rise. Per cent. January 2002 - July 2006

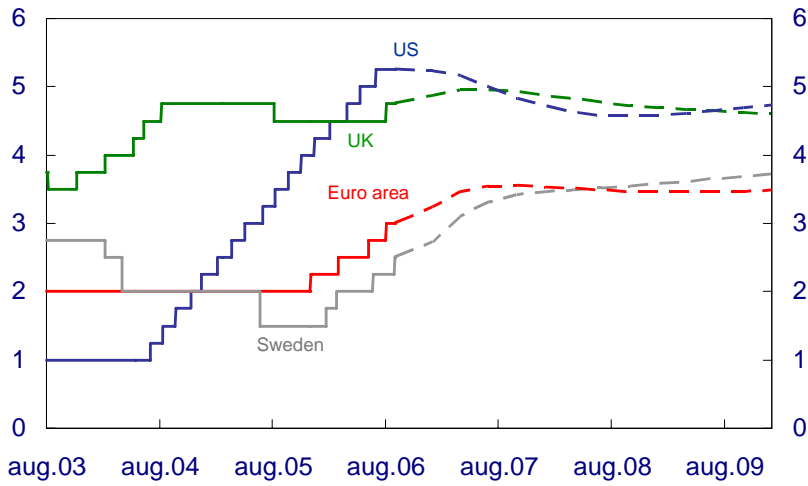


¹⁾ CPI-ATE: CPI adjusted for tax changes and excluding energy products. A further adjustment is made for the estimated effect of reduced maximum day-care rates from January 2006.

Source: Statistics Norway

Actual and expected key rates

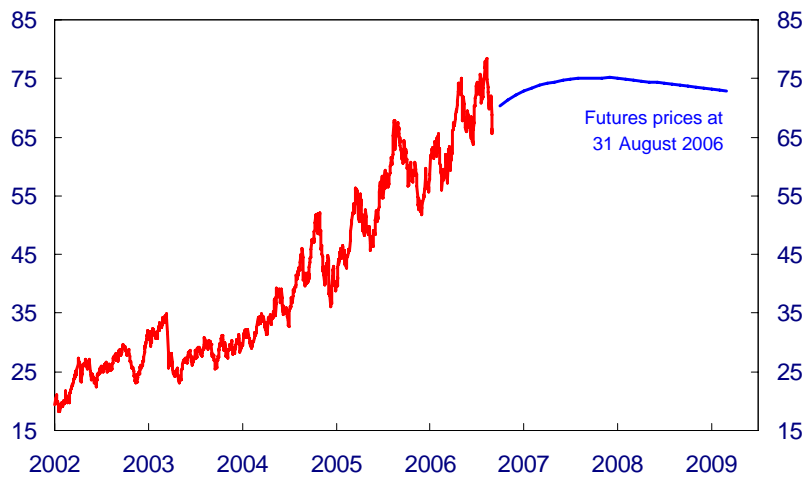
Per cent. At 31 August 2006



Sources: Reuters og Norges Bank

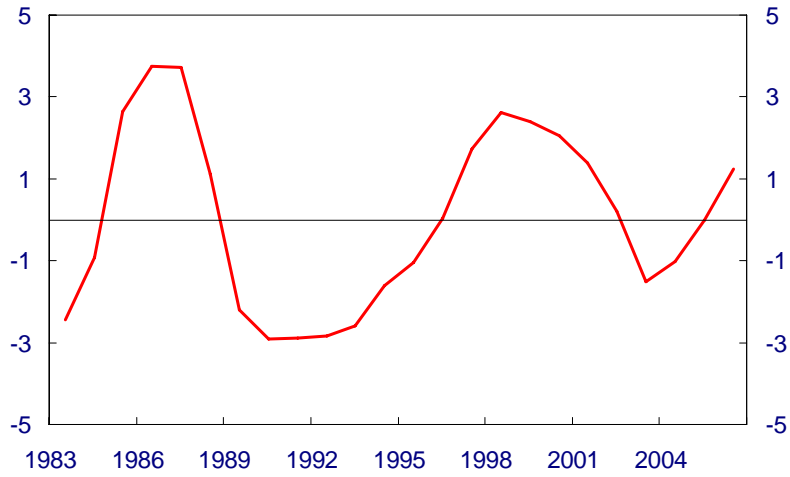
Brent Blend oil price and futures prices

Daily figures. USD per barrel. 1 Jan 02 – 31 Aug 06



Sources: Telerate, IPE and Norges Bank

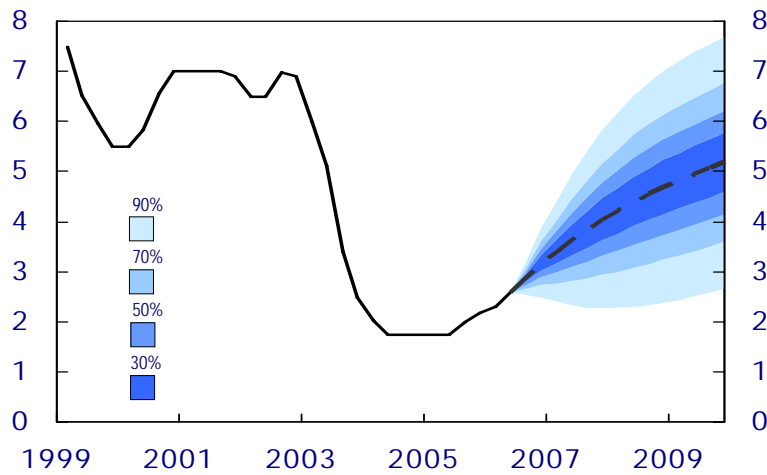
Capacity utilisation¹ Per cent. Annual figures. 1983 – 2006



¹ Measured as percentage difference between actual GDP and potential GDP. (Output gap)

Source: Norges Bank

Sight deposit rate Baseline scenario with fan chart. Quarterly figures. Per cent



Source: Norges Bank