

Principles for calculating and publishing Nowa: Questions and answers

Data and calculation method

Question: Will the proposed principles for calculating and publishing Nowa result in material changes in the interest rate compared with today?

- **Answer:** Preliminary estimates indicate that the proposal will entail minor changes to the interest rate on most days. The biggest difference will be on days with insufficient data. On such days, Nowa is currently calculated as an unweighted average of actual loans and panel banks’ estimates of the interest rate they would have charged if they had lent. The new proposal recommends instead using historical data. Preliminary estimates show that such a calculation method will result in far smaller movements in Nowa on days with insufficient data. Norges Bank will publish a brief analysis document by the end of 2019 showing what historical movements in Nowa would have been if the proposed calculation method had been used.

Question: It is reported that Nowa will be based on money market data reported to Norges Bank (RPD). Which specific banks will be included in the data and can this be changed?

- **Answer:** The dataset for calculating Nowa will consist of transaction data from those banks that report money market data on a daily basis to Norges Bank (RPD). More detailed information on RPD is available on Norges Bank’s [website](#). Norges Bank will regularly assess the need for changes to the principles for calculating and publishing Nowa.

Question: Nowa will be based on alternative data if total transaction volume is less than NOK 1 billion. How is this requirement defined?

- **Answer:** The transaction criterion of NOK 1 billion must be met for both reported borrowing and reported lending.

Question: What would happen if there were insufficient transaction data several days in succession?

- **Answer:** If there are insufficient transaction data, alternative data will be used consisting of (1) transactions for reporting date T that meet the data criteria and (2) transactions included in Nowa for the previous reporting date (T-1), adjusted for changes in the policy rate, if any. This method can be repeated for several days in succession.

Below we have illustrated a sample calculation if there is insufficient transaction volume on two successive days.

Transactions / Day	1	2	3
Volume (NOK m)/ rate (%)	4 000 / 1.24	500 / 1.23	400 / 1.23
	2 000 / 1.24		
	2 000 / 1.24		
Rate calculation day 2:	$\frac{(8\,000 * 1.24) + (500 * 1.23)}{8\,500} = 1.24$		

Rate calculation day 3:
$$\frac{((8\,000 * 1.24) + (500 * 1.23)) + (400 * 1.23)}{8\,900} = 1.24$$

Question: *When will changes in the policy rate have an effect on Nowa?*

- **Answer:** The policy rate is effective from the first working day after publication of the interest rate decision. That is, if the interest rate decision is published on 20 December, the change will be included in the data for Nowa for 21 December, for publication on 22 December.

Question: *What would happen to Nowa if activity in the overnight interbank lending market were to change substantially?*

- **Answer:** In such a situation, Norges Bank will assess whether the principles for Nowa should be changed (cf 5 “Changes in the method for calculating Nowa”).

Question: *On how many days can it be expected that Nowa will be calculated on the basis of alternative data?*

- **Answer:** Norges Bank began collecting money market data (RPD) in September 2019. There is therefore little historical data available as input to the new calculation method. To provide an indication of how many times this would have happened historically, Norges Bank has calculated Nowa on the basis of unsecured overnight transactions made via Norges Bank’s settlement system in the period between September 2011 and April 2019^[1]. The calculations show that alternative data would have been used on approximately 50 days in this period. By comparison, Nowa as currently defined was estimated on 35 days in the same period.

Publishing Nowa

Question: *What happens if for technical reasons, Norges Bank is unable to publish Nowa at the stated time?*

- **Answer:** Norges Bank will post a notice on its website if publication of Nowa is delayed for technical reasons. Publication will take place as soon as possible thereafter.

Question: *Will the calculation of Nowa be corrected subsequent to publication if an error is discovered in money market data previously reported to Norges Bank (RPD)?*

- **Answer:** Nowa will be republished if an error is discovered in the data between 9:00 and 11:00 am the same day as the interest rate was published and a recalculation shows a greater than 2 basis point deviation from the previously published rate. If the change is less than 2 basis points or if the error is discovered at a later time, Nowa will not be amended. To ensure transparency regarding the data, Norges Bank will publish a quarterly summary of any errors in the data that have been discovered.

^[1] To learn more about the method used see Working Paper [«Identification of interbank loans and interest rates from interbank payments - A reliability assessment»](#) 2018.