

The 1990s started with high unemployment in Norway and a crisis in the financial industry. By and large, the past ten years can still be said to have been a decade of stability. We have experienced continuous and strong economic growth. Inflation has been low and stable. At the end of the decade, employment is high and state finances are sound.

By contrast, the preceding two decades – the 1970s and 1980s – were marked by instability with sharp cyclical fluctuations and high inflation. Around the middle of the 1980s we witnessed a debt-financed bubble and double-digit inflation. The fall in oil prices in 1986 led to imbalances in the external account. A shift in economic policy was necessary and fiscal policy was tightened. By maintaining a fixed krone exchange rate, monetary policy contributed to a gradual decline in inflation.

In response to increasing capital flows and speculation against the fixed krone exchange rate, monetary policy had to be revised in December 1992. Norway has since had a floating exchange

rate. However, monetary policy is still oriented towards maintaining a stable exchange rate. Monetary policy has thus provided the economy with a nominal anchor. In the 1990s, inflation has averaged 2<sup>1</sup>/<sub>4</sub>% in Norway.

The experience of a floating exchange rate implies that the fundamental conditions for exchange rate stability are emphasised in the conduct of monetary policy: Inflation must be brought down to the level aimed at by the euro area and monetary policy must not in itself contribute to a recession that undermines confidence in the krone. We are leaving the 1990s with a balanced economy in Norway. Interest rates were lowered in the beginning of 1999, even though the krone was still weak, to reduce the risk of a deflationary recession. Over time, symmetry is important in setting interest rates. This symmetry is necessary in order to maintain confidence in nominal stability.

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### NORGES BANK'S INFLATION REPORT

Pursuant to the Norges Bank Act, the central bank shall be the executive and advisory body for monetary, credit and exchange rate policy. The projections in the Inflation Report provide a basis for the Bank's conduct of monetary policy. The monetary policy conducted by Norges Bank shall be aimed at maintaining a stable krone exchange rate against European currencies. There are two fundamental conditions that must be fulfilled to achieve this. First, price and cost inflation must over time not exceed the corresponding aim for inflation in the euro area. Second, monetary policy must not generate deflation through a recession.

The Inflation Report provides a survey of developments in prices and factors that influence price and cost inflation. It contains an assessment of the outlook for the Norwegian economy and Norges Bank's evaluation of the outlook for price inflation for the next two years. The December Inflation Report includes a longer time horizon and highlights the challenges to the Norwegian economy over a period of 4-5 years. The Governor summarises Norges Bank's assessment in the leader.