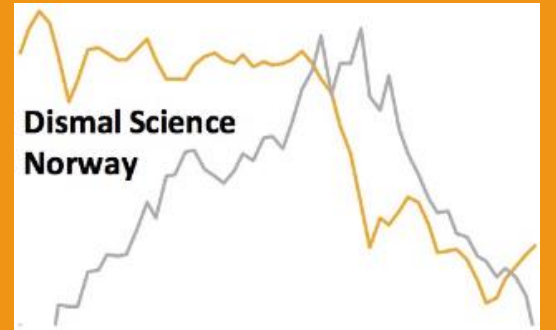
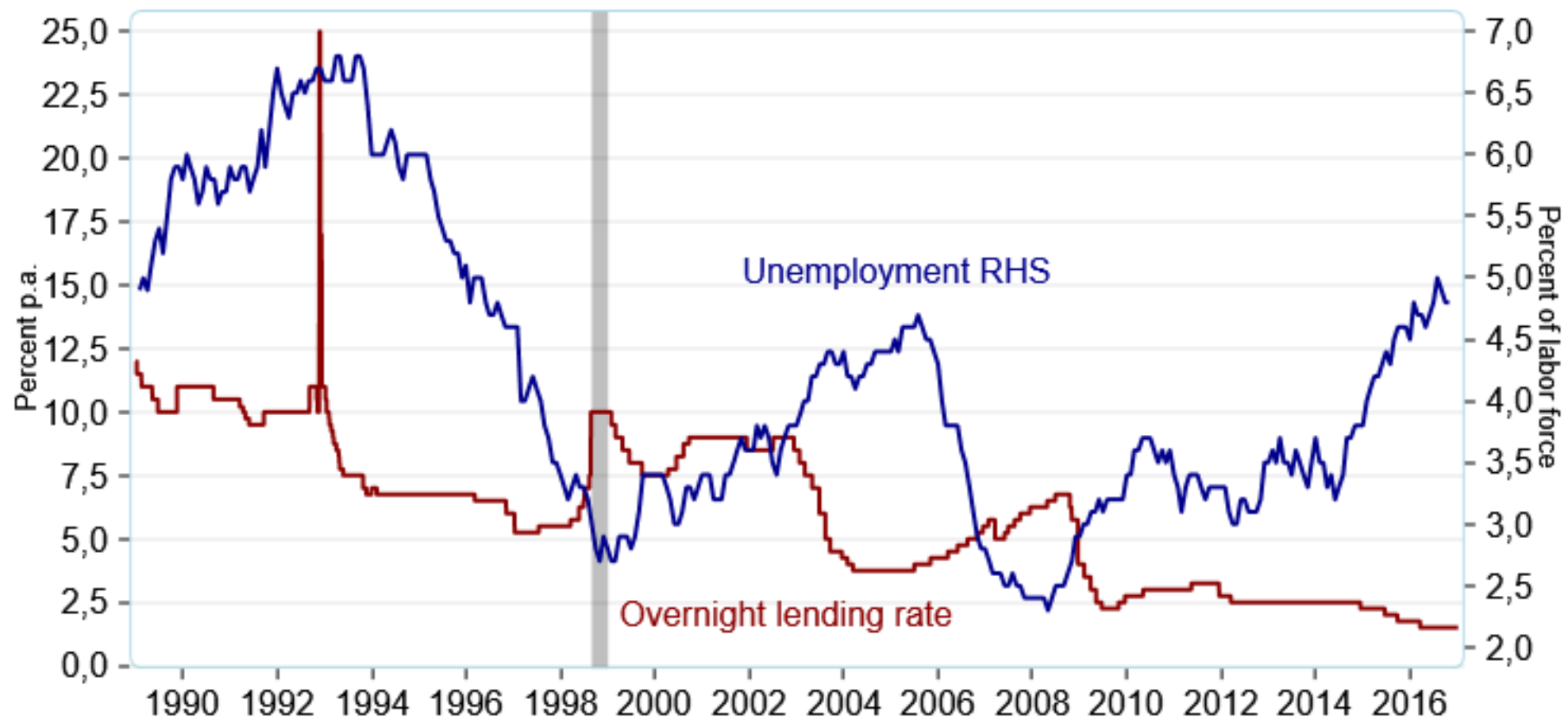
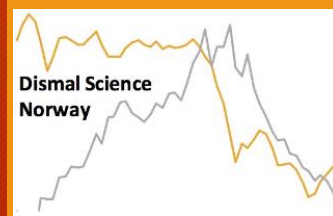


Inflation Targeting: Lessons Learned from a Norwegian Perspective

Knut Anton Mork
Dismal Science Norway
www.dismalscience.no

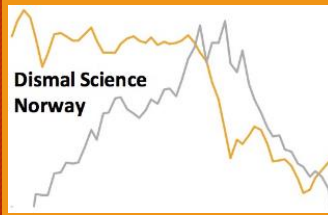


From procyclical to countercyclical policy



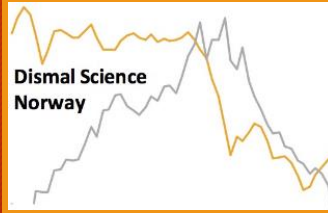
Source: Macrobond

End of speculative attacks



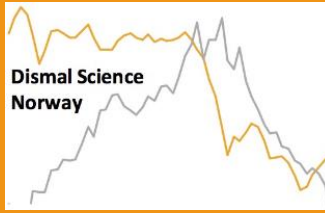
Source: Macrobond

The Statutory Base: The Royal Decree of 2001



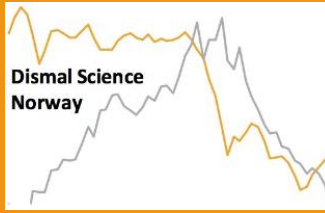
- Vague and contradictory formulations regarding internal and external value of NOK
- Stabilization of real economy: Second fiddle to fiscal policy

Statutory Base: Lessons from the GFC



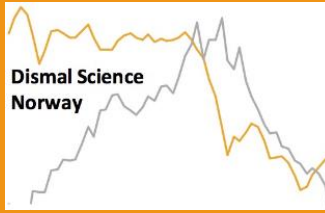
- Separability between rate setting and liquidity provision too optimistic
- LLR role integral part of monetary policy making in times of crisis—keeping the propagation channels open
- Norwegian authorities slow to respond in Oct 2008

Inflation Targeting in Practice

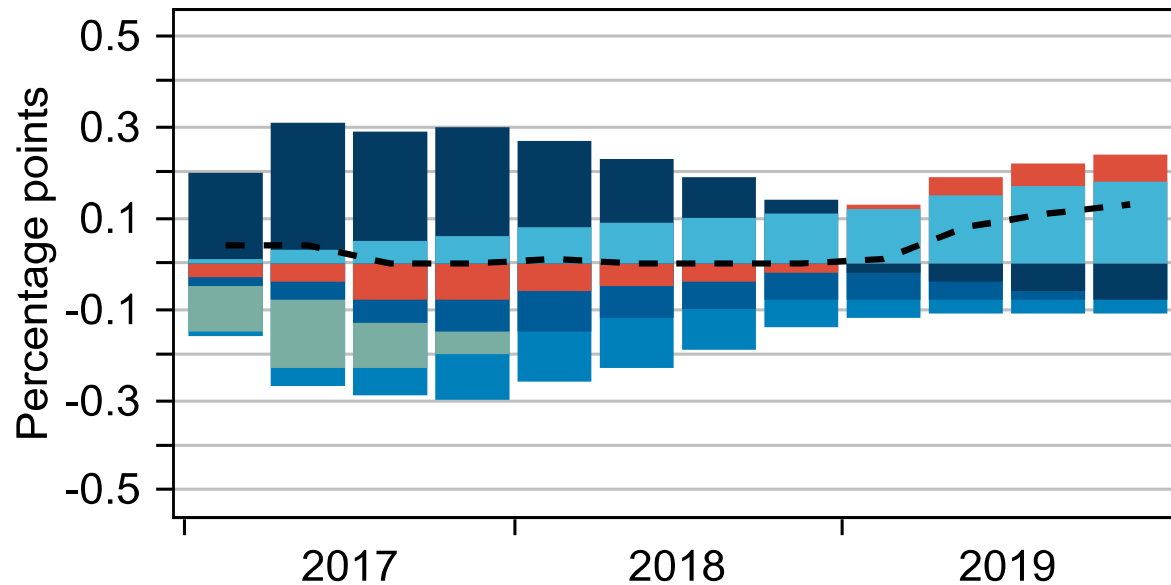


- Excessive reliance on forward guidance—2004 and later
- Excessive claims of "scientific" decision making

"Scientific" decision making



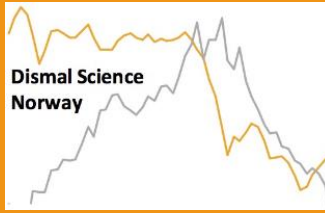
Norges Bank interest rate account



- - Change in interest rate forecast
- Prices and wages
- Money market premiums
- Exchange rate
- Demand
- Financial imbalances and uncertainty
- Foreign interest rates

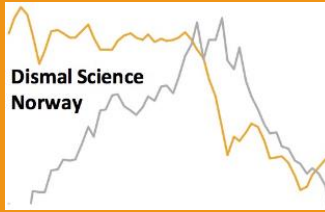
Sources: Norges Bank, Handelsbanken Capital Markets

Inflation Targeting in Practice (cont'd)

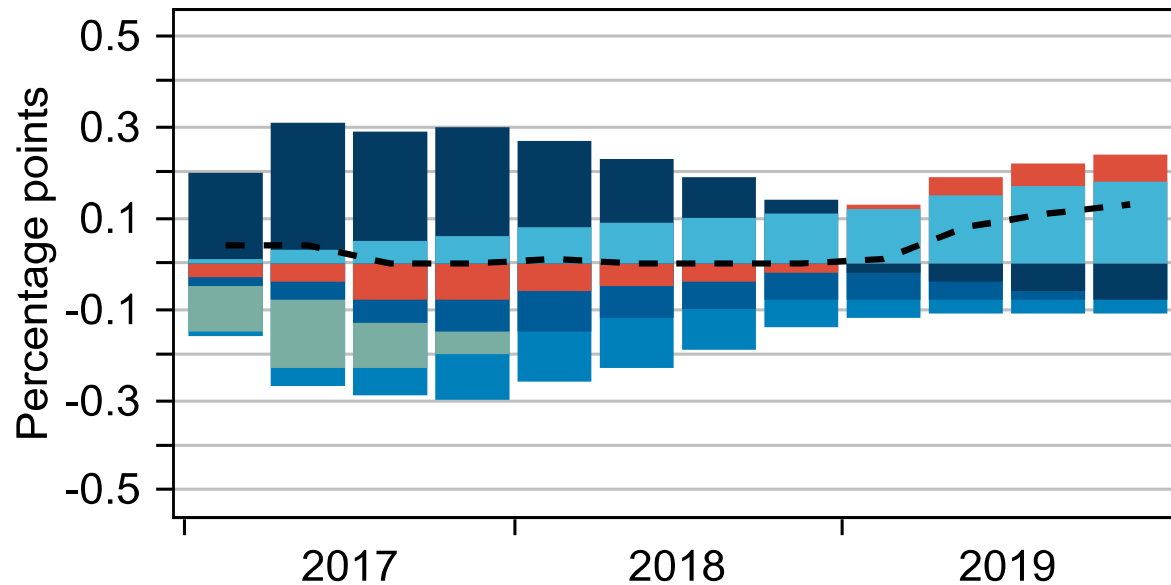


- Financial stability concerns valid...
- ...but handled badly

Priorities given to "leaning against the wind"



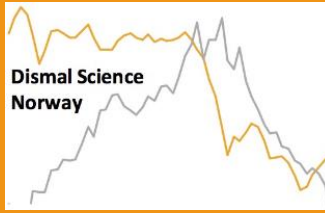
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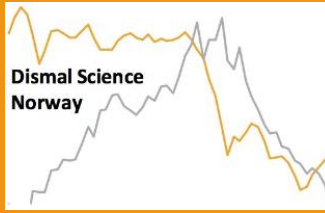
Sources: Norges Bank, Handelsbanken Caapital Markets

Inflation Targeting in Practice (cont'd)



- Reserve deposit quotas encourages interconnectedness
- Banks should be incentivized to organize a NIBOR market based on transactions in NOK only

Organizational issues



- Board's dual duty strains capacity
- Norges Bank should publish voting results (with attribution)...
- ...and minutes (without attribution)
- Policy of "speaking with one voice" stifles public debate