

Panel discussion

Deputy Governor Jan F. Qvigstad
Norges Bank

Monetary policy as "management of expectations"

"Central banks generally control only the overnight interest rate, an interest rate that is relevant to virtually no economically interesting transactions." (Blinder, 1998)

"For not only do expectations about policy matter, but (...) very little else matters" (Woodford, 2005)

- Publishing interest rate forecasts makes it easier to influence expectations => monetary policy more effective

Changes in Norges Bank's interest rate assumption

- 2001 - 2002 Constant interest rate
 - 2003 - 2005 Market interest rate expectations
...with comments
 - 2005 → Our own interest rate forecast
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Everyone talks about the future in one way or another

Bank of England, Inflation Report, February 2008:

“Under market interest rates, the central projection for inflation was a little above the target in the medium term, while under constant interest rates, it was below the target.”

Claude Trichet, June 5:

“....the possibility is not excluded that, ..., we could decide to move our rates by a small amount in our next meeting in order to secure the solid anchoring of inflation expectations....”

Claude Trichet, June 25:

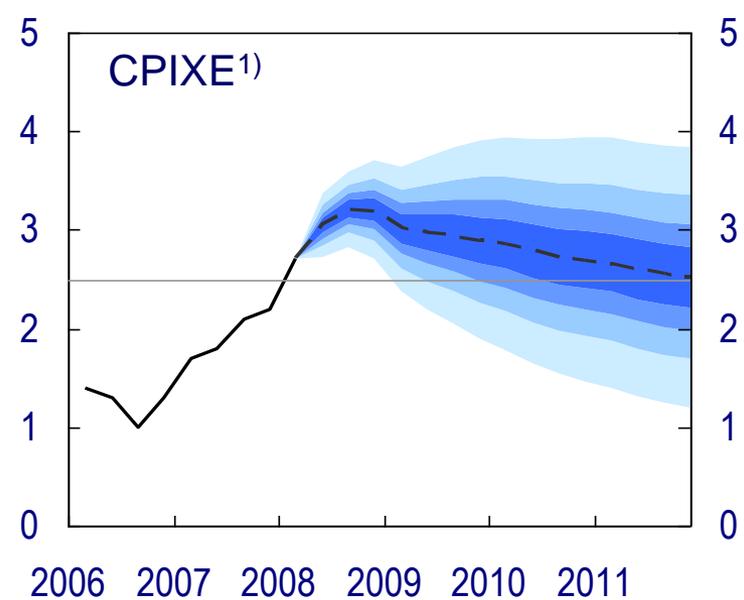
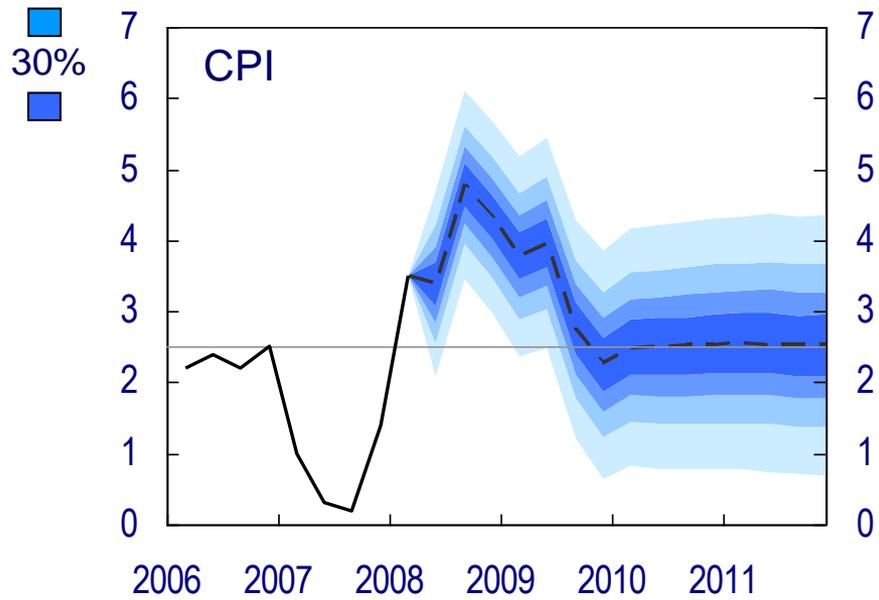
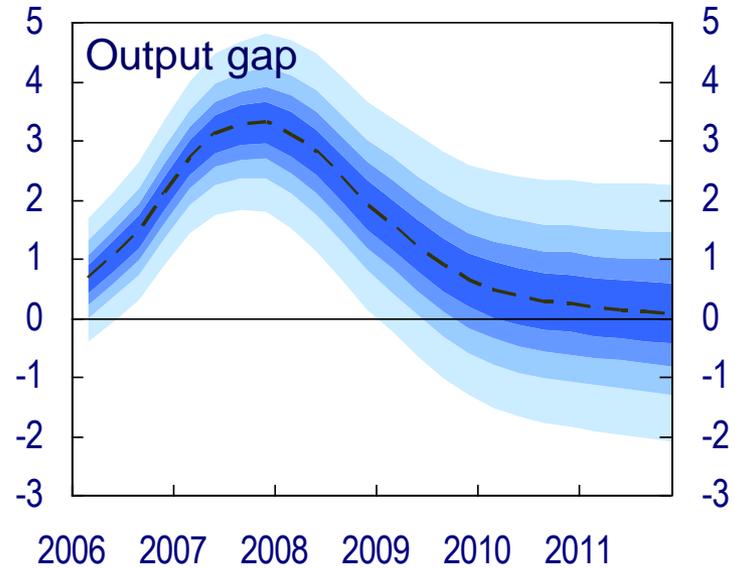
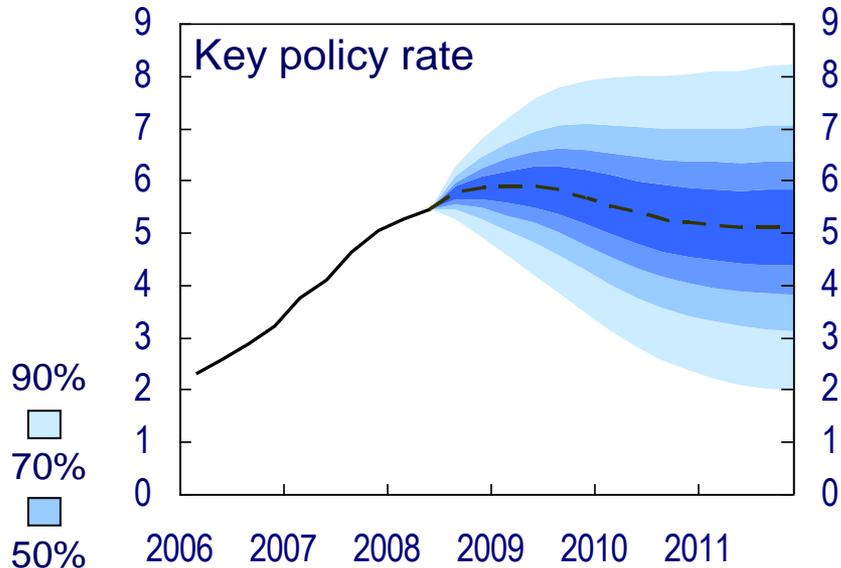
“I didn't say that we could envisage a series of increases. I didn't say that.”

Three ingredients

1. Forecasts
 - with fan charts

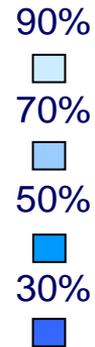
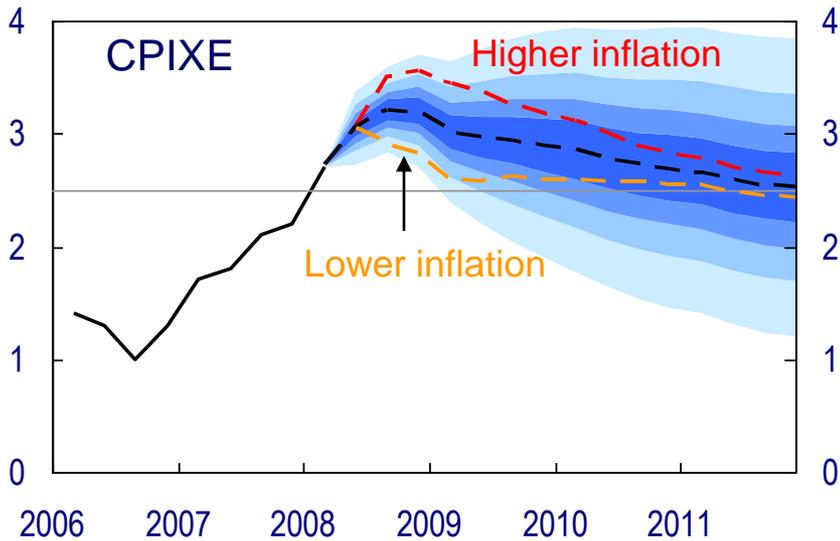
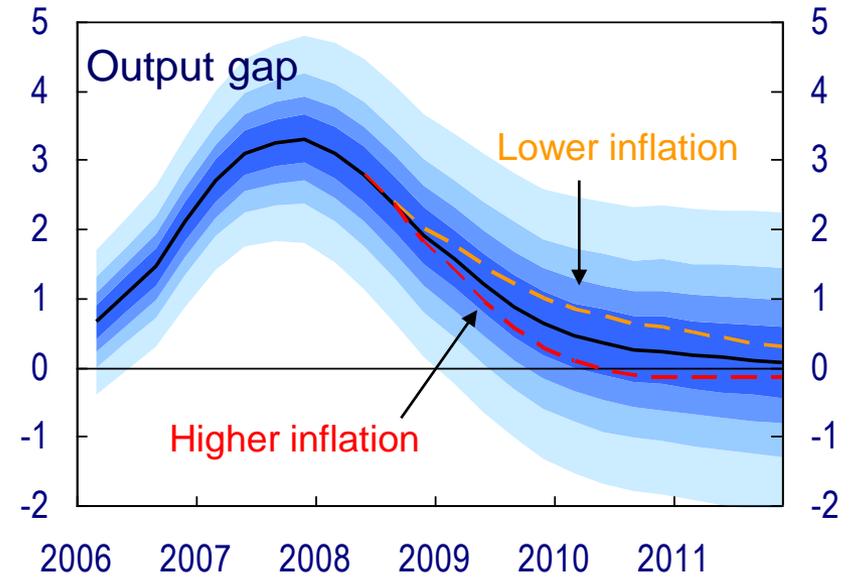
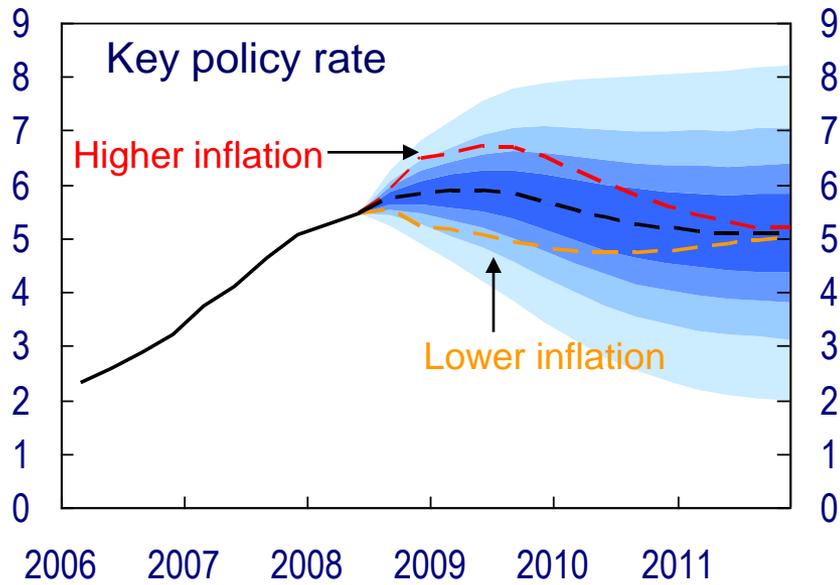
 2. The reaction function
 - Responses to alternative developments
 - "Delta analysis"
 - factors behind changes in the interest rate path

 3. The criteria underlying the forecasts and reaction function
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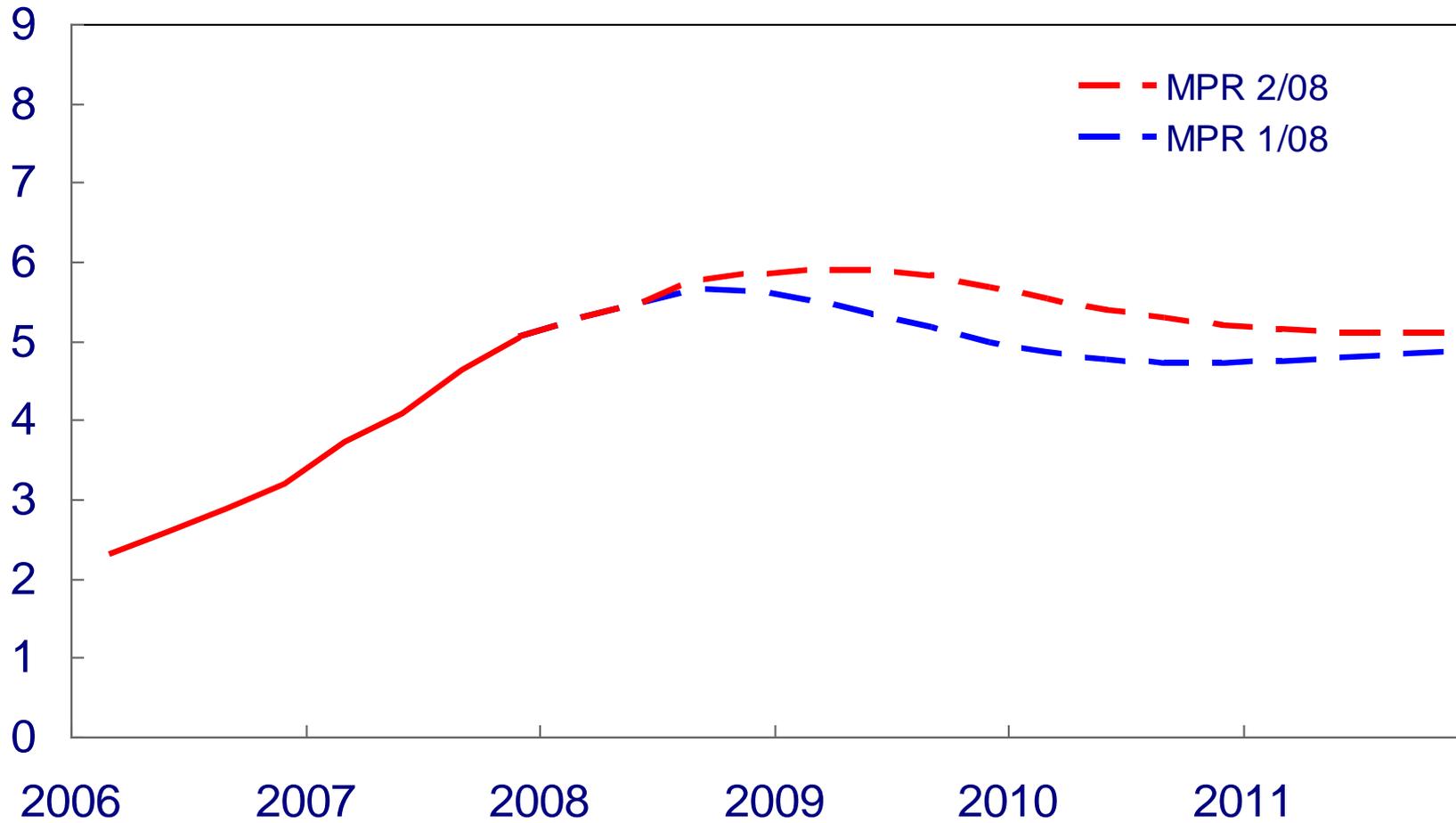


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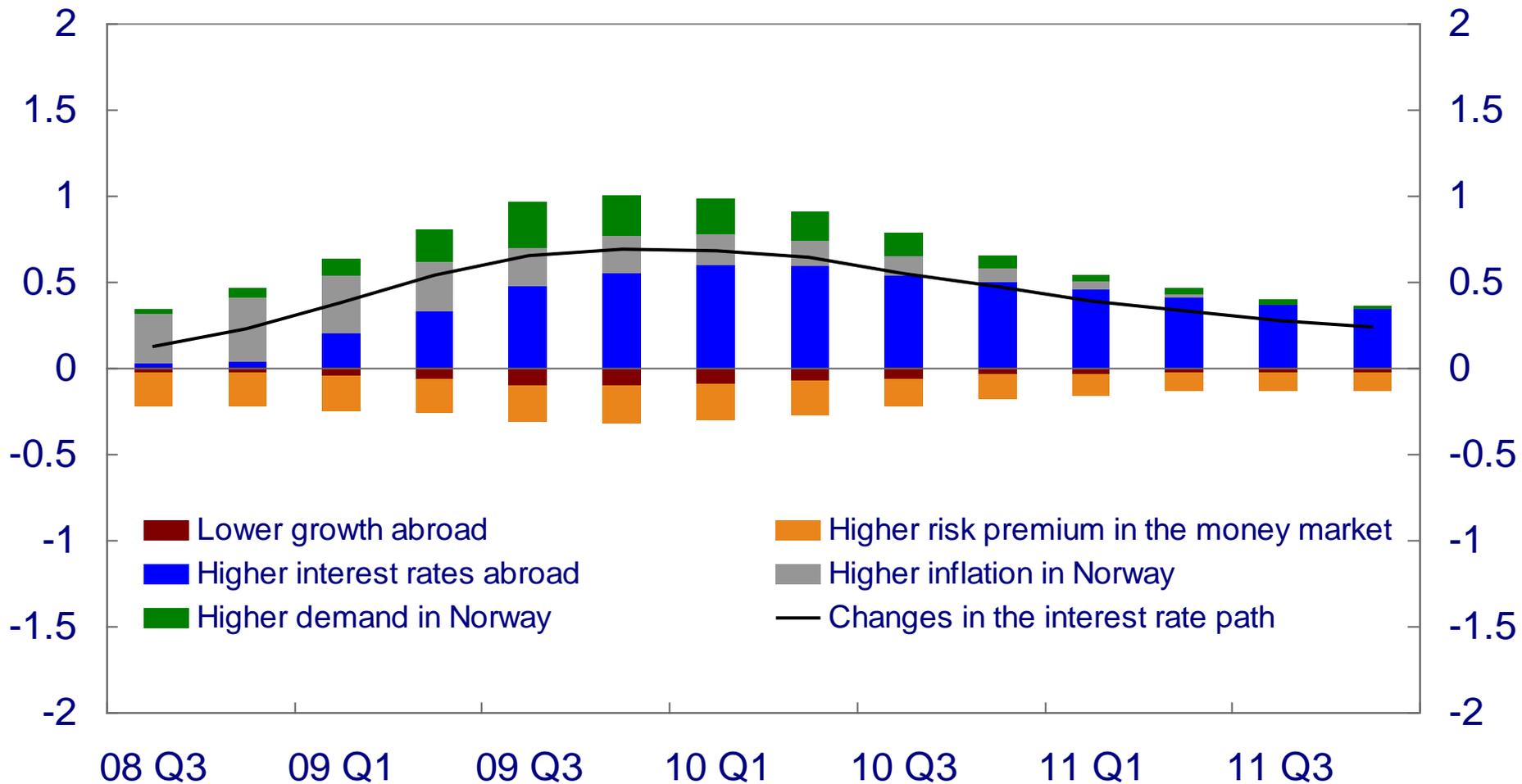
¹⁾ CPIXE: CPI adjusted for tax changes and excluding temporary fluctuations in energy prices



Projected interest rate path



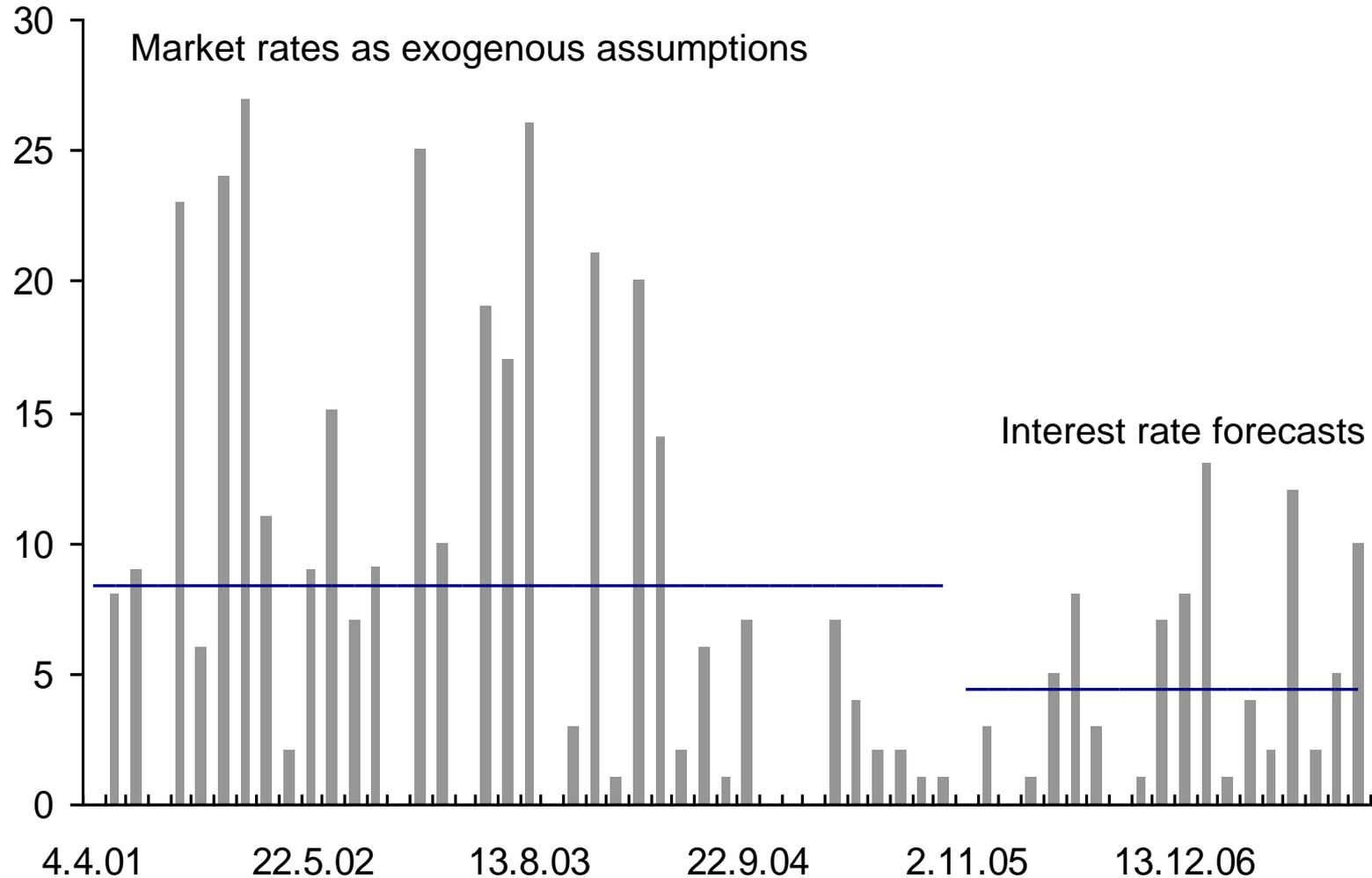
Delta accounting of the interest rate path



Criteria for choosing a good interest rate path

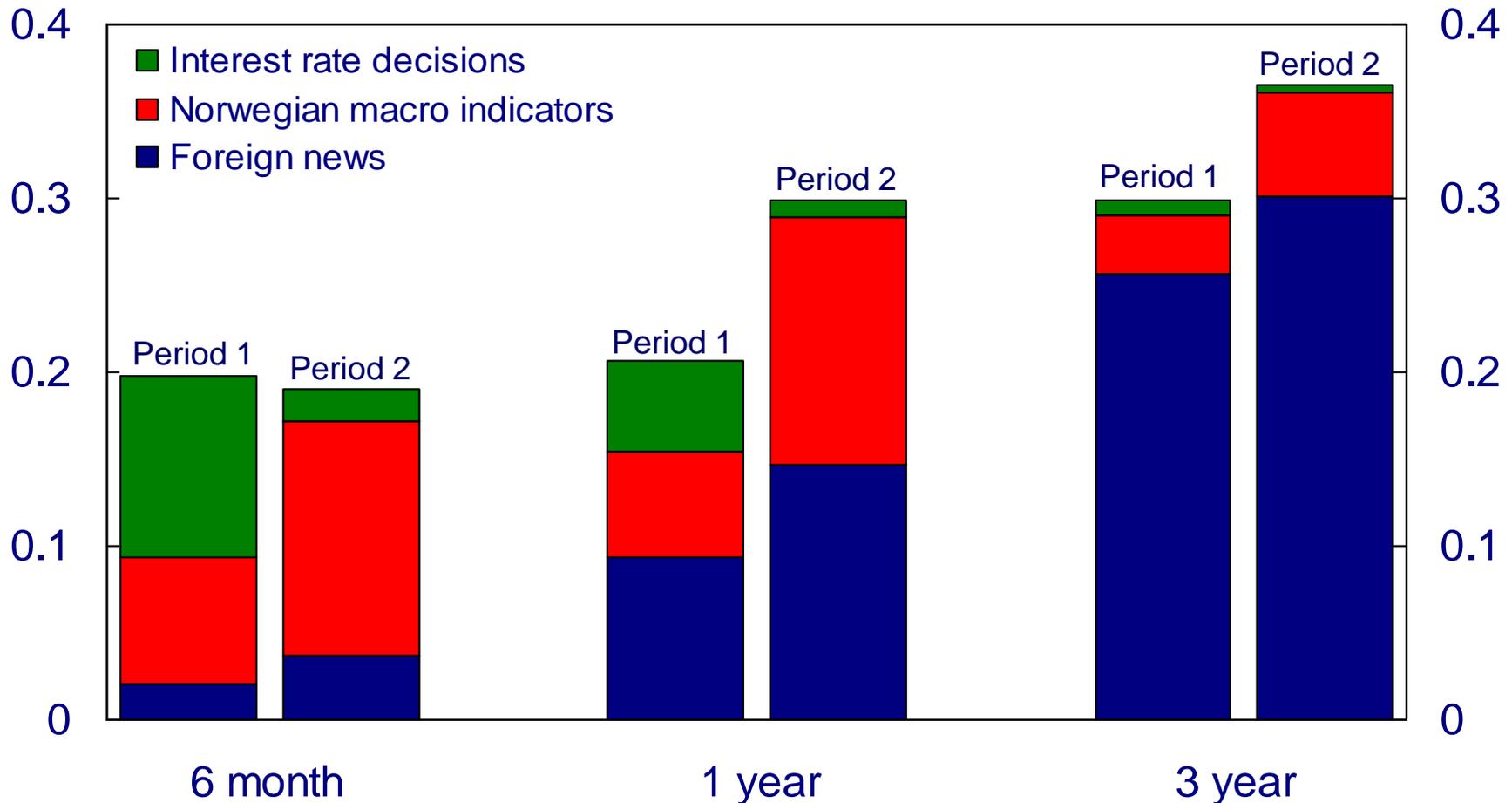
1. Inflation close to the target in the medium term.
2. Reasonable balance between the path for inflation and the path for capacity utilisation.
3. Robustness
4. Consistency
5. Cross-checks

Surprise effects in 12-month rate after policy announcements



Contribution from various news variables to explained variation in forward interest rates at different horizons.

Period 1: 1.1.2001 – 30.6.2004. Period 2: 1.7.2004 – 30.6.2007



Experience of publishing interest rate forecasts

- More precise communication than with projections based on exogenous interest rate assumptions or verbal deliberations
 - Conditionality well understood by market participants
 - More predictable policy decisions
 - Makes the internal process more focused
 - Political economy
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Final remarks

- Transparency is important
 - Main focus: how to make good monetary policy
 - Nowcasting (where are we?)
 - Identifying shocks and understanding transmission
 - We need good economists!
 - How to make good group decisions
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