

## **Executive Summary**

2018 was an exciting year for monetary policy. In March the Government announced a new regulation for Norges Bank. In September the key policy rate was increased for the first time in 7 years. And in October the government presented their view on the future organisation and management of Norges Bank and the The Government Pension Fund Global (GPGF).

The increase in the key policy rate from 0.5 percent to 0.75 percent on 20 September 2018 was well prepared. Norges Bank became more specific of the timing already in February and March. The hike was therefore very well in line with expectations among market participants. The implementation of the first hike in seven years was successful from a communication perspective.

The lowering of the inflation target from 2.5 percent to 2.0 percent, implied some communicational challenges. NBW argues that Norges Banks should have been more thorough and nuanced in its communication related to the implications for the interest rate path. A credible monetary policy hinges on a balanced analysis and communication.

A very important issue currently is the output gap, which is closing for the first time since 2013. NBW argues that Norges Bank should have a broader approach to, and possibly explore and forecast different measures of the output gap. Also there are related issues to Norges Bank's perception of the labour market and different measures of unemployment.

Overall, NBW argues that the structure with eight meetings a year, which was implemented in 2017, is appropriate. Norges Bank gives press conferences at half of the meetings. NBW suggests that Norges Bank gives a press conference at all meetings, to spur interest for and thus credibility to monetary policy. Preferably, Norges Bank should provide more updates at these meeting. It would also provide Norges Bank an opportunity to comment in persona, and for the audience to raise questions. This could be especially useful and relevant in times of stress. Moreover,

the current Board minutes provide no additional insight compared to material provided in the Monetary Policy Reports and its usefulness can be questioned in its current format.

In addition, other key communication from Norges Bank is the Governor's Annual Address and the CME-speech. In total NBW believes this complements the eight meetings in an appropriate manner. It provides two annual arenas for broader monetary policy related reflections. NBW also applauds the initiative highlighted in the CME-speech for a broader outreach for monetary policy communication, as it was designed for the Norwegian public looking for a brief description of the background for the interest rate decision.

#### *New regulation and central bank act*

Changing the operational regulation of the central bank is a major event and merits comments in this report. We argue that the arguments for reducing the inflation target are not convincing. The reduction in the inflation target further reduce the scope for monetary policy on top of the fall in the neutral real interest rate. It is a high probability of being restricted by a lower bound for the interest rate. NBW is concerned that the reduced scope for monetary policy will increase the costs of recessions in the future.

The new target of high employment is welcome. Norges Bank cannot have a main responsibility for high employment, but monetary policy may help preventing unemployed from dropping out of the labor force. This is a significant change in the regulation of monetary policy that should be reflected by a significant change in the conduct of monetary policy. A reasonable change in the conduct of monetary policy following the new regulation, is (a) to reduce the key policy rate more aggressively when the economy is hit by adverse shocks that threatens deep and long lasting recessions, and (b) to keep the key policy rate low longer when emerging from a recession. In the current situation there is a higher risk associated with raising the

key policy rate too much too early, than raising it too little too late. In normal times when hysteresis does not affect employment, there is no need to change the conduct of monetary policy.

With the explicit target of high and stable employment, employment should also play a more prominent role in the Monetary Policy Reports. NBW argues that Norges Bank should report their estimate of the maximum level of employment which is consistent with price stability

As promoted by numerous NBW reports, a third important change in the mandate is that monetary policy shall counteract build-ups of financial imbalances. NBW suggests that the bank should clearly report if and by how much higher the key policy rate is set (than would otherwise be the case) in the Monetary Policy Reports.

In a white paper the government propose to move monetary policy decisions from the executive board to a new monetary policy committee MPC. NBW supports this proposal, but we argue that only two external members are too few and that there should be four external members in the MPC.