Monetary policy in Norway

Objective

The operational target of monetary policy is low and stable inflation, with annual consumer price inflation of approximately 2.5 per cent over time.

Implementation

Norges Bank operates a flexible inflation targeting regime, so that weight is given to both variability in inflation and variability in output and employment. In general, the direct effects on consumer prices resulting from changes in interest rates, taxes, excise duties and extraordinary temporary disturbances are not taken into account.

Monetary policy influences the economy with a lag. Norges Bank sets the interest rate with a view to stabilising inflation close to the target in the medium term. The horizon will depend on disturbances to which the economy is exposed and the effects on prospects for the path for inflation and the real economy.

The decision-making process

The main features of the analysis in the *Monetary Policy Report* are presented to the Executive Board for discussion at a meeting about two weeks before the Report is published. Themes of relevance to the Report have been discussed at a previous meeting. On the basis of the analyses and discussion, the Executive Board assesses the consequences for future interest rate developments, including alternative strategies. The decision to adopt a monetary policy strategy is made on the same day as the Report is published. The strategy applies for the period up to the next Report and is presented at the end of Section 1 in the Report.

The key policy rate is set by Norges Bank's Executive Board. Decisions concerning the interest rate are normally taken at the Executive Board's monetary policy meeting every sixth week. The analyses and the monetary policy strategy, together with assessments of price and cost developments and conditions in the money and foreign exchange markets, form a basis for interest rate decisions.

Communication of the interest-rate decision

The monetary policy decision is announced at 2pm on the day of the meeting, and the Bank holds a press conference at 2:45 pm on the same day. The press release provides an account of the main features of economic developments that have been of importance for the interest rate decision and the Executive Board's assessments. The press release and the press conference are available on www.norges-bank.no.

Reporting

Norges Bank reports on the conduct of monetary policy in the *Monetary Policy Report* and the *Annual Report*. The Bank's reporting obligation is set out in Section 75c of the Constitution, which stipulates that the Storting shall supervise Norway's monetary system, and in Section 3 of the Norges Bank Act. The *Annual Report* is submitted to the Ministry of Finance and communicated to the King in Council and to the Storting in the Government's Kredittmeldingen (Credit Report). The Governor of Norges Bank provides an assessment of monetary policy in an open hearing before the Standing Committee on Finance and Economic Affairs in connection with the Storting deliberations on the Credit Report.