

Pål Longva: Report from Norges Bank Watch

Remarks by Mr Pål Longva, Deputy Governor of Norges Bank (Central Bank of Norway), on the Centre for Monetary Economics' (CME) assessment of the Norges Bank's conduct of monetary policy, published in its Norges Bank Watch Report Series, Oslo, 26 February 2026.

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[*Charts accompanying the speech*](#)

First, I would like to thank the members of this year's committee. I would also like to thank CME for hosting this event and for the opportunity to comment on the report.

The 2026 report covers several topics, and I will now comment on some of them.

Monetary policy in 2025

As you all know, we reduced the policy rate twice in 2025, to 4.25 percent in June and then to 4 percent in September. The June rate cut came as a surprise to many observers, as also commented upon by Norges Bank Watch.

Chart: Policy rate reduced

When setting the policy rate, we do not aim to surprise, quite the opposite. However, we will always set the rate we judge is appropriate given the mandate we have been assigned.

We are committed to communicating clearly. Our reaction pattern should be known. Our assessment of new information often aligns with that of the market. This is evident when market expectations have already adjusted to the new information by the time we publish an updated policy rate path. However, we are not always completely successful, and this was perhaps the case last spring.

That being said, we were a little surprised that so many were caught by surprise. We kept the policy rate unchanged in March but stated at the same time that the policy rate could be reduced faster if the pickup in inflation proved to be more temporary than assumed. Underlying inflation declined more than expected through spring, reassuring us that much of the increase in inflation earlier in the year was temporary. We therefore decided to cut the policy rate in June.

Norges Bank Watch highlights that, leading up to the September meeting, there were diverging opinions in the market and among chief economists about whether Norges Bank would reduce the policy rate. As stated in the *Committee's assessment*, we considered keeping the rate unchanged but chose to reduce it. We also stated that a somewhat higher policy rate than envisaged in June would likely be needed ahead.

Norges Bank Watch points out that it is important to highlight the uncertainty of the forecasts. We agree. We have taken some steps in that direction, for instance by publishing fan charts based on historical forecast errors. We will further improve our understanding and communication of uncertainty.

The work of the Monetary Policy and Financial Stability Committee

I note the remarks from Norges Bank Watch with regard to the composition of the Monetary Policy and Financial Stability Committee, pointing out, for example, the risk of internal dominance.

We seek to reduce this risk through the way that the Committee's work is organised. We emphasise that all members, as far as possible, must be given simultaneous access to identical information from Bank staff. Let me say a little more about the work of the Committee.

Chart: Decision-making process

The monetary policy meetings that coincide with the publication of a Monetary Policy Report start with a seminar where Bank staff present relevant issues and analyses and where all Committee members are invited to provide input to further work. Two weeks before the policy rate decision, the Committee reconvenes for a seminar. Bank staff present analyses and preliminary projections of economic developments in Norway, and we deliberate on developments and the balance of risks. After the seminar, the first monetary policy discussion in the Committee takes place. The Executive Director of Monetary Policy opens the meeting and gives a recommendation on the monetary policy stance. The recommendation is given directly at the meeting, and the Committee, including its internal members, does not know what the recommendation will be. The Committee members then present their preliminary assessments of the monetary policy stance. The views of the members may differ, and the distance between internal members may be just as wide as between external and internal members.

Bank staff take note of the Committee's views and continue to work on their analyses and the *Monetary Policy Report*. The following week, the Committee receives a new round of updated analyses and holds a new discussion. The Central Bank Governor then presents her recommendation on the monetary policy stance based on the information received and the Committee's discussions so far. We also discuss the main message and the text of the draft *Monetary Policy Report*, primarily the part of the Report we call the *Committee's assessment*. The following week, the Committee makes its decision, which is published the following day. Members can dissent, but all decisions have so far been unanimous.

Committee discussions are thorough and bring forward different perspectives. The *Committee's assessment* highlights topics that have been of particular concern to the Committee. As the Governor recently announced, we now want to be a little more transparent regarding the discussions leading up to policy rate decisions by starting to publish a summary of these discussions.

All details have not yet been finalised. The summaries will likely be developed over time as we gain experience. Before we start, we will provide more information about both the practical details and when the summaries will start to be published.

Interaction between a central bank and the government

This year's report from Norges Bank Watch discusses the interaction between monetary and fiscal policy. This is a topic I have first-hand knowledge of, as I have been on both sides of the table. Not, I must say, at the same time!

For some types of shock, in particular inflation and exchange rate shocks, attainment of monetary policy objectives may, in theory, improve if the central bank sets a high policy rate while fiscal policy is expansive. This then better exploits the direct pass-through from the exchange rate to price inflation to lower inflation.¹

Norges Bank Watch models this as a Stackelberg game and finds that this provides a useful view of the interaction between monetary and fiscal policy in Norway in recent years. Norges Bank Watch assumes that the central bank takes the role as leader. Following an inflation shock, the central bank therefore moves first and sets a high policy rate, knowing full well that fiscal policy will respond by taking an expansive stance to counteract an excessively low activity level. This achieves an equilibrium with a contractionary monetary policy and an expansive fiscal policy.

This is, however, not a setup I recognise.

First: When describing the interaction between the central bank and the government, it would be most natural to assign the leader role to the government, not the central bank. This is also the common assumption in the literature.² Why? The leader is characterised by being able to commit to not re-optimising after the follower has acted. This description better fits the government than the central bank. Once the budget has been passed, changing it is not straightforward. The central bank, however, frequently assesses the policy rate and can lower or raise it rapidly if needed. If the central bank communicates its reaction pattern, the government can take this into account when preparing fiscal budgets. This may lead to a better overall result for the economy.³

Second: If the central bank is the leader, the model outlined by Norges Bank Watch implies that the central bank sets a high policy rate almost to force an expansive fiscal policy. I can assure you that this is not how Norges Bank operates. We do not seek to influence fiscal policy through policy rate setting. Rather the opposite: Norges Bank takes fiscal policy as a given but responds to changes in fiscal policy to the extent that they influence inflation and activity levels.

Movements in the krone exchange rate

Allow me to also briefly comment on the final part of the Norges Bank Watch report. This part is based on the considerable volatility in the krone exchange rate against the US dollar and euro in recent years. In the opinion of Norges Bank Watch, it is unclear who is responsible for analysing and, if relevant, taking measures that may dampen krone volatility and clearer allocation of responsibility is therefore required.

Chart: Movements in the krone exchange rate

I will not comment upon the specific wish for clearer responsibilities, but that being said, the central bank is tasked with promoting stability in the financial system, and we therefore closely monitor the krone market. In our opinion, it is important to understand the drivers behind both long and short-term movements in the krone exchange rate. To get closer to an answer, we need better data. This could provide more insight into a market that many, including researchers here at BI Norwegian Business School, have spent time and effort to understand.

Concluding remarks

Norges Bank Watch also comments on various aspects of the Monetary Policy Regulation. As you know, the Ministry of Finance is currently evaluating the Regulation, and Norges Bank has been asked to provide input by the end of March. I will therefore not go into our interpretation of and experience with the Regulation today but recommend that everyone read our input once this is made public.

And with that, I would again like to thank you for the opportunity to comment on this year's report.

¹ See Røisland, Ø, T. Sveen and R. Torvik (2023) "[The interplay between monetary and fiscal policy in a small open economy](#)". *Staff Memo* 16/2023. Norges Bank

² See Steigum, E. (2000) "Samsillet mellom pengepolitikken og finanspolitikken ved et inflasjonsmål" [Interaction between monetary policy and fiscal policy with an inflation target] (in Norwegian only). In Qvigstad, J.F. and Ø. Røisland. *Ed. (2000) Perspektiver på pengepolitikken [Monetary policy perspectives] (in Norwegian only)*. Gyldendal Akademisk, and Leitemo, K. (2004) "A game between the fiscal and the monetary authorities under inflation targeting", *European Journal of Political Economy*, Vol 20.

³ See Gjedrem, S. (2002) *Utfordringer i den økonomiske politikken [Challenges to economic policy] (in Norwegian only)*. Speech to the executive board of the Confederation of Norwegian Enterprise, 19 September 2002. Norges Bank