

2017 Norges Bank Review - Overview

In 2015, Norway commissioned an independent review of the primary legislation underpinning the Norges Bank.¹ That review was completed in mid-2017 and the attached report provides an executive summary of the key recommendations. Sections 1.1 of Chapter 1 and the legislative wording in Chapter 2 are particularly relevant in the context of the Review of the Reserve Bank Act and may serve as useful background for the panel. In the case of Norway, the key reform recommendations were:

MANDATE:

The Commission recommended the following hierarchical mandate for the Norges Bank:

- (1) The purpose of the Norges Bank's functions is to maintain monetary stability and promote stability of the financial system.
- (2) Norges Bank shall otherwise contribute to high and stable output and employment.

The rationale for this purpose is as follows:

- Maintaining monetary stability remains a core objective of the Norges Bank as low and stable inflation makes markets more efficient and enhances the soundness of savings and investment.
- Promoting financial stability is also included as a core objective as “unstable banks and financial markets can lead to economic decline”.
- The report also suggests including the underlying rationale for monetary and financial stability in primary legislation i.e. to contribute to high and stable output and employment. The report notes that the level of sustainable employment is primarily determined by structural conditions outside of the central bank's control, so “the most important contribution the central bank can make to a high and sustainable path for activity is to safeguard financial stability and price stability.”

The report also proposes that primary legislation should be used to state the purpose of the Norges Bank in general terms, and the government should use other means (secondary legislation or a policy targets agreement) to further specify Norge Bank's objectives. The report also recommends that the Norges Bank's objectives should be fixed and then reviewed at regular intervals (akin to the Canadian model of reviewing its inflation-targeting mandate every five years).

DECISION-MAKING AND GOVERNANCE STRUCTURE:

Monetary policy decisions at the Norges Bank are currently made by an *Executive Board* (consisting of the Governor, two Deputy Governors and five external members). The Executive Board is also tasked with overseeing the day-to-day running of the Bank. The actions of the Executive Board are then overseen by a Supervisory Council of 15 members, who are chosen by the Storting (Norwegian Parliament). This structure has created some confusion in the Norwegian system as to who is ultimately accountable in the event of a failure at the Bank – is the Minister of Finance (who currently appoints the Norges Bank's auditor) or the Supervisory Council (which is appointed by Parliament) accountable?

To clarify the structure, the report recommends reforming the governance and policy making structure of the Bank. The report proposes a seven-member Board should be created to oversee and audit the operations of the central bank, staffed exclusively by external appointees (doing away with the need for a

¹ The panel was chaired by Svein Gjedrem who had previously served as Governor of the Norges Bank and permanent under-secretary to the Norwegian Ministry of Finance.

Supervisory Council).² In addition, a separate five member committee should be created and given responsibility for Monetary Policy and Financial Stability decisions. The proposed Committee would have the following composition:

	Appointed by	Term length	Full or part-time
Governor	King in the Council of State	6 years renewable once	Full Time
Deputy Governor	King in the Council of State	6 years renewable once	Full Time
Two external members	King in the Council of State	4 years renewable once	Part Time
Internal member of Norges Bank staff	Board on proposal from Governor	2 years renewable three times	Full Time

The report justifies the inclusion of external members on the Committee so as to “provide corrective feedback” and to aid central bank transparency as the change would allow more MPC members to express their views in public and testify in front of parliament.

The report also suggests that detailed minutes of the monetary policy decision could be published, but that any decisions on how to communicate with the public should be primarily entrusted to the Bank.

² The Commission proposes appointing Board members for 4 year terms, with the King in the Council of State being responsible for appointments. The Board is responsible for determining the plans and budgets of the Bank, internal audits, overseeing the daily management of the Bank, and reporting to the Ministry of the Finance.