

## Ida Wolden Bache: Policy rate kept on hold

Introductory statement by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), at the press conference following Norway's announcement of the policy rate, Oslo, 3 May 2024.

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[presentation](#) accompanying the speech

Chart: Policy rate kept unchanged at 4.5 percent

The Monetary Policy and Financial Stability Committee has decided to keep the policy rate unchanged at 4.5 percent.

Norges Bank is tasked with keeping inflation low and stable. The operational target is inflation of close to 2 percent over time. We are also mandated to help keep employment as high as possible and to promote economic stability.

In March, we signalled that the policy rate would likely be kept at 4.5 percent for some time ahead. We have not produced forecasts this time, but we have assessed new information against the March forecasts.

Chart: Slower disinflation internationally

International price inflation has slowed considerably since peaking in 2022, but the decline in inflation has recently slowed. Services prices are still rising rapidly in many countries.

Central banks abroad have held policy rates steady in recent months. The market's policy rate expectations have increased, and major central banks are now expected to make fewer rate cuts this year than anticipated in March.

Chart: Somewhat weaker krone

Expectations of fewer rate cuts in the US have been accompanied by a broad appreciation of the US dollar, also against the krone. We are concerned with the krone exchange rate because it affects inflation and activity in the Norwegian economy. A weaker krone means higher prices for imported goods. At the same time, the profitability of the export sector increases. That can lead to higher wage growth, which can in turn fuel inflation.

Chart: Low growth in the Norwegian economy

The Norwegian economy is cooling down. Growth is low, and household consumption has declined so far this year. There are large differences between developments in the primary and secondary housing markets. While turnover is sluggish in the primary housing market, and construction activity is very low, the stock of unsold homes in the secondary market has declined markedly since autumn. Prices in the secondary housing market have shown a clear rise so far this year.

The labour market has become less tight in recent years. Employment is high but employment growth has slowed. We have recently seen a small increase in the number of unemployed registered with NAV, but unemployment is still low.

Chart: Inflation still markedly above target

Price inflation in Norway has also slowed considerably since peaking but is still markedly above target. Business costs have increased sharply in recent years, and high wage growth and a weaker krone are contributing to keeping inflation elevated.

Inflation has continued to slow in recent months, and consumer prices were about 4 percent higher in March than one year earlier. Services prices, in particular, are rising rapidly.

Services prices are closely linked to labour costs. Wage growth reached 5.2 percent last year. Wage settlement outcomes so far this year could suggest that wage growth will be high this year too.

Chart: Policy rate likely to remain at today's level for some time ahead

In recent years, the policy rate has been raised significantly to tackle the high level of inflation. Many people are facing tighter finances. We know that high interest payments are demanding for some people, and many people ask us when interest rates will be lowered again.

Our assessment is that the policy rate is now sufficiently high to bring inflation down to target within a reasonable time horizon. But we still have a way to go before inflation is back to 2 percent, and the policy rate will likely remain at today's level for some time ahead.

Since the March Report, inflation has been slightly lower than projected. On the other hand, economic activity has been slightly higher than expected, and wage growth may turn out to be slightly higher than projected. At the same time, interest rate expectations abroad have increased, and the krone is somewhat weaker than assumed.

We have not decided now when we will lower the policy rate. In the period to the monetary policy meeting in June, we will have more information on economic developments. We will also present new forecasts in June. The data so far could suggest that a tight monetary policy stance may be needed for somewhat longer than we envisaged in March.

The economic outlook is uncertain. If a further increase in the policy rate is judged necessary to bring inflation down to target within a reasonable time horizon, the Committee is prepared to raise the policy rate again. If there is a more pronounced slowdown in the Norwegian economy or prospects suggest that inflation will return to target faster, the policy rate may be lowered earlier than we envisaged in March.

We have also published an updated version of our monetary policy strategy today. The strategy describes the Committee's interpretation of its monetary policy mandate and how the Committee will orient monetary policy in response to different shocks that could hit the economy.

The updated strategy is consistent with the Committee's conduct of monetary policy over recent years and does not entail a change in the conduct of monetary policy. However, the monetary policy challenges are different today than they were when the strategy was first adopted in 2021. At that time, global interest rates and inflation had been low for an extended period. The updated strategy articulates that we interpret our mandate to mean that we shall give considerable weight to employment – also at times when inflation deviates significantly from the target.

You will find more information about our monetary policy strategy on our website.