

# Ida Wolden Bache: Cooperation and independence - Norges Bank in a turbulent world

Speech by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), at the Finance Norway conference, Oslo, 8 April 2025.

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[\*Charts accompanying the speech\*](#)

## Introduction

Good morning. I would like to thank Finance Norway for the opportunity to speak to you today.

In recent days, there have been large movements in financial markets. Equity prices have fallen sharply, and the fear index (VIX) has risen to levels not seen since the financial crisis and at the beginning of the pandemic. Oil prices have fallen, and the krone has depreciated.

As always, Norges Bank is prepared and is closely monitoring market developments.

Developments over the past few days can be viewed against the background of framework conditions for international trade and cooperation being in play. In addition, the security policy landscape has changed.

This affects all of Norges Bank's areas of responsibility.

Our assigned mandate is to maintain monetary stability and to promote the stability of the financial system and an efficient and secure payment system.

I have three key messages:

First, inflation remains too high. Norges Bank's aim is to return inflation to 2 percent.

Second, regulatory simplification and harmonisation across national boundaries must not be at the expense of the resilience of the financial system.

Third, contingency arrangements in the payment system must be strengthened, requiring action from Norges Bank, other authorities, the financial industry and each and every one of us.

## We will ensure low and stable inflation

*Chart: Inflation back to target without a large increase in unemployment*

Let me begin with monetary policy

When inflation surged three years ago, both we and other central banks raised policy rates sharply and rapidly. As inflation has come down, the central banks of Norway's main trading partners have cut their policy rates in several rounds.

In Norway, the policy rate has been held at 4.5 percent for more than a year. Inflation has fallen significantly from the peak but has picked up again in recent months. In February, consumer price inflation was 3.6 percent. Food prices in particular have risen sharply, partly reflecting higher international prices, but prices for a range of other goods and services have also picked up. At the same time, wage growth has risen markedly in recent years. Higher wage growth will raise business costs and contribute to stoking inflation ahead.

If the policy rate is lowered prematurely, we risk seeing a continued rapid rise in prices. At the same time, we do not want to restrict the economy more than needed to bring inflation back to target.

The economy has cooled in recent years. Unemployment has edged up from a low in 2022 but has recently declined while employment has increased. Economic activity fell towards the end of 2024, but Norges Bank's Regional Network contacts report increased activity over winter.

Our March forecasts indicate that the policy rate will most likely be reduced in the course of 2025. If developments turn out as we now envisage, we will return inflation to target without a large increase in unemployment.

The forecasts indicate that inflation will move down gradually and approach 2 percent at the end of 2028. Unemployment is likely to increase slightly to around the pre-pandemic level.

But uncertainty surrounding the economic outlook is greater than normal. The future policy rate path will depend on how the economy evolves.

The new US administration has announced higher tariffs, which, if implemented, will entail that the US returns to effective import protection that is higher than during the protectionist period in the 1930s. Imports from Norway would also be subject to higher tariffs. A number of countries have already imposed or announced retaliatory measures.

*Chart: Norwegian exports also influenced indirectly via other countries*

Norway's exports to the US are relatively limited. Direct goods exports to the US, excluding oil and gas, contribute about 1.3 percent to Norwegian mainland GDP. Nevertheless, for firms that export large volumes of goods to the US, higher tariffs may have serious consequences. Norwegian firms that sell intermediate goods for other countries' exports to the US may also be affected. The effects on the Norwegian economy via other trading partners may be more important. The EU accounts for close to 70 percent of Norway's goods exports. The effects on EU countries of the increased tariffs and their response could have a significant impact on Norwegian exports.

Trade policy is not the only factor that has an impact on the economic outlook. The European economy is also affected by increased defence and infrastructure investment. This may also have a bearing on the Norwegian economy.

There continues to be considerable uncertainty about the future trade regime. It is not a given that all the tariffs announced by the US will remain in effect and we do not know what retaliatory measures will be imposed by other countries. However, history and economic research show that higher trade barriers can dampen global economic activity. Uncertainty about future tariffs in itself may lead firms to postpone investment. Over time, less trade may result in less efficient supply chains, less technology diffusion and lower productivity. The impact on inflation is more uncertain. For the countries that impose higher tariff rates, the result may be higher prices that can spread to other countries through global supply chains. On the other hand, lower activity may dampen inflation. The effects on domestic inflation will also depend on movements in the krone exchange rate.

If prospects suggest that economic activity weakens amid a pickup in inflation, monetary policy trade-offs may be more difficult. We must then strike a balance between bringing inflation back to the 2 percent target and keeping employment as high as possible.

Our interpretation of Norges Bank's mandate is that considerable weight shall be given to employment – also at times when inflation deviates significantly from the target. Keeping employment as high as possible is also important when faced with a global trade conflict.

But we must respond by tightening monetary policy if there are prospects that inflation will become high. Low and stable inflation creates predictability for households and firms and is important for a well-functioning economy. When there is confidence in the inflation target, bringing down inflation becomes less costly, and we become better equipped to deal with shocks and turbulent periods.

## **Sound regulation provides resilience**

A well-functioning economy depends on the financial system performing functions such as providing loans, holding deposits and executing payment transactions – even in turbulent situations.

Norwegian banks are well-equipped to manage market turbulence and downturns. This is a result of profitable and efficient operations with sound risk management, but regulation, particularly through requirements for capital adequacy, liquidity and responsible credit standards, has also been necessary. Many of the current regulations were introduced in the wake of the global financial crisis in 2008 and are partly why the financial system has been resilient over the past few turbulent years.

Internationally, there are now indications that the pendulum is swinging back. Regulatory harmonisation and simplification are now higher up on the agenda, and a number of countries are facing increased pressure to ease regulatory requirements.

There are good reasons to explore opportunities to simplify complex and extensive regulations. Harmonising rules may level the playing field internationally, but simplification and harmonisation should not be carried out by relaxing requirements that are necessary to mitigate the build-up of risk and maintain resilience in the financial system. It is important to avoid inter-jurisdictional competition for the most accommodative regulations – a race to the bottom – as this would make everyone more vulnerable.

And in some areas, more regulation may be needed. There are signs of closer global linkages between cryptoasset markets and the traditional financial system, which may be a source of systemic risk. The increased prevalence of cryptoassets also makes it even more important that investing and paying using Norway's own currency is attractive and secure. This requires a future-oriented payment system.

## **A future-orientated payment system**

The core of the Norwegian payment system is Norges Bank's settlement system. Electronic payments in NOK, whether we use cards, mobile apps or online banking, are ultimately settled between banks in Norges Bank's settlement system. The daily average of such interbank transfers is NOK 350 billion.

The current settlement system functions well. It is efficient and stable, and contingency solutions are effective. However, the operation of an efficient and secure settlement system becomes increasingly resource-intensive with a more aggressive threat landscape and stricter security and contingency requirements. At the same time, there are few settlement service providers to choose from.

In recent years, Norges Bank has evaluated various designs of the next generation settlement system. Our assessment now is that collaboration with other central banks is the best long-term choice. This makes us better equipped to ensure stable operations, protect the settlement system against attacks and further develop new features and services.

Our Nordic neighbours have made similar assessments, and we have all turned our attention to Europe and the Eurosystem's shared platform, TARGET Services. Norges Bank has recently initiated formal discussions with the European Central Bank (ECB) to address Norway's participation in T2. This is the core system for settling payments in TARGET Services and has features that are equivalent to Norges Bank's current settlement system.

In 2024, we also signed an agreement with the ECB on participation in Target Instant Payment Settlement or TIPS. Participation in TIPS means that we will use the Eurosystem's platform to settle real-time payments such as peer-to-peer payments in Vipps.

Participation in the European settlement platform involves no change to our role as a central bank. We will remain responsible for settlement, which will continue to be in NOK. But we will be able to collaborate with other central banks in the operation and development of infrastructure for instant payments and thus ensure that our settlement system develops in pace with developments in the Nordic region and the rest of Europe.

A final decision on Norway's participation in T2 can be expected no earlier than the end of 2025. The transition to a new settlement system will take time and requires the efforts of both Norges Bank and you, the financial sector. However, this does not mean that other tasks related to payment system development will be put on hold.

## **Contingency arrangements must be strengthened**

The security and contingency arrangements of individual entities are the payment system's first line of defence. Each entity is responsible for implementing necessary measures based on an assessment of vulnerability and risk.

At the same time, crisis scenarios, which may involve the failure of critical components of the payment system or its underlying infrastructure, must be taken into account. In such scenarios, even well-protected systems or backup solutions may become unavailable. In order to deal with this, contingency arrangements must be further strengthened.

A working group appointed by the Ministry of Finance has recently published a report including 18 recommended measures to strengthen contingency arrangements in the Norwegian payment system. A number of the measures are also recommended by the Payment Commission appointed by the Norwegian government.

There are now a number of sound recommendations on the table, but contingency arrangements will not be strengthened until the measures have been implemented. Among other things, Norges Bank is in the process of establishing an independent backup solution for the settlement system. It is crucial that the financial sector also follows up. Enhancing contingency arrangements for point-of-sale payments by expanding the backup solution for BankAxept and establishing an independent backup solution for basic banking services are measures that could have a significant impact on overall contingency arrangements. This can be established quickly through effective collaboration.

The need to strengthen contingency arrangements also applies to us all. Everyone should have alternative means of payment available, including multiple payment cards, accounts with different banks and cash. This makes each of us and the payment system as a whole more resilient.

## **Conclusion**

Let me conclude.

Uncertainty about the economic outlook is greater than normal, and we must be prepared for financial market volatility in the period ahead.

According to the Norwegian Government, it is now important to maintain order in the Norwegian economy. We at Norges Bank will do our part.

Thank you for your attention.