Pål Longva: Policy rate kept unchanged

Introductory statement by Mr Pål Longva, Deputy Governor of Norges Bank (Central Bank of Norway), at the press conference following Norway's announcement of the policy rate, Oslo, 8 May 2025.

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Presentation accompanying the speech

Chart 1: Policy rate kept 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.

When inflation surged three years ago, we raised the policy rate sharply and rapidly. The policy rate has been held at 4.5 percent for more than a year. Inflation has fallen markedly from the peak but is still above target. Unemployment has edged up in recent years, albeit from a low level.

At yesterday's monetary policy meeting, the Monetary Policy and Financial Stability Committee decided to keep the policy rate unchanged at 4.5 percent.

There is uncertainty about future economic developments, but the Committee's current assessment of the outlook implies that the policy rate will most likely be reduced in the course of 2025.

We have not made new forecasts for this monetary policy meeting but have assessed new information about economic developments against the forecasts presented in March. I will now provide an account of these assessments, starting with international developments.

The global economy is marked by uncertainty about future trade policies. The US has raised tariffs on a range of goods, and some countries have responded with counter-measures. Trade barriers are now more extensive, and the global growth outlook appears to be weaker than assumed in the March *Monetary Policy Report*. While higher tariffs alone could push up inflation, lower global growth could dampen inflation.

Interest rate expectations have fallen internationally since March. Oil and gas prices and prices for a number of other commodities have fallen.

Global trade uncertainty has led to large movements in financial markets. Major equity indices fell sharply at the beginning of April but have since largely been reversed. Increased market stress and the fall in oil prices coincided with the krone weakening somewhat.

Tariffs have also risen for Norway. The US has imposed a tariff of 10 percent on many Norwegian goods and has announced an increase to 15 percent. The direct effect on growth in the Norwegian economy is likely limited, but global trade uncertainty could dampen activity.

Chart 2: Registered unemployment is little changed

So far, activity in the Norwegian economy has been broadly as expected. Activity in the primary housing market appears to have picked up a little recently but is still at a low level. House prices have been lower than projected. The employment rate is high, and employment is somewhat higher than expected. In recent months, registered unemployment has shown little change.

Chart 3: Inflation is still above target

Since the end of 2024, inflation in Norway has risen somewhat. In March, consumer price inflation fell to 2.6 percent. Inflation adjusted for tax changes and excluding energy products was stable at 3.4 percent. This was in line with our expectations. Overall inflation is primarily being driven by the rise in prices for food and services. The wage norm for manufacturing in 2025 is close to the Bank's projection of overall annual wage growth. High growth in business costs is likely to stoke inflation ahead. Since the March *Report*, the krone has been weaker than expected. A weaker krone means higher prices for imported goods.

In summary, our assessment is that a restrictive monetary policy is still needed to bring inflation down to target within a reasonable time horizon. If the policy rate is lowered prematurely, prices may continue to rise rapidly. On the other hand, an overly tight monetary policy could restrict the economy more than needed to bring inflation down to target.

Since March, developments in the Norwegian economy have been broadly as expected. Trade barriers have, however, become more extensive, and there is uncertainty about future trade policies. This may pull the interest rate outlook in different directions. On the one hand, the global growth outlook appears to be weaker, and oil prices have fallen. Norway's main trading partners are now expected to make more rate cuts than previously. On the other hand, the krone has weakened somewhat and been weaker than assumed.

The uncertainty surrounding the outlook is greater than normal, and the future path of the policy rate will depend on economic developments**.** The Committee will have received more information ahead of its next monetary policy meeting in June when new forecasts will also be presented.