Ida Wolden Bache: Policy rate reduced

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, 19 June 2025.

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Presentation accompanying the speech

Chart 1: Policy rate reduced to 4.25 percent

The Monetary Policy and Financial Stability Committee decided to reduce the policy rate by 0.25 percentage point to 4.25 percent. The economic outlook is uncertain, but if the economy evolves broadly as currently projected, the policy rate will be reduced further in the course of 2025.

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.

We raised the policy rate sharply to tackle high inflation, and the policy rate has been held at 4.5 percent since December 2023. The tightening of monetary policy has contributed to cooling down the economy and to dampening inflation. The job of bringing inflation back to target is not done, but it is the Committee's view that the time has come to ease monetary policy somewhat.

In March, when we last presented forecasts, we signalled that the policy rate would most likely be reduced in the course of 2025. Since that time, inflation has slowed, and excluding energy prices, inflation has been lower than expected. At the same time, the inflation outlook for the coming year indicates that inflation will be lower than projected in March.

The Committee judges that a cautious normalisation of the policy rate will pave the way for inflation to return to target without restricting the economy more than necessary.

Chart 2: Cautious normalisation of the policy rate

The policy rate forecast presented is little changed compared with the policy rate path in March but is a little lower in the near term and a little higher further out.

With the current policy rate path, the average residential mortgage rate is projected to decrease from the current rate of 5.6 percent to 4.6 percent in 2028. In other words, we do not foresee a marked decline in interest rates or a decrease in interest rates back to the levels seen in the decade prior to the pandemic.

Let me say a bit more about the background for the decision and the Committee's assessments.

Chart 3: Inflation has slowed

After slowing through last year, inflation increased unexpectedly in the first few months of this year. This was one of the main reasons we did not reduce the policy rate at the monetary policy meeting in March, unlike what we had previously indicated.

Since then, inflation has moved down. CPI inflation was 3.0 percent in May. Excluding energy prices, which can fluctuate widely, inflation was a little lower and lower than we had expected.

While imported goods inflation is low, overall inflation is now being driven mainly by the rise in prices for domestically produced and services. There has been a marked increase in wage growth in recent years. The high growth in business costs will slow the process of disinflation ahead. It appears that wage growth will be markedly lower in 2025 than in 2024. We expect lower wage growth to help push down inflation further out.

Chart 4: Sustained activity in the Norwegian economy

Activity in the Norwegian economy appears to be holding up well. Our Regional Network contacts report that growth has picked up since summer last year. After weak growth through last year, household consumption has increased so far this year. Housing investment, which fell markedly in recent years, has also picked up a little. Employment has increased in recent years, but unemployment has increased from a low level. Since March, unemployment has increased a bit more and been slightly higher than we had envisaged. This may indicate that there is a little more spare capacity in the economy than we assumed in March.

Chart 5: International picture fraught with uncertainties

The military strikes in the Middle East the past week and significant changes in US policy have intensified the uncertainty surrounding the outlook. Higher tariff rates have weakened the economic growth outlook for our main trading partners. The effect of higher tariffs on economic growth in Norway appears to be limited. Norges Bank's Regional Network contacts report increased uncertainty owing to the trade conflicts, but only a few expect that to have a large impact on activity ahead.

Higher tariff rates pull inflation in different directions. The inflation outlook for Norway indicates slightly lower inflation. In the wake of the tariff increases, a number of commodity prices have fallen, which will likely reduce the rise in prices for imported intermediate goods.

US policy changes have led to bouts of financial market volatility. The krone exchange rate depreciated during the market turbulence in April but has since appreciated again and been stronger in the past week than we projected in March. After the publication of the monetary policy decision today, the krone weakened somewhat, as we had also assumed in our analyses.

Chart 6: Inflation down to target without a large rise in unemployment

With the current policy rate path, unemployment is expected to increase a little, to about pre-pandemic levels. Inflation is projected to slow to around 2 percent in 2028. Wages are expected to rise faster than prices ahead, and combined with a gradual decline in interest rates, most people will see their purchasing power increase.

Economic forecasts are always uncertain, and the degree of uncertainty is now greater than normal. An escalation of the conflict in the Middle East and trade policy uncertainty may lead to renewed turbulence in financial markets and could affect the growth outlook for both the global and Norwegian economy.

If the economy takes a different path than currently envisaged, the policy rate path may be adjusted. But our objectives stand firm. We will finish the job and ensure that inflation is brought all the way back to 2 percent.