

## **Ida Wolden Bache: Cautious normalisation of the policy rate**

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, 14 August 2025.

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[Presentation](#) accompanying the speech

*Chart: Policy rate held unchanged at this meeting*

Norges Bank's Monetary Policy and Financial Stability Committee decided to keep the policy rate unchanged at 4.25 percent. The economic outlook is uncertain, but if the economy evolves broadly as currently envisaged, the policy rate will be reduced further in the course of this year.

The central bank is mandated by government to ensure low and stable inflation. The operational target is inflation of close to 2 percent over time. At the same time, we are mandated to help keep employment as high as possible and to promote economic stability.

The central bank sets the policy rate eight times a year. Each rate decision is preceded by a thorough process, where the Committee meets multiple times. Norges Bank staff present analyses and alternative monetary policy stances. The Committee members always engage in thorough discussions, where the objective is to arrive at a decision that can be backed by all the members. The rate decision is published together with a summary of the discussions and the trade-offs made.

*Chart: The policy rate was raised rapidly and substantially in recent years*

The world economy has been hit by unusually large shocks in recent years, and we have had to navigate uncharted territory with regard to interest rate setting. After the outbreak of the pandemic and lockdown, we reduced the policy rate to a historically low level with the aim of dampening the downturn and preventing higher unemployment from becoming entrenched. When inflation surged in the wake of the pandemic, we tightened monetary policy rapidly and significantly. The interest rate increases have helped cool down the economy and reduce inflation.

*Chart: Inflation has come down substantially from the peak*

Inflation peaked at 7 percent and has since more than halved. Earlier this week, incoming data indicated that consumer price inflation is now down to 3.3 percent.

The inflation surge was triggered by an import price shock. Import prices have since fallen sharply, and a key driver of inflation in Norway is now the rise in prices for domestically produced goods and services.

*Chart: The employment ratio is now higher than before the pandemic*

When the economy recovered after the pandemic, unemployment fell to a very low level and the number employed increased markedly. As the economy cooled in recent years, unemployment increased again. This is confirmed by both the number of unemployed registered with the Norwegian Labour and Welfare Administration (Nav) and LFS data from Statistics Norway. While the Nav figures show that registered unemployment is now back to about the same level as before the pandemic, the LFS unemployment data indicate that unemployment has risen somewhat further. Either way, we see that the employment ratio is higher than in the period before the pandemic.

*Chart: Cautious normalisation of the policy rate*

The policy rate was held at 4.5 percent for a year and half. In June, we began a prudent easing of monetary policy. With a cautious normalisation of the monetary policy stance, we are paving the way for inflation to return to target without a strong increase in unemployment.

We place emphasis on being transparent about our assessment of the monetary policy outlook. When we publish the policy rate decisions, we also provide a verbal indication of our assessment of the monetary policy outlook going forward. Our signals about the monetary policy outlook are not promises. If the economy takes a different path than envisaged, the policy rate path may be adjusted.

In March, the inflation figures indicated that inflation was unexpectedly high. The decision to keep the policy rate unchanged in March did not come as a great surprise, whether for the financial market or those who closely follow the central bank. In June it was different. The decision to reduce the policy rate in June did come as a surprise to many.

We do not want to surprise economic agents. But our decision will always be based on our mandate and assessment of the outlook. In the period to the June meeting, underlying inflation fell more than expected. This reassured us that much of the increase in inflation earlier this year was temporary.

The policy rate forecast we presented in June indicated one or two additional rate cuts in the course of the year. We have not drawn up new forecasts now, but the information we have received so far indicates that the outlook for the Norwegian economy has remained broadly in line with the outlook in June. Excluding the volatile component energy prices, inflation has been as projected. The labour market also appears to have evolved as expected.

The US imposed new tariffs over the summer, which are overall a little higher than we had assumed in June. The tariffs could heavily impact some firms, but the direct effect on activity in the Norwegian economy will likely be limited, as is also expected to be the case with regard to inflation in Norway.

*Chart: Krone exchange rate has shown little change over the summer*

When I was here last year, the krone exchange rate received much attention. The exchange rate had weakened quite a bit over the summer months.

Measured by a weighted average of trading partner currencies, the exchange rate is now at about the same level as a year ago. But the exchange rate has varied against different currencies. Against the euro, the krone is a little weaker than a year ago, while it is stronger against the US dollar. Since the beginning of the year, the US dollar has depreciated against a host of currencies.

When we published the policy rate decision in June, the krone exchange rate depreciated – in line with what we had expected. In the following week, the krone weakened somewhat more at the same time as oil prices fell. Since that time, the krone exchange rate has held broadly steady, but is a little weaker than we had assumed in June.

*Chart: Inflation down to target without a marked increase in unemployment*

The Committee judges that a restrictive monetary policy is still needed but that it will likely be appropriate to continue with a cautious normalisation of the policy rate ahead. The job of tackling inflation has not been fully completed. But inflation has been significantly reduced from the peak, and with lower wage growth there are prospects that inflation will continue to decline. With lower inflation, household purchasing power is expected to continue to increase.

Our decision to start easing monetary policy does not mean that the Norwegian economy is faring poorly. But we do not want to restrain the economy more than needed. We expect the economy to expand at a moderate pace in the years ahead. After falling to a very low level, residential construction activity is now showing signs of picking up. On the other hand, the oil services industry, which has prospered in recent years, is expected to show slightly slower growth ahead.

The uncertainty surrounding the economic outlook is greater than normal, and the future path of the policy rate will depend on economic developments. With a rate path in line with the June forecast, inflation is projected to be around 2 percent in 2028, while unemployment is projected to increase a little.

The June forecast indicates a decline in the policy rate to about 3 percent in 2028. As such, we do not envisage a large decline in the policy rate, and we do not foresee a decrease in interest rates back to the levels seen in the decade prior to the pandemic.