

Ida Wolden Bache: Policy rate reduced to 4 percent

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, 18 September 2025.

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[Presentation](#) accompanying the speech

Chart 1: Policy rate reduced to 4 percent

Norges Bank's Monetary Policy and Financial Stability Committee decided to reduce the policy rate to 4 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 response to the inflation surge in 2022, we raised the policy rate sharply and rapidly. The tightening of monetary policy has contributed to cooling down the Norwegian economy and to dampening inflation. In June, we began a cautious normalisation of monetary policy. Incoming data since June indicate that there is a little less spare capacity in the economy, and that inflation may remain elevated for a little longer than projected in June. Therefore, we will probably not reduce the policy rate ahead as quickly as envisaged before summer.

The policy rate decision is always preceded by thorough discussions in the Committee. At this meeting, the Committee considered keeping the policy rate unchanged but concluded that a rate cut is now appropriate. The job of bringing inflation back to target has not been completed, but a cautious easing of monetary policy will pave the way for returning inflation to target without restraining the economy more than needed.

Chart 2: Cautious normalisation of the policy rate

If the economy evolves broadly as currently projected, the policy rate will be reduced further in the course of the coming year. We do not envisage a large decrease in the policy rate ahead. The forecast presented today is consistent with one rate cut per year in the coming three years. In the projections, the average interest rate on residential mortgage loans declines to a little more than 4.5 percent in 2028, which is markedly higher than the level in the decade before the pandemic.

The economic outlook is uncertain, and history has shown that the policy rate can be both higher and lower than indicated by our forecast.

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

Chart 3. Growth in the Norwegian economy has picked up

Mainland economic growth has picked up and more than we had expected. Norges Bank's Regional Network contacts expect sustained growth to the end of the year. After a sharp decline in construction, contacts in the construction industry now expect an upswing in activity, while contacts in oil services, where activity is strong, expect weak growth.

In the labour market, developments have been as expected. Unemployment has risen since its lowest level three years ago, but in recent months unemployment has changed little.

The recent upswing in economic growth has occurred without firms increasing their workforce to the same extent. It therefore appears that potential output is slightly higher than previously assumed. Among the firms surveyed in the Regional Network, a slightly larger share is facing recruitment difficulties.

Chart 4: The pace of disinflation has slowed

Inflation has fallen back substantially from the peak, but the pace of disinflation has slowed. According to last week's data, consumer price inflation now stands at 3.5 percent. Excluding the volatile component energy prices, inflation has been close to 3 percent over the past year.

The inflation surge was triggered by an import price shock. Import price inflation has since come down, while domestic inflation is sustained by high services inflation. Business costs have increased due to the high level of wage growth in recent years. Developments so far indicate high wage growth this year too, but not as high as last year.

Chart 5: Inflation down to target without a large increase in unemployment

Our decision to reduce the policy rate does not mean that we believe that the Norwegian economy is faring poorly. Given the current rate path, unemployment is projected to increase a little further. With a gradual slowing of wage growth ahead, inflation is projected to move down and stand at close to 2 percent in 2028. Wages are still expected to rise faster than prices and, combined with slightly lower interest rates, most people will likely see an improvement in their purchasing power.

Forecasts are not promises. International cooperation and trade policies are in flux, creating uncertainty about the outlook for inflation and growth both at home and abroad despite the fact that tariffs appear to have been clarified to a further extent over summer.

There is also uncertainty about wage growth and its impact on domestic inflation going forward. If the outlook indicates that inflation will remain elevated for longer than projected, a higher policy rate than currently envisaged may be required. If the outlook indicates that inflation will return to target faster or labour market conditions weaken, the policy rate may be lowered faster.

But our objectives stand firm. We will finish the job and ensure that inflation is brought all the way back to 2 percent.