

Ida Wolden Bache: Monetary policy and the Norwegian economy

Speech by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), for the Board of the United Federation of Trade Unions (Fellesforbundet), Oslo, 26 November 2025.

* * *

Presentation accompanying the speech

Good morning, and thank you very much for the invitation to the Board of Fellesforbundet.

Chart: Agenda

My introduction today focuses on three themes:

- Norges Bank's role in economic policy.
- The relationship between wage growth, inflation and interest rates.
- How Norges Bank takes into consideration the objective of high and stable employment.

Let me start with the first one – Norges Bank's role.

Chart: The Monetary Policy and Financial Stability Committee

In this photograph you can see the members of Norges Bank's Monetary Policy and Financial Stability Committee. These are the five members who jointly make policy rate decisions. At the far end of each side are Deputy Governors Pål Longva and Øystein Børsum. Next to them you see the two external members, professors Steinar Holden and Ingvild Almås.

Our job is to ensure low and stable inflation. This task has been delegated to us by the Storting and the government.

Price stability is a precondition for a well-functioning economy. When prices rise quickly and unexpectedly, it becomes hard to plan and make good decisions. High inflation makes it difficult, for example, to know whether the price of a good or service is reasonable, and wage increases that look generous when they are agreed may after a few months be eroded by high inflation. The lowest income groups are most affected by rapid and unexpected price increases.

Norges Bank is tasked with keeping inflation at close to 2 percent over time. At the same time, we are mandated to help keep employment high and to promote economic stability.

In recent years, this has been no small task. The economy has been hit by major shocks, and we at Norges Bank have had to navigate uncharted territory. Let's take a brief look back.

Chart: We raised the policy rate sharply and rapidly

At the beginning of 2020, the Norwegian economy was close to what we might call a normal situation. In March, the picture changed dramatically when the pandemic compelled the government to introduce the most restrictive measures in Norway in peacetime. Unemployment rose from two to ten percent in the space of a couple of weeks. To dampen the downturn, we set the interest rate at zero. We were not worried about high inflation, but we feared that unemployment would become entrenched and kept the interest rate at this historically low level for more than a year.

In autumn 2021, we began to raise the policy rate gradually towards a more normal level. Then – after a few months – the Norwegian economy was hit by a global cost shock. The pandemic and Russia's invasion of Ukraine led to higher energy and metal prices, and freight rates. Inflation also surged in Norway, and we realised that the interest rate level was too low. Interest rates subsequently rose sharply among our trading partners, and the krone depreciated. We did not want to restrain the economy more than needed. At the same time, we had to prevent prices from continuing to rise rapidly. Over the course of two and a half years, we raised the policy rate from 0 to 4.5 percent, and it was not until June this year that we began to ease the monetary stance slightly.

The policy rate hikes could not affect inflation abroad. However, higher interest rates restrain the rise in prices for domestically produced goods and contribute to strengthening the krone. Had we not raised the policy rate, the krone exchange rate could have depreciated more, and inflation could have become even higher than it actually became.

Central banks in many of our trading partner countries have reduced their policy rates over the past year. Even though we have also eased monetary policy somewhat in Norway, the Committee judges that a restrictive monetary policy is still needed. At our previous monetary policy meeting three weeks ago, we kept the policy rate unchanged at 4 percent and did not envisage a large decrease in the policy rate ahead. Our most recent forecast, published in September, indicates one interest rate cut per year over the next three years. As such, we do not foresee a decrease in interest rates back to the levels seen in the decade prior to the pandemic.

Chart: Domestic prices are still rising rapidly

The policy rate hikes have contributed to bringing down inflation, but inflation is still above target. The rise in import prices has come down, but domestic prices are still rising rapidly, which reflects, among other things, a sharp rise in business costs in recent years.

Chart: The relationship between wage growth, inflation and interest rates

This brings me to my second theme today.

Chart: Wage growth has been high in recent years

Wage growth last year was the highest seen in 16 years. This year, wage growth is expected to be lower, but still high compared with productivity growth.

Wage growth has not been high in relation to earnings in some business sectors. The principle of the Norwegian wage determination model is precisely that workers should receive their share of value creation in manufacturing. Thanks to high commodity prices and a weaker krone exchange rate, many export companies have benefited from higher earnings.

As you are well aware, the wage settlement in manufacturing sets the norm for subsequent wage settlements. When manufacturing is faring well, wage increases also become high in business sectors with lower profitability. Companies that are more sheltered from foreign competition will to a greater extent be able to pass on higher labour costs to prices.

However, the ability to pay wages in manufacturing is not the only factor influencing wage growth. Our analyses of wage developments over time show that inflation expectations, as estimated by the Norwegian Technical Calculation Committee for Wage Settlements, are also important. In addition, we see that wage growth is affected by labour market tightness. When unemployment is low and firms compete for skilled labour, wages tend to rise faster.

Norway's coordinated wage determination system, where the bargaining parties place emphasis on employment, reduces the risk of wage-price spirals. This means that there is less need for monetary policy tightening than would otherwise have been required when there are prospects of high inflation. Monetary policy must react – even when inflation is triggered by a global cost shock. When prices rise internationally, central banks in trading partner countries will often react by raising their policy rates. If we do not raise the policy rate in Norway, the krone could depreciate. A weaker krone means higher imported price inflation. It can also increase profitability in export industries, which can in turn contribute to higher wage growth.

Even though wage growth has been high in recent years, it has not resulted in a marked improvement in purchasing power. Wage growth was lower than inflation in both 2022 and 2023. When interest expenses increased at the same time, many people experienced a decline in their purchasing power.

Since then, inflation has come down, and purchasing power has increased. Wages are expected to rise faster than prices in the years ahead. Combined with lower interest rates, this will strengthen peoples' purchasing power.

Chart: How Norges Bank takes into consideration the objective of high and stable employment

Let me now turn to my final theme today.

At the same time as we are tasked with keeping inflation low and stable, we are also mandated to help keep employment high and to promote economic stability.

Over the long term, these objectives are not conflicting. In the long run, we cannot trade off higher employment for higher inflation. Quite the contrary. Low and stable inflation provides the best possible basis for high output and employment in the long term.

The level of employment will over time be determined by factors such as population composition, wage formation and labour market policies. The higher labour market inclusion and labour supply are, the higher employment can be over time.

In the short term, however, there may be a conflict between our objectives. Higher interest rates lead consumers and firms to tighten consumption and investment, so that demand for goods and services declines. This helps dampen inflation. But the need for labour also declines, and more people may be left without a job.

This is the trade-off we have faced in recent years. The aim of pushing down inflation has implied higher interest rates, while the aim of keeping employment high has pulled in the opposite direction.

In interest rate setting, we have sought to find the right balance between these goals. A precondition for striking appropriate trade-offs is that we closely monitor developments in the economy, and not least developments in the labour market.

Chart: Unemployment has increased from a low level

In Norway, unemployment is measured by both the Norwegian Labour and Welfare Administration (Nav) and Statistics Norway. The unemployment figures from Statistics Norway's Labour Force Survey – LFS – are normally higher than the registered unemployment rate, partly because it captures people who want a job but have not registered as unemployed with Nav. Both measures show that unemployment has increased from its lowest level three years ago. According to the Nav measure, unemployment is now back at the same level as before the pandemic, while the LFS measure shows that unemployment has risen somewhat more. LFS unemployment has increased especially among youth aged below 25.

Chart: More people employed than before the pandemic

Employment developments have also been weaker since we started raising the policy rate. Measured as a share of the population, the number of employed is slightly lower than a couple of years ago. The employment rate is nevertheless markedly higher now than it was in the period before the pandemic.

Chart: Construction was hit hard by the interest rate increases

To gain the best possible understanding of the state of the Norwegian economy, we regularly talk to companies in various industries around the country. The companies describe what we can also read from official statistics – that there are large differences across industries. Developments have been particularly weak in industries that are most affected by interest rates. Over the past three years, the number of employed in construction has declined. The rate hikes have come on top of a sharp rise in construction costs after the pandemic.

Other industries have fared better. Strong investment activity in the North Sea has sustained employment in oil-related industries. Accommodation and food services, which were hit hard by the lockdowns during the pandemic, have seen solid job growth in recent years – probably helped by a weaker krone and more domestic and foreign tourism in Norway.

Norges Bank cannot fine-tune developments in individual sectors. Our key instrument is the policy rate, and it affects many parts of the economy at the same time. When we set the policy rate, we have to consider the overall state of the economy. The fact that we ensure low and stable inflation is of benefit to all.

Moreover, we place great emphasis on the aim of keeping employment high, as we have also done during the period of high inflation. We are therefore not attempting to bring inflation back to its target as quickly as possible. Had we focused only on inflation, we would have raised the policy rate more.

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

Our policy rate forecast shows the policy rate path that, in our judgement, will provide the best possible trade-off between inflation and employment.

With the policy rate path we envisaged in September, we expect inflation to decline and move down towards the target in the course of three years - and without a large increase in unemployment.

Let me summarise.

- Our role in economic policy is to ensure that inflation in Norway is low and stable. This provides the best possible basis for high output and employment in the long term.
- Coordinated wage determination reduces the risk of wage-price spirals, with less need for monetary policy tightening than would otherwise have been required. But monetary policy must react when there are prospects of high inflation.
- Our eye is not focused on inflation alone. When we set the policy rate, we place great emphasis on the aim of keeping employment high. We do not want to restrain the economy more than needed to bring inflation back to target.

If developments turn out as we now envisage, Norwegian households' purchasing power will continue to improve in the years ahead, and private consumption will increase. We expect housing construction to pick up ahead, while oil investment will probably slacken.

The outlook is uncertain, however. If the economy takes a different path than currently envisaged, the policy rate path may also be adjusted. The climate transition and new technology can put existing jobs at risk but also provide growth opportunities and demand for labour in new areas. The world economy is marked by increased tensions between countries and trade policy changes. The implications of higher tariffs are uncertain, but the effects on the Norwegian economy appear to be limited so far.

Norway has a good starting point for meeting the challenges ahead. We have responsible social partners and a clear division of roles in economic policy. We have a tradition of cooperation in working life and across political divides, which is not a matter of course in all countries.

Now I look forward to answering your questions.