

Ida Wolden Bache: Policy rate kept unchanged at 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 December 2025.

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[Presentation](#) accompanying the speech

Chart 1: Policy rate kept unchanged at 4 percent

The Monetary Policy and Financial Stability Committee has decided to keep the policy rate unchanged at 4 percent. If the economy evolves broadly as currently envisaged, the policy rate will be reduced further in the course of the coming year.

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, and the tightening of monetary policy has contributed to cooling down the Norwegian economy and to dampening inflation in recent years. In June, we began a cautious normalisation of monetary policy, and the policy rate has been reduced from 4.5 percent to 4 percent.

The job of tackling high inflation has been fully completed, and we judge that restrictive monetary policy is still needed. If the policy rate is lowered too quickly, inflation could remain above target for too long. On the other hand, we do not want to restrain the economy more than needed.

Chart 2: We do not expect a large decrease in the policy rate

We are not in a hurry to reduce the policy rate. The forecast we are presenting today is consistent with 1-2 rate cuts next year and a further reduction to somewhat above 3 percent towards the end of 2028. As such, we do not envisage a large reduction in the policy rate ahead. The average residential mortgage rate is expected to decline to just above 4.5 percent in 2028. The interest rate outlook is little changed since September, when we last presented forecasts.

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

Chart 3: Inflation has not declined further over the past year

Inflation is still too high. After falling markedly in 2023 and 2024, inflation has changed little over the past year. Figures published last week showed that inflation was 3 percent in November.

The post-pandemic surge in inflation was triggered by an import price shock. While imported inflation is now low, the rise in prices for domestically produced goods and services remains high. The rapid growth in wages in recent years has raised firms' costs, which will likely restrain disinflation ahead. Wage growth will probably be high this year too, but lower than last year. We expect a continued moderation in wage growth in the next years. The krone has depreciated and is weaker than assumed in the previous Report. A weaker krone means higher imported goods inflation, which contributes to raising inflation prospects somewhat going forward.

Chart 4: Growth in the Norwegian economy has picked up this year

Growth in the Norwegian economy was low through 2023 and 2024. Developments have been especially weak in the most interest rate sensitive sectors of the Norwegian economy. Unemployment has increased, and registered unemployment is now at about the same level as before the pandemic.

Growth in the mainland economy has picked up this year, but several indicators point to slightly weaker developments in the economy since the previous Report. Employment growth has been a little lower and registered unemployment a little higher than expected. At the same time, Norges Bank's Regional Network contacts report that it has become slightly easier to recruit labour. Our assessment is that there is now slightly more spare capacity in the Norwegian economy than we assumed in September.

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

With the current policy rate path, the number of unemployed is expected to increase a little over the next couple of years. A gradual decline in wage growth ahead will contribute to pushing down inflation to close to 2 percent in 2028.

The moderate upturn in economic activity is projected to continue ahead, but growth will probably be somewhat lower than this year. Wages are expected to rise faster than prices, and combined with somewhat lower interest rates, this means that most people will likely see an improvement in their purchasing power and consumption will continue to grow. Housing construction is expected to pick up over the next years, but the level of housing investment will likely be markedly lower in 2028 than before it started to fall in 2022.

If the economy takes a different path than currently envisaged, the policy rate path may also differ from that implied by the forecast. Unpredictable conditions for international cooperation and trade are creating uncertainty about the outlook for inflation and growth both internationally and in Norway.

If labour market conditions weaken more than expected or the outlook indicates that inflation will return to target faster, the policy rate may be lowered faster. On the other hand, if growth in business costs remains elevated for longer, or the krone proves weaker than projected, inflation could remain elevated for longer than currently projected. A higher policy rate than currently envisaged may then be required.

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