

Ida Wolden Bache: Policy rate raised to 4.25 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, 7 May 2026.

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[Presentation](#) accompanying the speech

Chart: Policy rate raised to 4.25 percent

The Monetary and Financial Stability Committee has decided to raise the policy rate by 0.25 percentage point to 4.25 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.

Chart: Inflation has been above target for several years

At present, unemployment is neither especially high nor unusually low, and capacity utilisation appears to be close to a normal level. Inflation, however, is too high and has run above target for several years. A few weeks ago, figures came in showing that consumer price inflation stood at 3.6 percent. Excluding energy prices, which can vary widely from month to month, inflation has been around 3 percent over the past year and a half.

Prices for domestically produced goods are rising the fastest. In recent months, incoming data indicate that domestic inflation will remain elevated longer than we envisaged at the start of the year. The war in the Middle East has led to increased prices for oil and various other commodities, which will also probably lead to higher imported inflation ahead. The recent krone appreciation will dampen imported price inflation.

Many are questioning whether it is appropriate to raise the policy rate in the current situation where many other prices are rising and the temperature of the economy is not particularly high. Some are of the view that we should not react to a rise in inflation caused by an increase in oil prices or other conditions we cannot influence.

Let me say a few words about that.

Chart: Wages have increased markedly in recent years

The Committee judged it appropriate to raise the policy rate not only because of the war in the Middle East and the associated increase in oil and other commodity prices. An important reason why inflation remains elevated is that wages have increased markedly in recent years.

Wage growth is moderating and is not high compared with manufacturing profitability. The principle of the Norwegian wage determination model is precisely that workers should receive their share of value added in manufacturing. The growth in wages, however, increases firms' costs, which will in turn contribute to keeping inflation elevated.

On top of that, global price pressures have intensified.

Chart: Oil prices have risen sharply

Oil prices rose sharply after the United States and Israel attacked Iran at the end of February and have since remained high. Prices for other commodities, such as aluminium and fertilisers, have also increased due to the war.

Of course, Norges Bank cannot influence global prices, but that does not mean we can disregard them in the conduct of monetary policy. Increased energy prices and other commodity prices can spill over into domestic prices and contribute to keeping domestic inflation elevated. Increased energy prices directly affect households through higher petrol and diesel prices, and indirectly through higher costs for airlines and other businesses, which in turn may be passed on to the prices facing consumers. Higher prices for Norwegian exports can also raise profitability in some manufacturing industries, and in turn lead to higher wage growth.

By raising the policy rate, we are contributing to bringing down inflation. Both Norwegian and international research provides meaningful evidence that higher interest rates have a dampening effect on inflation.

Financial market participants generally take it for granted that we will react to prospects for higher inflation by tightening monetary policy. That confidence is valuable and helps us keep inflation low and stable.

The effect of monetary policy cannot only be measured in terms of how a single policy rate change affects the economy. If we over time do not react systematically to prospects for high inflation, we could risk eroding confidence in the inflation target. The krone could then weaken markedly, and prices continue to rise rapidly. Should that happen, a sharp increase in the policy rate would be needed to bring inflation down again, with potentially high costs in the form of job losses.

Confidence in the inflation target has been built over time. Preserving credibility requires us to deliver on the promise of returning inflation to target. With confidence in low and stable inflation, we are better equipped to address new shocks and periods of turbulence in the future.

Chart: The Committee judged it appropriate to raise the policy rate at this meeting

At our previous monetary policy meeting in March, the Committee judged that it would likely be appropriate to raise the policy rate at one of the forthcoming monetary policy

meetings. The information on the inflation outlook we have received in recent weeks supports the analyses we presented in March, and the Committee collectively judged it appropriate to raise the policy rate at this meeting.

The policy rate forecast presented in March indicated an increase in the policy rate to between 4¼ percent and 4½ percent by the end of the year. The policy rate path thus implied the potential need for further tightening of monetary policy later this year. We have not prepared new forecasts this time, but the monetary policy outlook does not appear to have changed materially since March.

In the March projections, inflation declines to 2.0 percent in 2029. A higher policy rate will cool the economy, and registered unemployment is projected to increase somewhat to around pre-pandemic levels. There are prospects that wages will rise faster than prices and that most people will see their purchasing power increase – even when factoring in higher interest expenses.

The war in the Middle East is still causing substantial uncertainty about the economic outlook. If the economy takes a different path than currently envisaged, the policy rate path may differ from that implied by the forecast.