

Ida Wolden Bache: The conduct of monetary policy

Introductory statement by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), at the hearing of the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament) in connection with the Storting's deliberations on the Financial Market Report, Oslo, 8 May 2026.

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[Charts](#) accompanying the speech

Good morning and thank you for this opportunity to report on the conduct of monetary policy.

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.

This week, the Monetary Policy and Financial Stability Committee decided to raise the policy rate by 0.25 percentage point to 4.25 percent. The background for the rate increase is that inflation is too high, and that a higher policy rate is needed to return inflation to target within a reasonable time horizon. I will return to the reasons why inflation has remained elevated and the assessments we have made. Let me first take a look back.

When I was here a year ago, US tariffs had been increased sharply, and there was substantial uncertainty surrounding global trade policies. Many feared that the global economy would be hard hit by a major trade conflict. But the economic downturn did not materialise. There are several reasons for this. For one thing, the trade restrictions did not become as widespread as initially feared. In addition, global activity has been lifted by increased defence spending and investment in new technology, among other things.

Chart: Growth in the Norwegian economy picked up in 2025

In Norway, economic growth picked up in 2025 following a couple of years of sluggish growth, particularly in the most interest sensitive segments of the economy. Construction activity fell sharply, business investment was low and many households held back on consumption. What sustained activity were the offshore development projects launched in response to the petroleum tax package and strong public sector demand. A weaker krone supported solid export growth, and the tourist industry saw an increase in tourist inflows to large parts of Norway.

The picture changed through 2025. Consumption growth picked up markedly after two years of growth in purchasing power. Construction activity increased slightly from a low level. At the same time, many of the large development projects launched in response to the petroleum tax package are nearing completion, which can weigh down on petroleum investment ahead.

Chart: Employment is high

Capacity utilisation in the economy appears to be close to a normal level. Unemployment has risen slightly over the past year and is now neither especially high nor unusually low. Statistics Norway's Labour Force Survey indicates that unemployment has over time risen more than indicated by the figures for registered unemployment from the Norwegian Labour and Welfare Administration. Some of the difference is ascribable to the fact that LFS figures capture the increase in the number of young labour market entrants.

In recent years, employment has increased, but as a share of the population, employment has edged down slightly. The employment ratio is nevertheless appreciably higher than in the pre-pandemic period. This also applies to the youngest age groups.

Chart: Inflation in Norway remains elevated

Inflation is still above target. Following rapid disinflation from the peak in 2023, inflation has changed little over the past year and a half. Excluding energy prices, which can vary widely from month to month, inflation has been around 3 percent since autumn 2024.

In several of our neighbouring countries, inflation has been close to target for some time. So why is it taking such a long time to bring inflation down in Norway?

Chart: Domestic inflation is still high

Inflation in Norway is now primarily being driven by the rise in prices for domestically produced goods and services. One reason for that is the marked increase in wages 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. Thanks to high commodity prices and a weaker krone in the past years, many manufacturing firms have benefited from substantial export earnings, and profitability has been high. This has provided room for high wage increases. The wage settlement in manufacturing sets the norm for subsequent wage settlements, and when manufacturing is faring well, wage increases also become high in less profitable business sectors. Firms that are less exposed to foreign competition can to a greater extent pass on higher labour costs to prices.

We could have brought inflation down faster if we had raised the policy rate more over the past years. The reason we did not do so is because we have also given considerable weight to employment considerations. We have not wanted to restrict the economy more than necessary. This has been reflected in our forecasts, which have indicated that it would take time for inflation to return to target.

After having kept the policy rate unchanged through 2024, we judged in summer 2025 that it was appropriate to begin a prudent easing of monetary policy. Our assessment was that a cautious normalisation of the policy rate would pave the way for inflation to

return to target within a reasonable time horizon without a substantial rise in unemployment. We reduced the rate in June and September and envisaged further easing in 2026.

Chart: Policy rate has been raised

However, the economic outlook changed, and hence the policy rate has instead been raised.

Incoming data in recent months indicate that inflation will be higher ahead than we envisaged at the beginning of the year. Inflation has been higher than expected, and it appears that wage growth will become higher than expected earlier. Moreover, after the outbreak of the war in the Middle East at the end of February, prices for oil and various other commodities have risen sharply, which is likely to push up inflation further.

Our latest policy rate forecast in March implied the potential need for further tightening of monetary policy later this year, but at present we do not foresee a pronounced increase in the policy rate.

Chart: Prospects for somewhat higher unemployment and lower inflation further out

The March projections indicate that wage growth will moderate further over the coming years, and inflation is projected to move down to 2.0 percent in 2029. Monetary policy will contribute to cooling the economy, and registered unemployment is projected to increase somewhat to around pre-pandemic levels. A higher interest rate will raise borrowing costs. There are prospects, however, that wages will rise faster than prices and that most people will see their purchasing power increase – even when factoring in higher interest expenses.

Chart: Sharp rise in oil prices

Our decision to raise the policy rate this week is not only related to the increase in prices for oil and other commodities. It is, however, part of the explanation. 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. So let me say a bit more about that.

Of course, Norges Bank cannot influence prices in global energy markets, but that does not mean we can disregard them in the conduct of monetary policy.

Higher prices for oil and other commodities will likely curb economic activity among our trading partners. This could dampen activity among some Norwegian export firms. On the other hand, there are also factors that could boost activity in the Norwegian economy. Given Norway's substantial commodity exports, higher prices for goods such as oil and aluminium could lead to increased profitability and higher activity in some manufacturing industries. Our analyses indicate that the overall impact on activity in the Norwegian economy will probably not be substantial.

However, inflation will probably move up. Increased prices for oil and other commodities directly affect households through, for example, 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. In addition, increased export sector profitability can lead to higher wage growth.

By raising the policy rate, we are contributing to bringing down inflation. Both Norwegian and international research provide meaningful evidence that higher interest rates have a dampening effect on inflation. The policy rate affects the economy through several channels.

One channel can be that higher interest rates raise costs for firms, which they may seek to pass on to their prices. Higher interest rates may lead to higher housing rents. At the same time, however, higher interest rates will dampen inflation through other channels, and the research literature has found those channels to dominate over time.

In response to higher interest rates, households tend to tighten consumption and firms to reduce investment, thereby reducing demand for goods and services. This in turn contributes to lower price and wage inflation.

Chart: Stronger krone

In addition, a higher policy rate will normally lead to a stronger krone. There are many factors that influence the krone exchange rate, but there is meaningful evidence that the interest rate differential between Norway and other countries matters for the krone exchange rate. So far this year, the krone has appreciated and measured by the imported-weighted exchange rate index, is now at its strongest level since end-2022. A stronger krone dampens imported price inflation. A stronger krone also reduces export sector profitability and may thereby contribute to curbing wage growth.

So, even though we cannot influence oil and other commodity prices, we can influence the spillovers to domestic prices and counteract the onset of a broad rise in prices for goods and services. We must react when there are prospects for higher inflation, even if inflation is caused by factors that Norges Bank cannot influence. The extent of the monetary policy reaction, however, will be partly determined by the factors that trigger the rise in inflation. When inflation is triggered by a supply shock that also dampens activity, monetary policy faces a dilemma. This is because higher interest rates will curb inflation but also weigh down on the economy. As we also give weight to the aim of keeping employment as high as possible, monetary policy will normally react to a lesser extent when inflation is driven by supply-side factors than by high demand and strong pressures in the economy.

The rise in oil and commodity prices has come in a situation where inflation has already been above target for several years. High inflation over time can lead households and firms to plan for persistently high inflation. For example, firms set their selling prices for a period ahead based on expected price and cost changes. If they have grown accustomed to prices rising rapidly, they may assume that prices will continue to do so and adjust their selling prices accordingly. Such mechanisms entail a risk of greater inflation persistence, making it more difficult to bring inflation down again.

Financial market participants generally assume that we will react to prospects for higher inflation by tightening monetary policy. That confidence in the inflation target is valuable and helps us keep inflation low and stable. Let me give an example. When Statistics

Norway published figures for consumer prices earlier this year that were higher than expected, market interest rates increased and the krone appreciated. A stronger krone contributes to dampening inflation. Market participants' expectations that we would make sure to dampen inflation thereby contributed, in and of itself, to curbing inflation.

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 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.

Let me conclude.

This year marks 25 years since an inflation target for monetary policy was introduced in Norway. The mandate is now under review. In my assessment, the experiences with the current statutory framework have been favourable, and as I stand here today, I cannot envisage a better alternative than flexible inflation targeting. This does not exclude that there may be room for some adjustments or that more substantial changes might be needed in the future.

The mandate implies that monetary policy should not exclusively focus on inflation but shall also contribute to keeping employment as high as possible. We interpret the mandate to mean that we should give substantial weight to employment considerations – also when inflation deviates markedly from target. We have done so in the years behind us and will also continue to do so.

However, we cannot lose sight of the objective of low and stable inflation. The primary task of monetary policy is to provide the economy with a nominal anchor. Nor can we trade off higher employment for higher inflation in the long run. Low and stable inflation is a precondition for a well-functioning economy and provides the best possible basis for high output and employment over time.

I now look forward to answering your questions.