Ida Wolden Bache: Policy rate kept unchanged

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, 27 March 2025.

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Presentation accompanying the speech

Chart 1: Policy rate kept unchanged at 4.5%

The Monetary Policy and Financial Stability Committee has decided to keep the policy rate unchanged at 4.5%.

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.

When inflation surged three years ago, we raised the policy rate sharply and rapidly. The policy rate has been held at 4.5% for more than a year. The tightening of monetary policy has contributed to cooling down the economy and to dampening inflation. Inflation has fallen significantly from the peak. Unemployment has increased a little in recent years from a low level.

When we last presented our projections in December, the Committee assessed that the time to begin easing monetary policy was soon approaching. We signalled that we would reduce the policy rate in March if the economy evolved as we envisaged at that time. We communicated the same intention at the monetary policy meeting in January.

The Committee now judges that it is appropriate to keep the policy rate unchanged given that the economy has not evolved as we envisaged.

The incoming data in recent months indicate that inflation could run markedly higher than we had previously projected. To bring inflation back to 2% within a reasonable time horizon, the Committee judges that there is a need to maintain the current stance for somewhat longer than envisaged in December.

Let me elaborate:

Chart 2: Wage growth has risen further

Wage growth has risen markedly in recent years and rose further in 2024. Overall wage growth was 5.6%, which was higher than expected. Higher wage growth will raise business costs and contribute to stoking inflation ahead.

Chart 3: Unexpected rise in Inflation

Inflation has picked up in recent months and is markedly higher than projected in December. Consumer price inflation was 3.6% in February. In particular, food prices increased, but prices for a range of other goods and services also rose at faster pace. Some of the inflationary factors are expected to be temporary, but not all of them.

The krone appreciation will on its own dampen inflation. The inflation projections for the coming year are nevertheless higher than the projections we presented in December.

If the policy rate is lowered prematurely, we risk seeing a continued rapid rise in prices.

Chart 4: Regional Network contacts report increased activity

At the same time, we do not want to restrict the economy more than needed to bring inflation back to target. Unemployment has declined a little recently and been lower than expected. Employment has increased. Economic activity fell towards the end of last year, partly due to a continued decline in residential construction. But according to Norges Bank's Regional Network, activity has picked up over winter.

The uncertainty surrounding the outlook is greater than normal. The world economy is marked by the changed environment for international trade. Higher tariffs and trade policy uncertainty are expected to dampen growth among our trading partners, but the tariffs implemented to date will probably have a limited impact on economic activity in Norway. Regional Network contacts point to increased uncertainty due to trade conflicts, but only a small share expect that this will lead to lower activity in the near term. If more extensive trade restrictions were to lead to a global economic downturn, the outlook for the Norwegian economy could also weaken.

Chart 5: Need to maintain the current stance for somewhat longer

If developments turn out as we now envisage, the Committee will most likely reduce the policy rate in the course of 2025. The forecast presented today is consistent with a decline in the policy rate to 4% by the end of 2025 and a gradual further decline over the next years. We must be prepared for a higher interest rate level than we had been accustomed to over the past decade.

Chart 6. Inflation back to target without a large increase in unemployment

With the current policy rate path, wages are expected to rise more than prices ahead, and most people will see their budgets stretch further. Consumer price inflation is expected to rise slightly in the coming months and then to decline and approach the 2% target at the end of 2028. Unemployment is expected to rise a little to around the pre-pandemic level.

The future policy rate path will depend on how the economy evolves. If prospects suggest that wage and price inflation will remain elevated for longer than projected, a higher policy rate than currently envisaged may be required. If the pickup in inflation proves more temporary than currently assumed or unemployment rises more than projected, the policy rate may be reduced faster.

We cannot make any promises about the the policy rate. The promise we have made is that we will set the policy rate with the aim of returning inflation to target while helping to keep employment as high as possible. This is a promise we stand by.