

The policy rate has been raised to bring down inflation

Introductory statement by Governor Ida Wolden Bache at press conference following announcement of the policy rate on 4 May 2023.

Chart 1: Policy rate raised by 0.25 percentage point

Norges Bank's Monetary Policy and Financial Stability Committee decided to raise the policy rate by 0.25 percentage point to 3.25 percent.

Norges Bank's task is to keep 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 2: Inflation is too high

Inflation is now markedly above the target. In March, consumer prices were 6.5 percent higher than one year earlier. High energy prices are a key driver of inflation, but other goods and services prices have also risen rapidly.

Price stability is crucial for maintaining a well-functioning economy. The policy rate is being set with the aim of bringing inflation back to the target of 2 percent. At the same time, we want to avoid a slowdown in economic growth beyond what is necessary to tackle inflation. We have not yet seen the full effects of our past rate hikes.

Our March forecasts indicated a policy rate increase to around 3.5 percent this summer. New forecasts have not been prepared for this monetary policy meeting, but we have assessed new information against the forecasts we presented in March.

Chart 3: International inflation has slowed

Inflation among trading partners is also high but has eased in many countries in recent months. Gas and power prices have come down from the very high levels seen last year.

Problems at some US and Swiss banks led to large movements in financial markets in March. Global equity indexes have risen since the March Report, and bond risk premiums have fallen. US and European households and firms appear to be finding it more difficult to obtain loans.

Chart 4: The krone has depreciated

High inflation has prompted central banks in many countries to raise policy rates quickly and more than in Norway. The Norwegian krone has depreciated in recent months and is now at its weakest level since the onset of the pandemic in spring 2020. The krone is weaker than we projected in March.

Activity in the Norwegian economy is high. Household consumption has continued to increase despite high inflation and higher interest rates. The employment rate is high and employment has risen further so far this year. The labour market is tight. Economic growth has nevertheless slowed recently. Unemployment moved a little higher in April, and the number of job postings has declined.

Chart 5: Wage growth has risen

The tight labour market has led to a pick-up in wage growth. Wage growth last year was the highest since 2011, with a further rise expected this year. The outcome of this year's wage settlement so far suggests that annual wage growth will be slightly higher than we projected in March.

Higher wage growth means higher business costs and could lead to higher prices for domestically produced goods. The krone depreciation will generate higher costs for imported goods ahead.

Chart 6: Further rate rise likely in June

The Committee assesses that a higher policy rate is needed to dampen inflation.

Since the publication of our March projections, overall economic activity has been broadly as expected. Excluding energy prices, consumer price inflation has also moved as projected. Higher wage growth and the krone depreciation will contribute to keeping inflation elevated ahead. If the krone remains weaker than projected or pressures in the economy persist, a higher policy rate than envisaged earlier may be needed.

The future policy rate path will depend on economic developments, but we will most likely raise the policy rate again in June, at which time we will also present updated forecasts for the Norwegian economy.