

Economics

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Norway

Norges Bank Keeps Rates On Hold

- The Norges Bank decided to keep their key policy rate unchanged at 2.25% at today's meeting, in line with our forecast (see [Norway - Norges Bank - Now Likely To Wait](#)). The consensus had expected the Central Bank to keep to their conditional rate path, published in June, which suggested a 25bp hike at this meeting. This is the first time since April 2007 when the consensus expected a hike and the Norges Bank has not hiked. The main reason behind the Bank's decision not to hike was, not surprisingly, the recent turbulence in financial markets and signs of weaker-than-expected global growth. The Bank's statement put less weight on the high and rising household debt/income ratio, whereas the Bank previously has cited the desire to rein in the debt boom as a key argument for higher rates.
- In both the press release and in the press conference, the Norges Bank mentioned its alternative rate path with weaker global growth. This rate path suggests rates will continue to rise over time, but at a slower pace than in the main scenario (see Figure 1). Furthermore, this alternative rate path indicates one more hike this year and for the rate to reach 3.50% by end-2012 (while their baseline scenario from June suggested the rate would be at 4.0% at that time).
- The next central bank policy meeting is in September. In the press conference, the Governor kept the Norges Bank's options open. He very specifically pointed out that the Bank is not restricted to follow their previous rate path. He stressed that the Norges Bank's only commitment is to keep the rate in the 2.25-3.25% interval until the next MPR is published, on 19 October. We do expect that the Norges Bank will look to hike rates further over time, but the decision for the September meeting will depend very much on how the global outlook and financial turmoil evolve.

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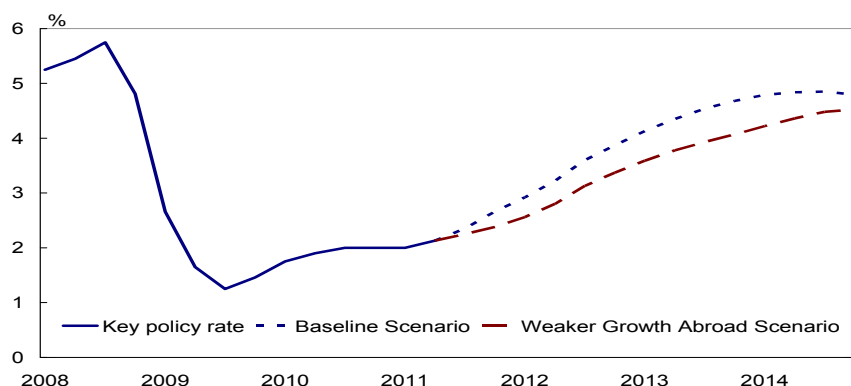
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With thanks to

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Figure 1. Norway – Norges Bank's Rate Path from the 2/11 Monetary Policy Report, 2008-14F



Sources: Norges Bank and Citi Investment Research and Analysis

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