

## Norway

### Norges Bank to Buy NOK in October

- Norges Bank announced today that it will start buying NOK in October, which represents a complete reversal of the Bank's previous behavior. At the same time, Statistics Norway published monthly private consumption metrics, which suggest that the July plunge should prove short-lived; households' domestic spending on goods gained 1.4% M/M in Aug, and healthy fundamentals, i.e. still-robust income growth running ahead of consumption, a resilient labour market, and upward trending home prices, should support private consumption also in the near-term.
- **Foreign exchange to the Government Pension Fund Global (GPFG) in October:** Norges Bank has announced that it will start selling foreign exchange in the market in October (or buy NOK) worth NOK 250million/day. Norges Bank makes the transfers to the GPFG on behalf of the government. Transfers take place each month in foreign currency. Norges Bank primarily procures the necessary foreign exchange by purchasing foreign exchange from the SDFI (the State's Direct Financial Interest). If additional foreign exchange is needed to cover the monthly transfers, Norges Bank purchases the remaining amount in the market. So far this year, FX revenues from the SDFI have covered the monthly transfer to the GPFG. In fact, SDFI-revenues have exceeded the monthly transfers and consequently the petro buffer in Norges Bank increased to NOK 36.6bn by the end of 2Q. As the petro buffer is limited to NOK 35bn, Norges Bank today announced NOK-purchases in October (to reduce the value of the buffer). Although the size of the buying is small, it still represents a complete reversal of the Bank's previous behavior – has historically acted as a net market seller of NOK against foreign currencies in order to transfer foreign currency to the GPFG. Today's action should be NOK positive.
- **Private consumption metrics in August:** As expected, real retail sales (excluding motor vehicles and petrol stations) recovered in Aug, but the 0.6% M/M gain was not sufficient to offset the 1.5% M/M decline in the previous month. Meanwhile, combined with improving conditions on the housing market (existing home prices are in an upward trend) and a surprisingly resilient labour market (strong employment growth has outpaced growth in labour supply, pushing unemployment lower), this suggests that Aug and Sep combined should be able to make up for most of the Jul loss (if not the entire loss). The more important measure – consumption of goods, – which is a broader measure (incl. autos and electricity) and mirrors private goods consumption in the national accounts better, showed an even stronger gain of 1.4% M/M in Aug (-1.7% M/M in Jul). In Q/Q terms, momentum in goods consumption remains healthy, albeit moderating a tad (0.4% Q/Q in the three-month period Jun-Aug, down from 0.9% Q/Q in 1Q and 0.8% Q/Q in 2Q). Compared to Norges Bank's forecast, private consumption is slightly on the weak side.

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**Norwegian banks have cut their mortgage rates.** Separately, we note that one of the larger Nordic banks operating in Norway has announced today that it will lower its mortgage rates by up to 20bp. This follows similar announcements from other (smaller) banks. Although, the cut in average mortgage rates, so far, in 3Q appears modest, it could have an impact on Norges Bank, especially if other larger banks follow suit. According to its latest Monetary Policy Report from September, the Central Bank forecast broadly stable mortgage rates. Norges Bank has made it clear that falling mortgage lending rates are a factor that affects its rate setting; in 2012, for instance, the Bank indicated that a 20bp fall in mortgage rates, in isolation, could lift the key policy rate by about 10-12bp in the coming quarter.<sup>1</sup> At the moment, meanwhile, we reckon that the economic outlook and the related uncertainty will remain decisive for the near-term interest rate outlook.

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<sup>1</sup> See: "Monetary Policy Report 3/2012", Norges Bank, October 2012.

## Appendix A-1

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