

Economics

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Norway

Norges Bank - Now Likely To Wait

- Given the turbulence in markets in recent days, we are changing our view on Norges Bank's rate decision to be announced tomorrow. We now expect the Central Bank to keep its key policy rate unchanged at 2.25%, whereas we previously expected a 25bp hike; see [Norway - We Expect Another Hike From Norges Bank](#).
- Our new view implies that the Norges Bank will deviate from its conditional rate path, published on 22 June, when it clearly signalled a 25bp hike at this upcoming meeting. The key events since then are chiefly global, with signs of softer growth and extra downside risks from the market turmoil of recent days – which has produced a very sharp slide in Norwegian equities. Under these conditions of heightened uncertainty and asymmetric (downside) risks, we suspect the Norges Bank will be willing to wait until the next meeting (21 September), and then if necessary to deliver the hike previously expected in August. But it is a close call, and we would not be very surprised if the Bank went through with the hike anyway in August.
- Whether the Norges Bank hikes at this meeting or not, the press statement is likely to stress that monetary policy remains somewhat loose and that the central bank remains concerned over the growth of household debt. As a result, the Norges Bank probably will hike again over time, unless the economy, credit growth and upside inflation risks weaken markedly.

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*With thanks to
Frida Sellberg*

Figure 1. Norway -- OBX Stock Index (daily average), 2008-11



Sources: Oslo Bors and Citi Investment Research and Analysis

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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