

Rate decision January 2024

At its meeting on 24 January 2024, the Committee decided to keep the policy rate unchanged at 4.5 percent.

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Monetary policy assessment

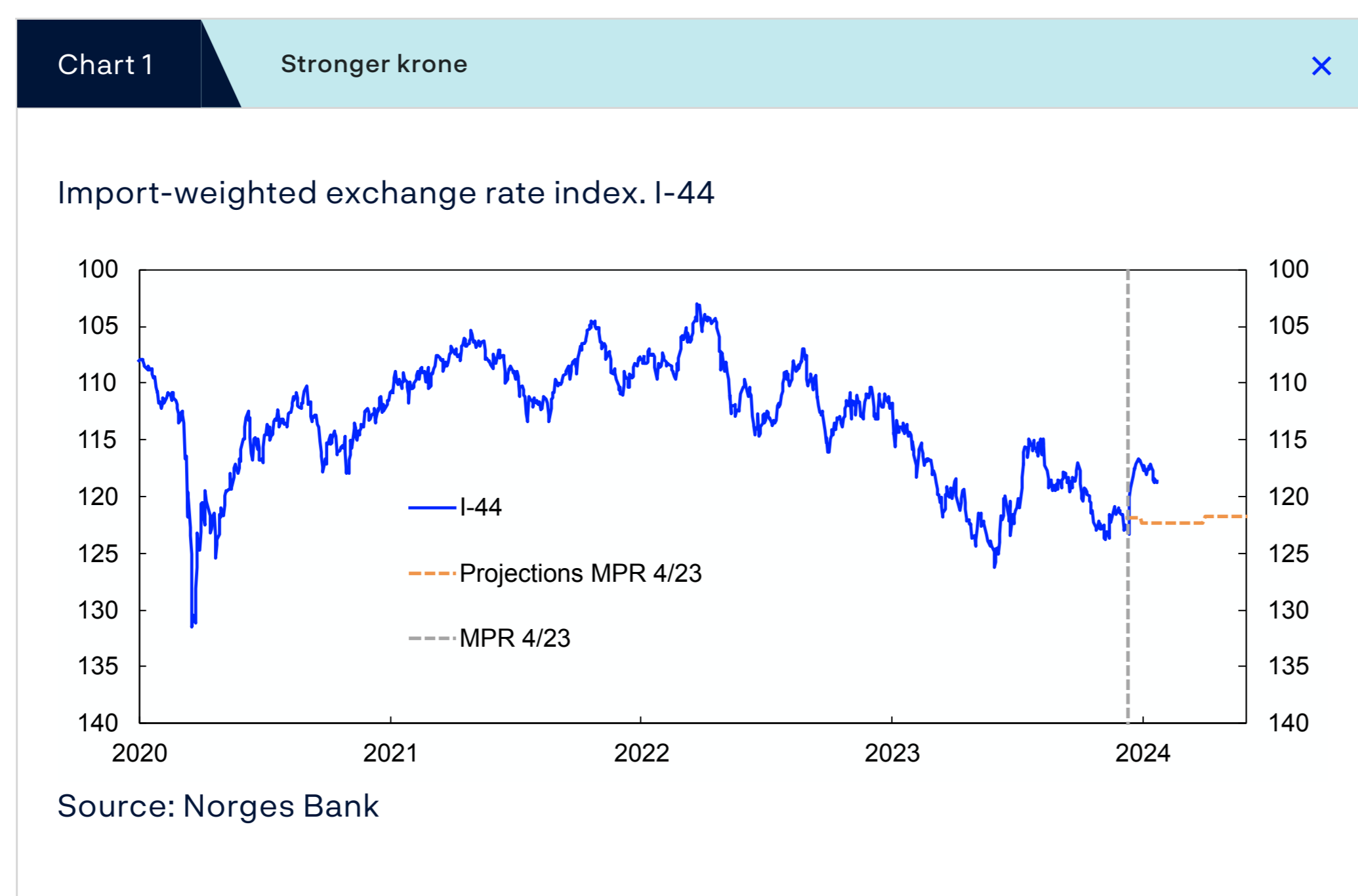
Norges Bank's Monetary Policy and Financial Stability Committee decided to keep the policy rate unchanged at 4.5 percent at its meeting on 24 January 2024. Based on the Committee's current assessment of the outlook and the balance of risks, the policy rate will likely be kept at that level for some time ahead.

In the December 2023 Monetary Policy Report, which was published on 14 December, the Committee's assessment was that the policy rate would likely be kept at 4.5 percent for some time ahead. The forecast indicated that the policy rate would lie around 4.5 percent until autumn 2024 before gradually moving down. Unemployment was projected to edge up, while inflation was expected to recede and approach the target somewhat further out.

Stronger krone and expectations of a reduction in international policy rates

Consumer price inflation among Norway's main trading partners slowed substantially through 2023. Underlying inflation has been slightly lower than expected. Freight rates from Asia to Europe have increased recently due to the turmoil in the Red Sea. Oil spot prices have risen a little since December, while gas and electricity prices have fallen. Economic activity among Norway's trading partners appears to have been broadly as projected in the December Report.

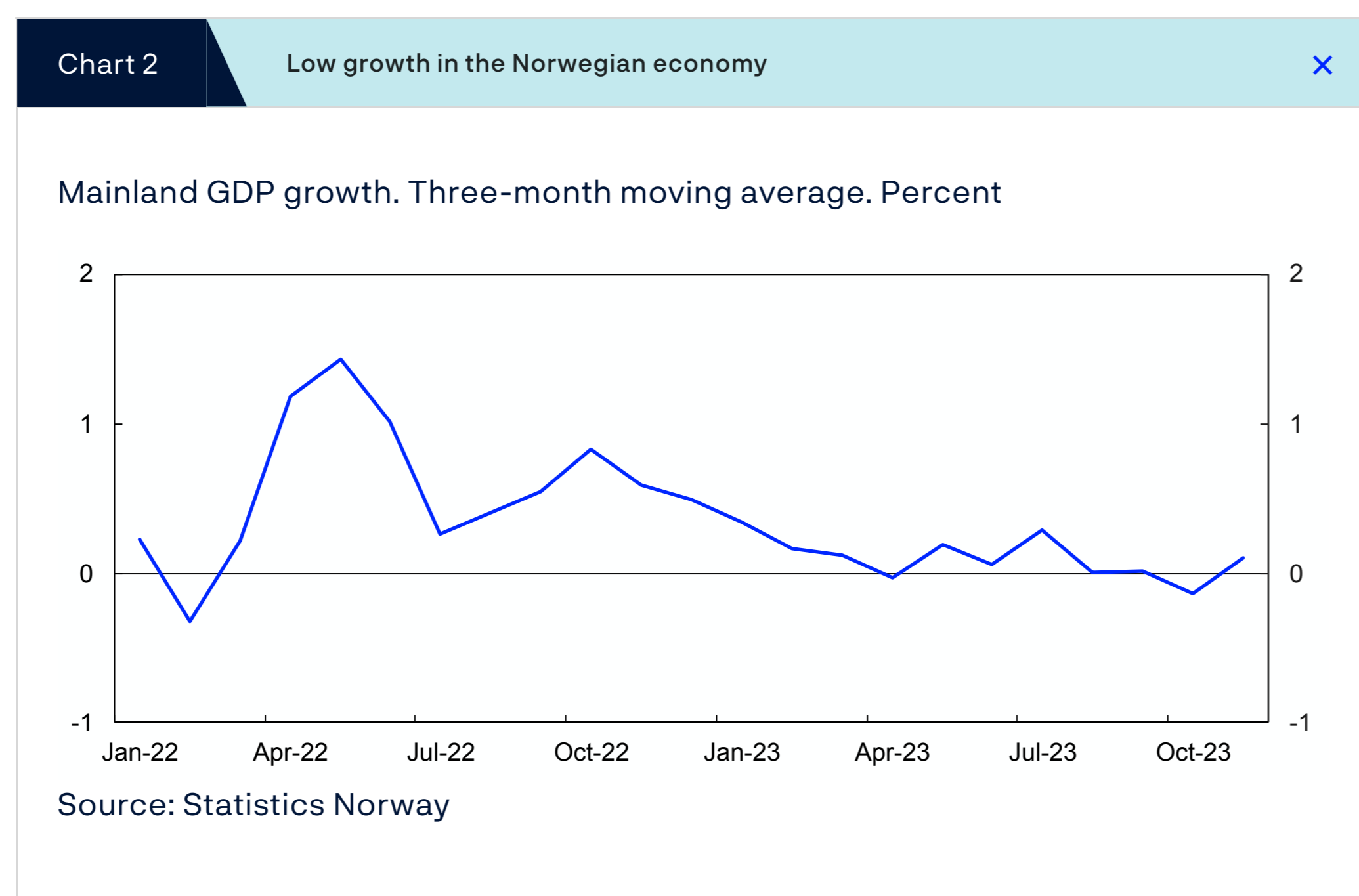
Market policy rate expectations have continued to fall internationally, and central banks in many countries are expected to cut policy rates in the course of spring. Norwegian policy rate expectations have increased since the previous Report, and forward rates indicate expectations of a reduction in the policy rate in summer. The krone is stronger than projected in the previous Report. The krone appreciation has coincided with an increase in the interest rate differential against Norway's main trading partners since December. The premium on Norwegian money market rates has fallen and is lower than projected.



Easing pressures in the Norwegian economy

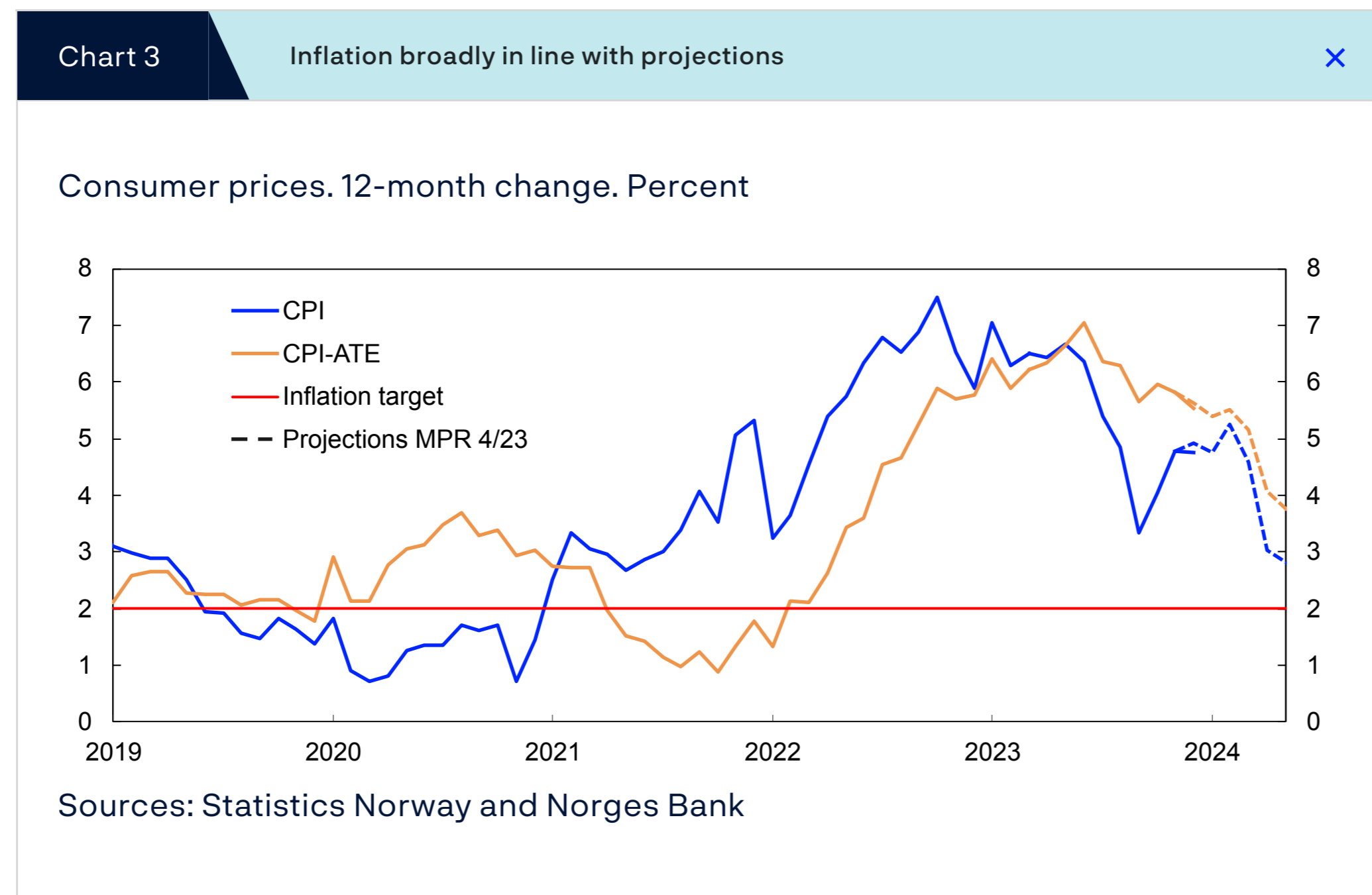
Growth in the Norwegian economy is low. Mainland GDP fell slightly in November broadly as projected in the previous Report. Household consumption appears to have been somewhat higher than projected towards the end of last year. On the other hand, the level of new home sales is low, and residential construction is at a very low level. In the secondary housing market, prices have increased slightly, but the stock of unsold homes remains high.

The employment rate is high, but employment growth is weak. Registered unemployment remained unchanged at 1.9 percent in December. Unemployment has evolved as projected in December, while employment appears to have been slightly higher.



High but falling inflation

Inflation has declined since summer last year. In December, overall consumer price inflation (CPI) remained unchanged at 4.8 percent broadly as projected. The average of different underlying inflation indicators fell further between November and December. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 5.5 percent in December broadly as projected. The rate of increase in prices for both imported consumer goods and domestically produced goods and services declined in December.



Policy rate unchanged

The operational target of monetary policy is annual consumer price inflation of close to 2 percent over time. Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to countering the build-up of financial imbalances.

Inflation is markedly above target. Underlying inflation has declined further but is still high. Unemployment is low, but economic growth is weak. Both inflation and economic activity have been broadly in line with the projections in the December Report. The krone is stronger than expected. The overall prospects for the Norwegian economy do not appear to have changed materially since the previous Report.

The Committee assesses that the policy rate is now sufficiently high to return inflation to target within a reasonable time horizon. Monetary policy is having a tightening effect, and the economy is cooling down. At the same time, business costs have increased considerably in recent years, and continued high wage growth and the krone depreciation through 2023 will likely restrain disinflation. Consequently, there will likely be a need to maintain a tight monetary policy stance for some time ahead. Further out, when inflation falls back and economic conditions so warrant, the Committee can start lowering the policy rate.

There is uncertainty about future developments in the Norwegian economy. If cost inflation remains elevated, or the krone depreciates again, inflation may remain high for longer than previously projected. In that case, the Committee is prepared to raise the policy rate again. If there is a more pronounced slowdown in the Norwegian economy or inflation declines more rapidly, the policy rate may be lowered earlier than envisaged in December.

The Committee unanimously decided to keep the policy rate unchanged at 4.5 percent. Based on the Committee's current assessment of the outlook and the balance of risks, the policy rate will likely be kept at that level for some time ahead.

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24 January 2024

Published 25 January 2024 10:00

Print

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