

## Rate decision May 2024

At its meeting on 2 May 2024, the Committee decided to keep the policy rate unchanged at 4.5 percent.

Rate decision    Press conference    **Monetary policy assessment**

### Monetary policy assessment

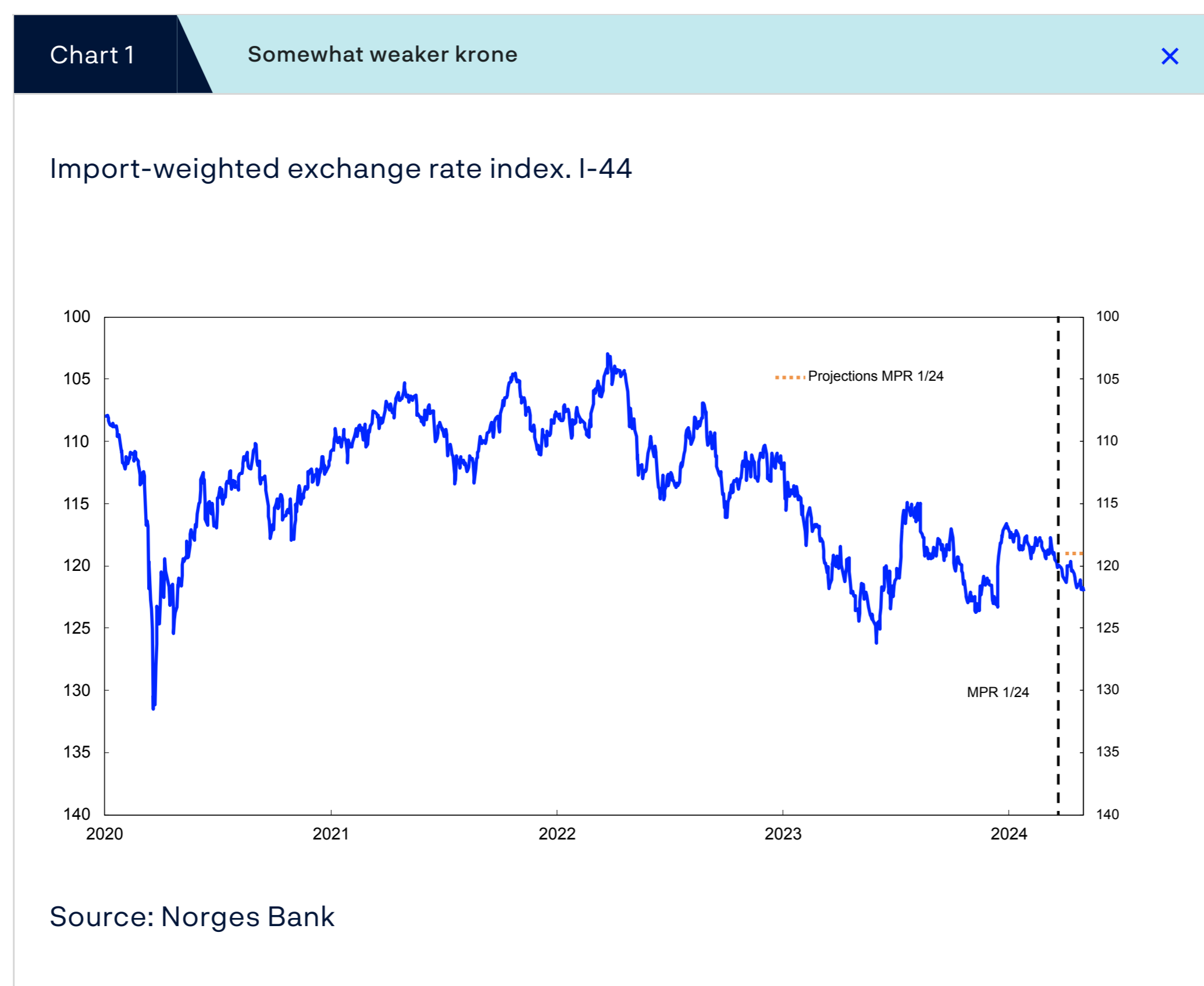
Norges Bank's Monetary Policy and Financial Stability Committee decided to keep the policy rate unchanged at 4.5 percent at its meeting on 2 May 2024. Based on the Committee's current assessment of the outlook and the balance of risks, the policy rate will likely be kept at that level for some time ahead.

In the March 2024 *Monetary Policy Report*, which was published on 21 March, 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 continue to lie at 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 2 percent target towards the end of 2027.

#### Higher international interest rates

Consumer price inflation among Norway's main trading partners slowed through 2023. In recent months, underlying inflation has continued to decline, while the decline in overall consumer price inflation (CPI) has slowed somewhat. Services inflation remains elevated. Oil prices have shown little change since the March Report. Gas prices have increased and are somewhat higher than expected. Economic growth among trading partners is low, albeit slightly stronger than projected.

Central banks internationally have held policy rates steady since the March Report. Market policy rate expectations have risen internationally, and long-term government bond yields have increased. Norwegian policy rate expectations have also risen. Market pricing indicates expectations of a policy rate cut in December. The US dollar has appreciated broadly, also against the Norwegian krone. The krone exchange rate is somewhat weaker than assumed. The premium in Norwegian money market rates is somewhat lower than projected.



#### Low growth in the Norwegian economy

Growth in the Norwegian economy is low, but economic activity at the beginning of the year has been slightly higher than projected in the March Report. Household consumption has declined so far this year and has been a little lower than expected. Residential construction activity remains low, and weak figures for housing starts in March may indicate lower-than-expected housing investment so far in 2024. At the same time, prices in the secondary housing market have risen in recent months and are higher than projected.

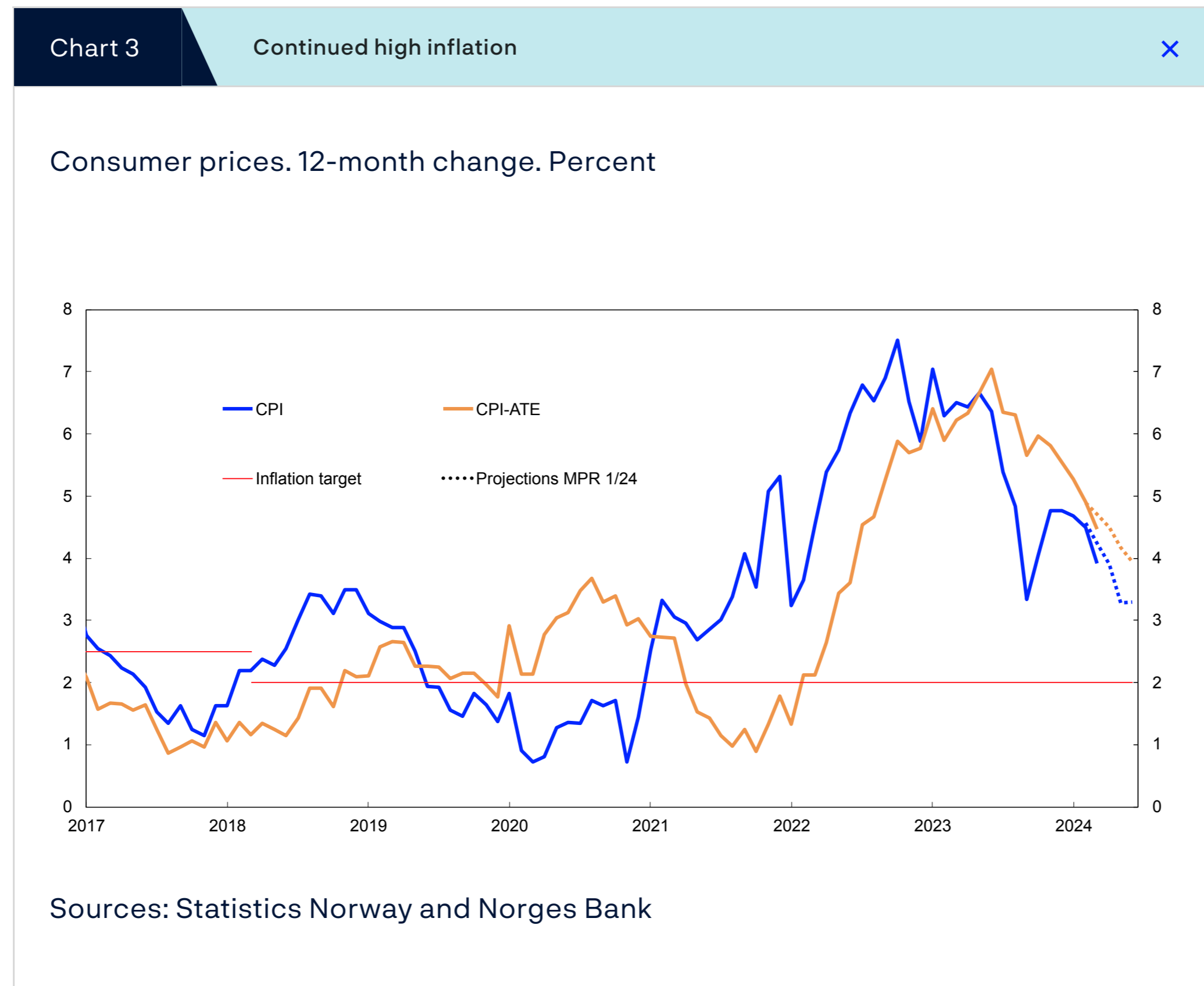
The employment rate remains high but has edged down over the past year. Employment has increased so far in 2024, and the number of employed is slightly higher than projected in the March Report. Registered unemployment is still low, in line with the projections. The Labour Force Survey indicator has been weaker in recent months than other labour market indicators.



#### Continued high inflation

Inflation has slowed further but is still high. In March, CPI inflation was 3.9 percent, slightly lower than projected. Energy prices in the CPI fell more than assumed and futures prices also indicate slightly lower-than-expected energy prices ahead. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 4.5 percent, slightly lower than projected. While the rise in prices for domestically produced goods and services was little changed in March, imported goods inflation declined. The average of different underlying inflation indicators decreased.

In this year's wage settlement, agreement was reached on a wage norm of 5.2 percent for manufacturing. So far, wage settlements indicate that overall annual wage growth may prove to be slightly higher than projected in March.



#### 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.

The Committee assesses that the policy rate is sufficiently high to return inflation to target within a reasonable time horizon. Monetary policy is having a tightening effect, and growth in the Norwegian economy is low. Price inflation is slowing but is still markedly above target. Business costs have increased sharply in recent years, and high wage growth and a weaker krone are contributing to keeping inflation elevated.

Since the March Report, inflation has been slightly lower than projected. On the other hand, economic activity is slightly higher than expected, and wage growth may turn out to be slightly higher than projected. At the same time, interest rate expectations abroad have risen, and the krone is somewhat weaker than assumed. The Committee will have received more information about economic developments ahead of its next monetary policy meeting in June, when new forecasts will be presented. The data so far could suggest that a tight monetary policy stance may be needed for somewhat longer than previously envisaged.

The economic outlook is uncertain. If a further increase in the policy rate is judged necessary to bring inflation down to target within a reasonable time horizon, the Committee is prepared to raise the policy rate again. If there is a more pronounced slowdown in the Norwegian economy or prospects suggest that inflation will return to target faster, the policy rate may be lowered earlier than envisaged in March.

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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