

Norway's central bank: Staying on course

Norges bank remains on track for a hike in Q3. But look out for its response (if any) to the latest storm in a teacup in the Norwegian parliament



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Limited change expected

Tomorrow's meeting is an 'in-between', with no new forecasts or press conference forthcoming from Norges Bank. So we expect limited change to the central bank's policy stance.

Overall, economic developments since the last policy meeting in March have been broadly in line with the NB's expectations. Inflation and labour market data have been a touch softer than anticipated. In particular, core inflation in 1Q came in 0.1pp below the NB's forecast. Forward-looking PMI surveys have come off a bit as well, both in Norway and in key European trading partners.

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commitment to the new target

On the positive side, oil prices have risen further. The spot price is around 12% higher than when the NB last met in mid-March. Though the futures curve has risen by less, stronger oil prices are still a significant positive for the NB.

Foreign interest rates have also risen a bit further, and the Norwegian money market premium has increased. This is largely down to the Fed hiking rates. In contrast, rates in Sweden and the UK now look likely to remain on hold for a bit longer.

But rate hike plans look solid

On balance, we think the NB remains on track to deliver its first rate hike in September, with the potential for an earlier hike in August now looking more remote. There is still time for a weakening in the Norwegian outlook to disrupt this plan of course.

But the NB has a better track record of sticking to its course than its neighbours at the Riksbank ([which announced yet another delay in hiking rates last week](#)). We think the divergence between the relatively hawkish Norwegian central bank and its Western European colleagues including the European Central Bank, Swiss National Bank, Riksbank, and perhaps even the Bank of England is here to stay.

Despite a political headache

So far so boring. The most interesting thing to look out for tomorrow could well be NB's response (if any) to the latest storm in a teacup in the Norwegian parliament. Remarkably, the Norwegian parliament's finance committee voted against the government's decision in early March to shift the central bank inflation target from 2.5% to 2%. In part, the committee seems upset that the government didn't consult it before making a decision, but the opposition Labour party spokesman also argued that lowering the target was a mistake.

Though the vote doesn't affect the government's decision, which is not subject to parliamentary approval, it is nonetheless a bit of an embarrassment for the centre-right minority government. And while central banks normally do their best to stay out of the political spotlight, in this case, the NB may feel forced to defend its new inflation mandate in order to underline its commitment to the new target.