

## A moving target is easier to hit?

Norway announces a change to its inflation target from 2.5% to 2%, bringing it in line with other similar economies. While this probably increases the chance of an earlier rate hike somewhat, it should not be seen as a dramatic policy change



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Today's announcement from the Norwegian government that it will change the inflation target from 2.5% to 2% is a bit of a surprise because central bank targets tend to change only once in a blue moon. But today's change -- the result of a review of the monetary framework -- is not all that dramatic. Norway's 2.5% target had long been a little out of line with inflation targeting regimes in other advanced economies, which mostly set 2% as the central bank's objective. The reason for Norway's higher target, first introduced in 2001, was that rapid increases in oil and gas production boosted the Norwegian economy and put structural upward pressure on prices. With hydrocarbon production no longer increasing as much, and set to plateau and then decline gradually in the long term, the rationale for a higher target is no longer there.

Near-term policy implications are probably limited. Norge's Bank stressed in its press release that "the new regulation will not result in significant changes in the conduct of monetary policy". In practice, the central bank appears to have been focusing on 2% already: its latest economic projections put inflation at around 2% by the end of the forecast in 2020 yet also signal gradual rate increases. This change in the formal target makes it easier for the NB to explain its policy path. In that sense, this move is similar to Sweden's decision last year to change from the CPI to the CPIF measure, when the Riksbank had already been looking at CPIF for some time.

That said, today's announcement probably strengthens the probability that Norge's Bank will increase its policy rate at the end of this year somewhat. Incoming data has continued to indicate improvement in the Norwegian economy. That means there is a good chance that the interest rate forecast is shifted forward a little at the next policy meeting in two week's time. However, we think the central bank will stick to its plan of raising rates in December. The weak January inflation print suggests downside risks to price dynamics and the strength of the Norwegian krone this year means that some tightening in financial conditions has already taken place, reducing the need for the policy rate to rise.