

Snap | 20 June 2019

NORWAY

## Norges Bank hikes rates and hints at another later this year

The Norges Bank has lived up to its status as the hawkish outlier in the developed market central bank space. We expect today's rate hike to be followed by another in December, although as ever a lot will depend on how trade tensions evolve



In stark contrast to many of its developed markets peers, Norges Bank has taken its tightening cycle a step further on Thursday by increasing interest rates a quarter point to 1.25%. Given this move was clearly flagged back in May, the bigger focus is the Norwegian central bank's new interest rate projection – and as expected it's a tale of two halves.

Probably the biggest news is that the central bank thinks it will “most likely” hike again over the course of 2019, having previously seen the next move around the first quarter of 2020. That follows a better-than-expected reading from the latest oil investment survey for 2019 spending. As policymakers note, the break-even cost for oil-related activities in Norway is much lower than current energy pricing, which is incentivising firms to expand. The krone also hasn't appreciated as the central bank had projected back in March.

The story looks slightly different beyond the middle of 2020. The mechanical way that the central bank calculates its interest rate projection means that the combination of a move

lower in the oil price curve and a sharp decline in international rate expectations, has resulted in a lower path for policy further out. That said, the change compared to the March interest rate projection is very marginal.

This latter point means these new set of forecasts are perhaps marginally more hawkish than expected. We expect the central bank to hike rates again December, although as ever a lot will depend on how trade tensions evolve over coming months.

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