

## Norges Bank: Last hawk standing?

Norway's central bank raised interest rates to 1% and continues to signal further hikes over the next year. But further out, Norges Bank's rate forecast has become more cautious, and the end of the rate hiking cycle is now in sight



Source: NASA/GSFC/James Spann

As widely expected, the Norwegian central bank raised interest rates to 1% today. The near term outlook for further rate hikes was also revised upwards, with the central bank now suggesting it could hike two more times this year, with another hike already in June now possible to contain stronger than expected price pressure in the Norwegian economy.

But further out, the Norges Bank forecast has become considerably more cautious. The rate path in 2020 and 2021 was revised downward and now tops out at 1.75%, with the last rate hike likely to come around mid-2020. In effect, the central bank is signalling the end of the current rate hiking cycle by the middle of next year.

Today's policy decision reinforces our view that Norway's central bank remains a hawkish outlier among G10 central banks. Both the Fed and the ECB are now signalling no further hikes in 2019. None of the other G10 central banks are likely to hike more than once this year and are highly unlikely to match the NB's planned pace of three hikes by mid-2020.

That said, Norges Bank's near term interest rate forecast now looks quite aggressive. We doubt the next hike will come as soon as June, and whether the NB will actually deliver all three hikes by mid-2020 is highly uncertain (less than 50-50 chance in our view). A weaker global economy – especially if oil prices fall materially – could easily force a more cautious approach.

But for now, the NB's stance stands in clear contrast to the increasingly dovish approach taken by policymakers in peer economies. Even if Norway only hikes twice more, that will most likely be more than what the rest of the G10 will manage. This is likely to provide continued support for the Norwegian krone, which is likely to strengthen further over coming months.

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