

Norges Bank retains cautiously optimistic stance amid signs of initial recovery

Unlike other global central banks which are under growing pressure to add further support later this year, Norges Bank has few realistic options to up stimulus further. That, and the central bank's cautiously optimistic view on recent data, implies rates are set to remain on hold for the foreseeable future



Norges Bank has limited options if it wants to add further stimulus

With the economic recovery stalling in parts of the world (notably the US), and early signs of renewed Covid-19 transmission within Europe, there's growing talk about what extra support might come from global central banks as we head into winter.

But one place this fresh stimulus is unlikely to originate from is Norway. Norges Bank kept its main policy rate at zero at its August meeting. And while its short statement emphasised there are plenty of unknowns in the outlook, the reality is that there's not a great deal more policymakers can add in terms of support.

In a speech last year, Governor Øystein Olsen noted that neither negative rates nor quantitative easing were really viable options for Norway. On the former, he indicated that the costs of moving rates below zero probably outweigh the benefits. For quantitative easing, there are logistical constraints, including that the size of the Norwegian government bond market is pretty small and illiquid.

Rates set to remain on hold

In other words, don't expect rates to move in either direction any time soon. That said, Norges Bank stands out as one of the more cautiously optimistic central banks at the moment. Their latest outlook published back in June saw policymakers revise up their forecast for 2020 GDP to 'only' a 3.5% decline.

The new statement emphasises that the recent data flow has largely backed that up, and this perhaps partially refers to the latest expectations survey published yesterday. This showed that businesses appeared a little more optimistic about profitability in 2021. Meanwhile, the two major inputs into the central bank's rate projection - oil and the krone - have stabilised relative to the big swings seen in the midst of the pandemic crisis.

Norges Bank is loosely pencilling in a rate hike for 2022, although clearly a lot can change between now and then.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.