

## 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.

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