

## Norges Bank stays on the hiking path

The Norwegian central bank left its policy rate unchanged today but gave a clear signal that the next hike will come in March 2019. This shows that despite growing risks, the central bank remains confident in the domestic outlook and will likely stay the course next year



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As expected, the Norges Bank kept its policy rate at 0.75% today.

But the policy statement gives a clear commitment that the next rate hike will come in March 2019. The interest rate forecast further out has been adjusted down slightly as the central bank continues to signal a further hike in the second half of 2019, but now shows only three more hikes in the 2020-21 period (vs four previously).

At the same time, the counter-cyclical capital buffer (an additional capital requirement for Norwegian banks) will be increased by 0.5pp to 2.5%, effective after 2019. This indicates the NB remains concerned about the high indebtedness of Norwegian households but prefers using other tools than the interest rate to address this issue.

The central bank remains fairly confident in the domestic economy despite the sharp fall in oil prices since early October and the increased uncertainty around the global outlook. The key forecasts show the output gap now at neutral according to the Bank's estimate, while core

inflation has been revised up materially in 2019 to around 2% over the next year.

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Another key change to the forecasts is the change to the projection for the krone. The trade-weighted index has been revised down by around 2% across the forecast period. This is important because it means the NB's interest rate path is now conditioned on a less aggressive appreciation of the krone, which means there is somewhat less upside potential for NOK. The new projection is consistent with EUR/NOK falling towards 9.50 in 2019Q1, and below 9.40 by end 2019.

We continue to see the central bank as the most hawkish central bank in Western Europe, and the still robust near-term outlook for the Norwegian economy will support their rate-hiking stance into 2019.

While uncertainty has increased over the past couple of months, we think that barring a further drop in oil prices, the NB is more likely to keep hiking rates according to its plan than other central banks in the region.