Snap | 18 August 2022 Norway

# Norway opts to front-load rate hikes as inflation climbs

Norges Bank has hiked the deposit rate by 50bp for the second consecutive meeting, despite having previously signalled it expected to dial back the pace to 25bp increments. Higher-than-expected inflation readings suggest policymakers will now front-load hikes. Expect further 50bp moves in September and November



Norway's central bank has taken the deposit rate to 1.75%. Pictured: Oslo

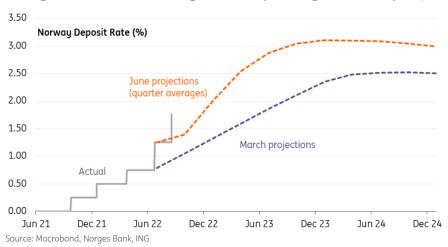
Norway's central bank has raised interest rates by 50bp, taking the deposit rate to 1.75%. What's interesting about this decision is that it had explicitly signalled back in June that it expected to hike rates by 25bp at this meeting, despite having hiked by 50bp at the time. The message seemed to be that it wanted to take rates higher by 50bp every quarter but spread across the two meetings that take place in each three-month window.

Since then, however, inflation data has come in on the upside again (core inflation jumped to 4.5% in July). Policymakers faced a choice between sticking to their previous guidance, or changing course and acting more forcefully on the basis of the latest data – a similar conundrum that the ECB faced a few weeks ago. In practice, officials have concluded that front-loading hikes in this environment makes more sense.

Snap | 18 August 2022

At the June meeting, Norges Bank projected 25bp rate hikes at every forthcoming meeting through to mid-2023, with a terminal rate of roughly 3%. We shouldn't necessarily infer from today's decision that Norges Bank will go materially above that, but it does look like 3% will be reached more quickly. We now expect further 50bp rate hikes in September and probably also November, with another one or two 25bp hikes thereafter.

## Norges Bank is hiking more quickly than it projected in June



### **Author**

#### James Smith

**Developed Markets Economist** 

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 <a href="http://www.ing.com">http://www.ing.com</a>.

Snap | 18 August 2022 2