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

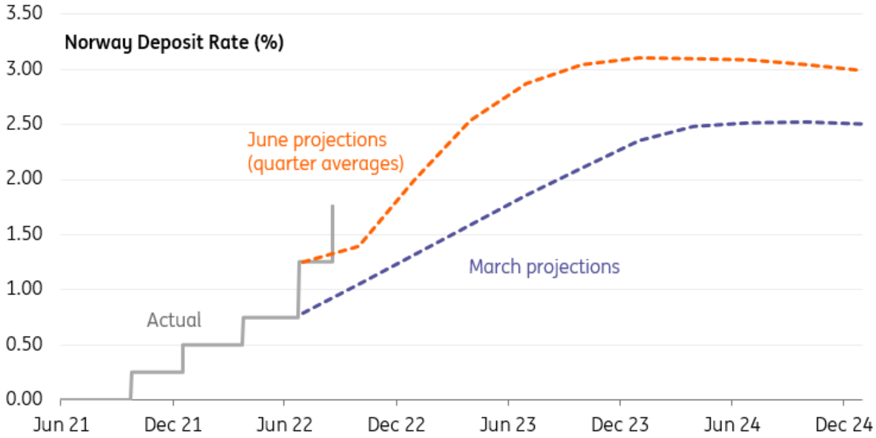
Norway's central bank has taken the deposit rate to 1.75%. Pictured: Oslo

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.

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



Source: Macrobond, Norges Bank, ING

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