

European Economic Comment

Norway: Norges unchanged, but only for now

Economics

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No change at the December meeting despite forecast downgrades

The Executive Board of the Norges Bank left its key deposit rate unchanged today, at 0.75%. That was in line with consensus expectations, though we had argued that a cut of at least 25 basis points was warranted. In the statement about the decision the Board noted that 'household consumption and private sector investment are expected to be lower than previously projected', and that 'there are prospects that growth ahead will be somewhat weaker than anticipated'. Still, despite this weakening the Board kept its policy on hold, though it continues to leave the door open to more easing in the first half of 2016.

Weaker mainland GDP expected

The new forecasts published in the Monetary Policy Report (MPR) sees 2016 mainland GDP growth of 1.1%, compared to the previous forecast of 1.25%. In 2017 the revised forecasts see growth of 1.9%, compared to 2.0% previously. To us these downward revisions seem relatively small given the further decline in oil prices since the September MPR was published.

But constraints on action from inflation and housing

There would appear to be two constraints on Norges Bank action. The first is inflation, with the current rate of inflation being pushed higher by previous currency depreciation. Here, the new MPR sees CPI-ATE inflation of 2.9% in 2016 and 2.5% in 2017. So the fact that inflation is above the Norges Bank's 2.5% target limits the extent to which monetary policy can support growth. The other constraint is in real estate, where house price inflation and household debt are rising at rates that make the Bank feel comfortable.

But prospects for further cuts look likely

Despite the Norges Bank's refrain from further monetary stimulus today, the prospect for another loosening in coming meetings still looks plausible, especially if oil prices remain at current levels. In the new forecasts the key deposit rate is forecast to reach a low of 0.39% by the end of 2016. So, as we argued in our [preview](#) piece, we see scope to do more than just a 25 basis points cut. But it appears the Executive Board distrusts its ability to fully read the impact of the various cross currents on the economy right now, and would prefer to wait a while longer before committing to looser policy.

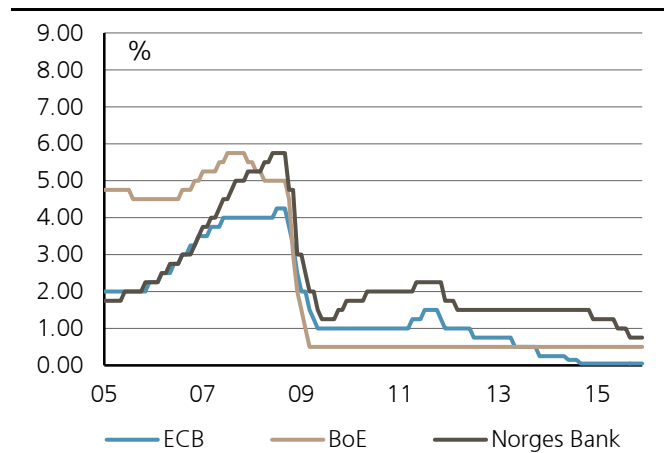
David Tinsley

Economist

david.tinsley@ubs.com

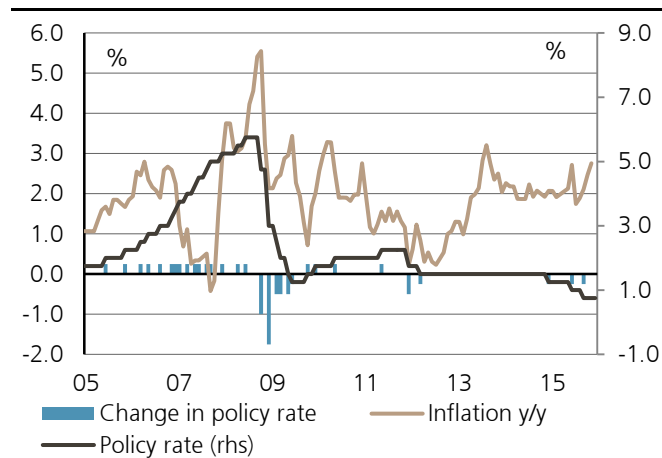
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Figure 1: Policy rate across Europe



Source: ECB, BoE, Norges Bank, Haver, UBS

Figure 2: Change in Policy rate and inflation



Source: Norges Bank, Haver, UBS

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