

Dovish hike from Norges Bank

- The key policy rate was raised by 25bp to 0.75%, as signaled in June and widely expected
- The policy rate path was lowered by 5-9bp, the next rate hike is signaled in Q1 2019
- We continue to expect two hikes both in 2019 and 2020 and the next rate hike to come in March 2019

Assessment: The decision to hike the policy rate was no surprise. The surprise was the reduction in the rate path, mainly caused by lower expected prices and wages and domestic demand. Nevertheless, this supports our view that Norges Bank will hike rates gradually and that the next policy rate hike will come in March 2019.

The key policy rate was hiked as expected: The Executive Board decided to raise the key policy rate by 25bp to 0.75%. The decision was unanimous. According to Bloomberg, 22 out of 22 analysts expected a policy rate hike. The interest rate was last changed on March 16 2016, then with a reduction from 0.75%. The last time Norges Bank hiked the policy rate was in May 2011.

Norges Bank has advised the ministry of finance to keep the countercyclical capital buffer unchanged at 2.0%. The ministry of finance has decided to follow this advice.

The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be increased further in 2019 Q1.

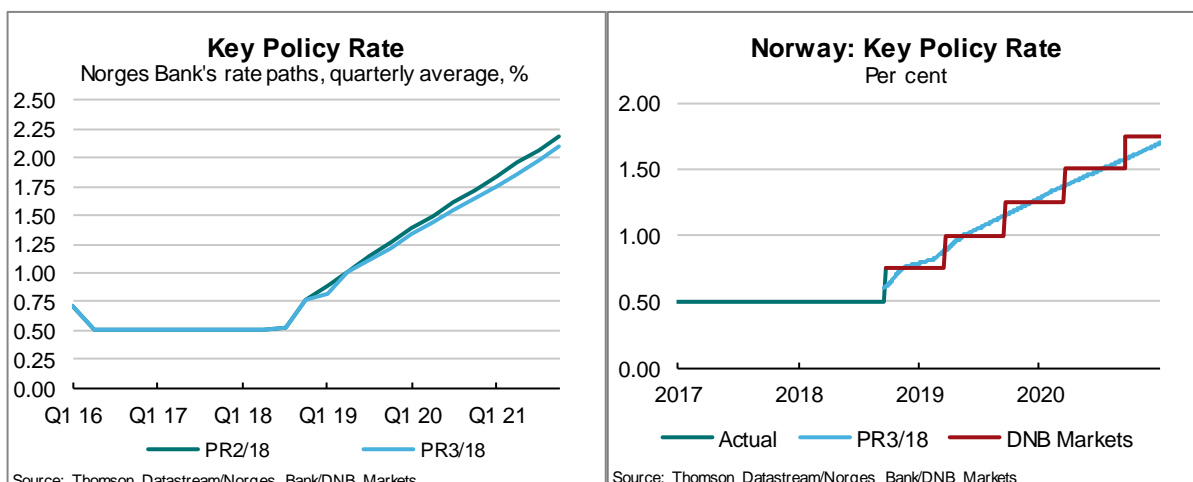
Lower interest rate path: The interest rate path for Q4 2018 was unchanged with an average rate at 0.76%. In Q1 2019 the path was lowered by 7bp. Further out, the rate path was lowered by 5-9bp. The new path indicates a full rate hike to 1.00% in March 2019 and a new hike towards the end of the year. Further, the path indicates a little less than two more hikes in 2020.

The interest rate account shows that the oil price and the exchange rate lifted the rate path. Prices and wages lifted the rate path in the short run, but pulled the path down from Q3 2019. Also domestic demand and foreign factors contributed to lower the rate path. In Q1 2019 judgemental assessments pulled down.

Forecast: GDP growth is revised to 2.5 per cent in 2018 (-0.1%-points), 2.5% in 2019 (previously 2.3%). For 2020 and 2021 the growth forecasts were adjusted to 1.8% and 1.2% respectively (previously 1.6% and 1.3%). Core inflation forecasts were raised to 1.7% (+0.2pp) in 2019, kept unchanged at 1.6% in 2020 and lowered to 1.7% in 2021. Annual wage growth forecasts were adjusted down by 0.1%-points to 2.8% in 2018 and 3.2% in 2019, but kept unchanged at 3.8% and 3.9% in 2020 and 2021.

Market reactions: NOK depreciated with EURNOK up 7 øre, while FRA-rates fell a few basis points.

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Source: Thomson Datastream/Norges Bank/DNB Markets

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