

# Monetary policy trade-offs in a small open economy - the case of Norway

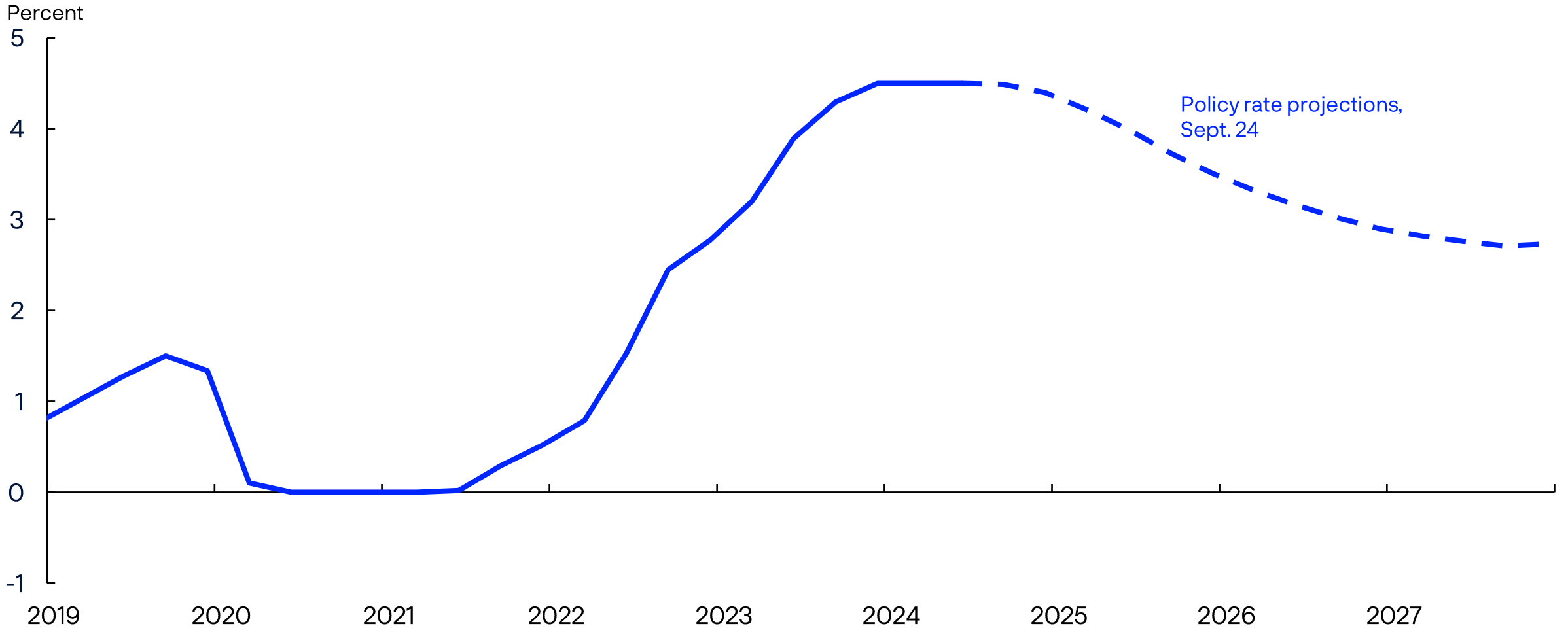
Governor Ida Wolden Bache, Washington, 24 October 2024





# Policy rate at 4.5% to end of year, according to forecast

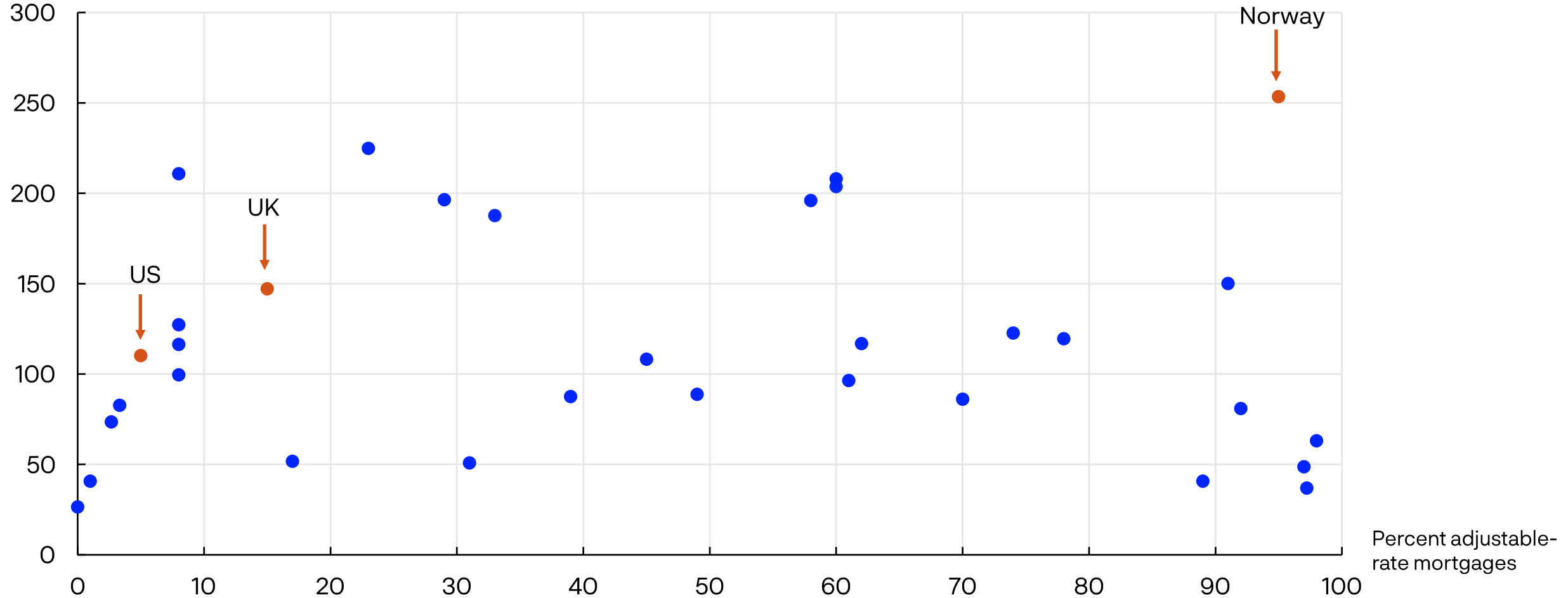
Source: Norges Bank



# Large differences in pass-through of monetary policy to disposable income

Sources: OECD, IMF and national statistical agencies

Debt, percent of disposable income



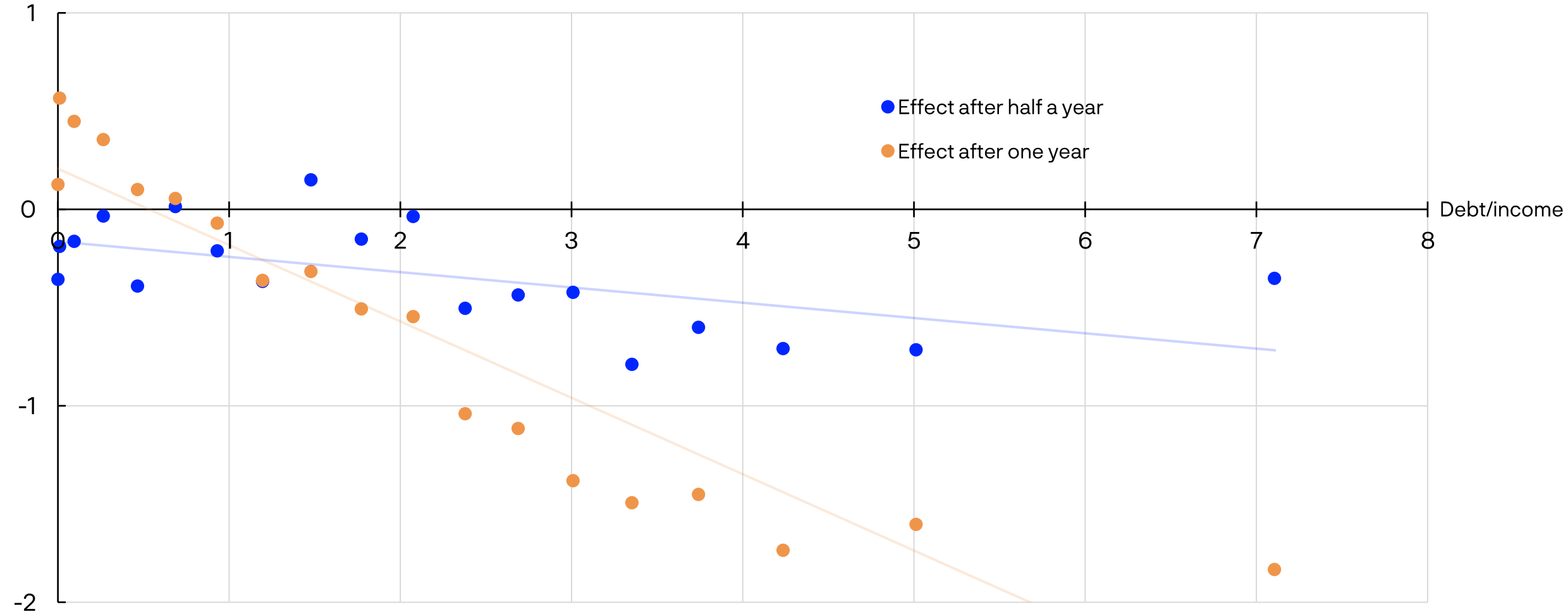
Selected countries based on data availability, mostly OECD members. Data from 2022 and 2023. For most countries, mortgages defined as fixed-rate if > 12 months residual fixation period (see IMF World Economic Outlook April 2024, chapter 2).

# More indebted households respond more strongly to interest rate changes

Effect of 1 pp. increase in interest rate on consumption, by debt/income of household

Source: Ahn, Galaasen & Mæhlum. 2024. *The Cash-flow Channel of Monetary Policy: Evidence From Billions of Transactions*

Consumption change, percent

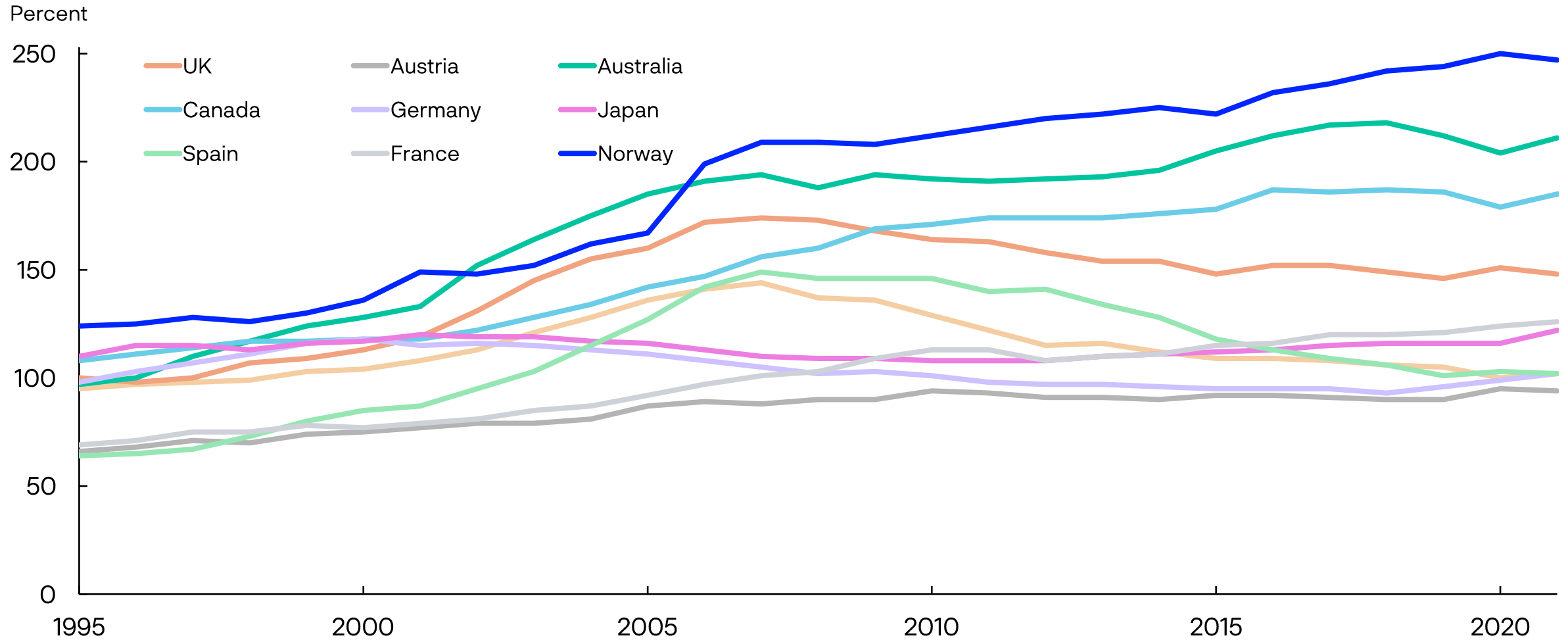


Short-run interest rate instrumented with high frequency monetary policy shocks. Separate regressions for 20 quantiles of debt/income. Effect in percent of after-tax income.

# Households around the world have become more indebted

Source: OECD

Household debt as a percent of disposable income



# The Norwegian krone has depreciated

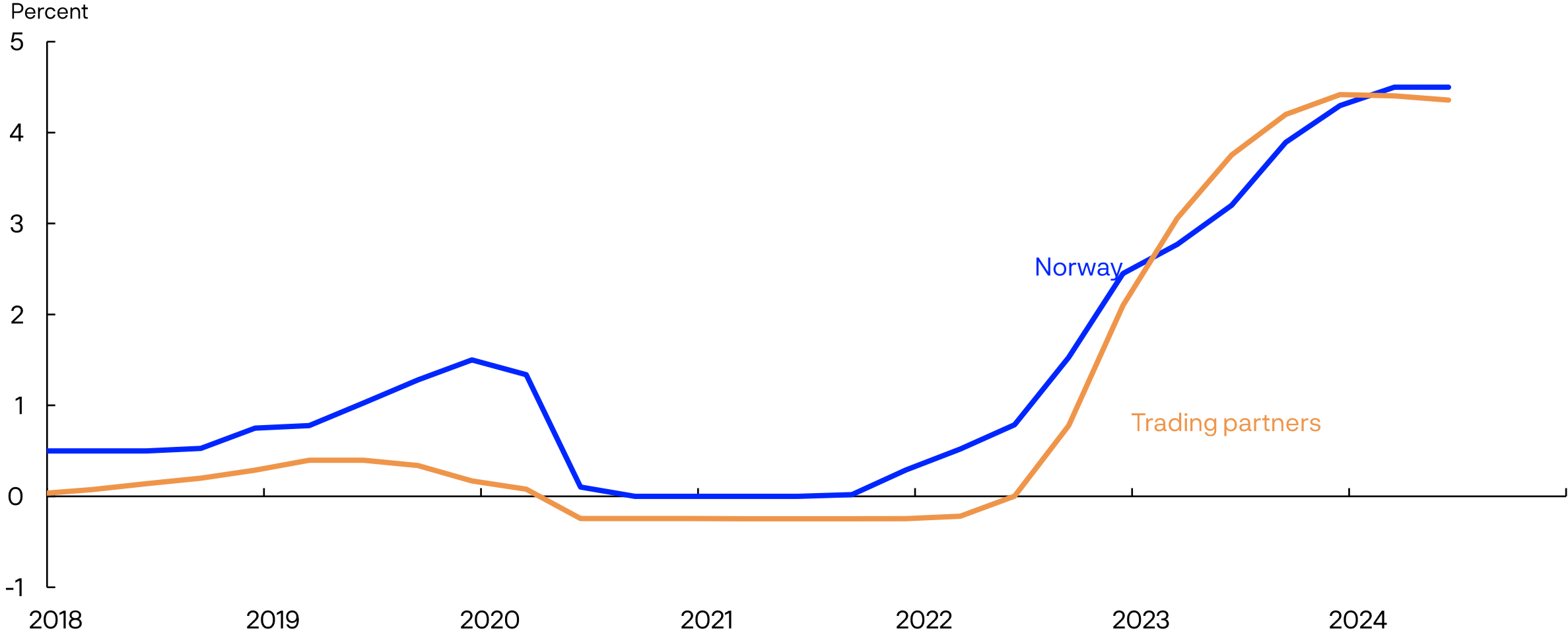
Source: LSEG Datastream



# Trading partners' policy rates increased faster in 2022 and 2023

Sources: Bloomberg and Norges Bank

Policy rates

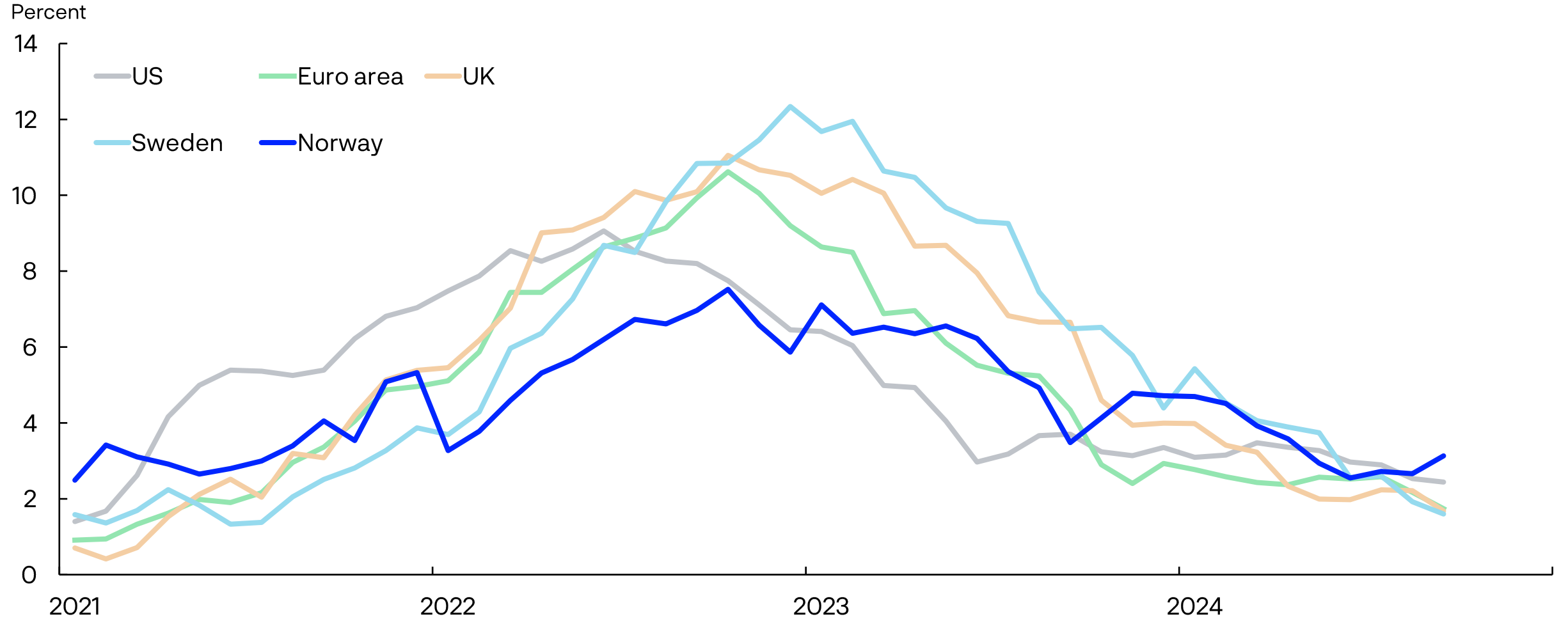




# Inflation has fallen more slowly in Norway

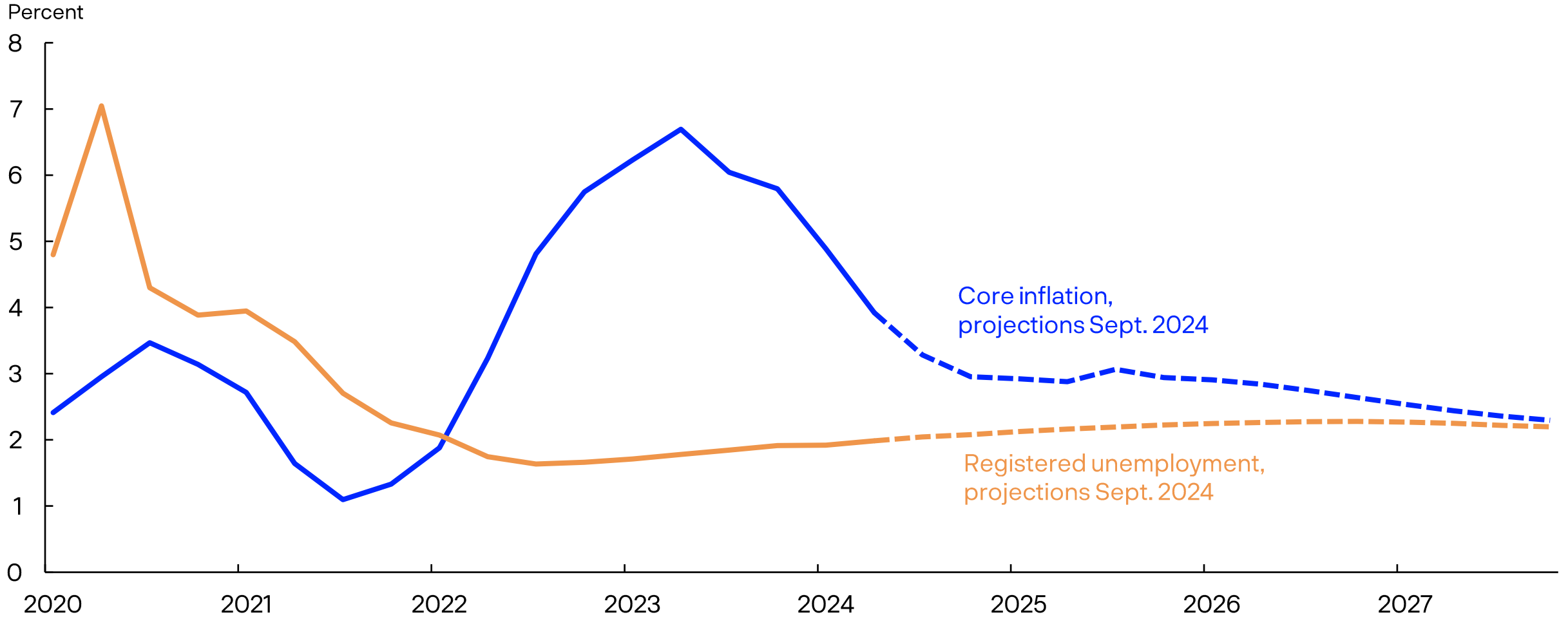
Source: LSEG Datastream

Twelve-month CPI inflation rates



# Inflation will slow and unemployment edge up

Sources: Norwegian Labour and Welfare Administration (NAV), Statistics Norway and Norges Bank





Norges Bank