The Executive Board's assessment

At its meeting on 18 September 2013, the Executive Board decided that the key policy rate should be in the interval 1%–2% in the period to 5 December 2013, unless the Norwegian economy was exposed to new major shocks. In the *Monetary Policy Report* published on 19 September, it was pointed out that growth prospects abroad were moderate and had shown little change since June. Growth had picked up in many advanced economies and markets were expecting policy rates abroad to be raised somewhat earlier than expected previously. Output and employment prospects in Norway had weakened slightly, but capacity utilisation was still close to a normal level. Inflation had risen rapidly to 2.5% and was higher than expected, but some of the increase was assessed to be temporary. The driving forces behind inflation moving forward remained moderate. At the same time, the krone had depreciated. The analysis in the September *Report* implied a key policy rate of 1.5% in the period to summer 2014, followed by a gradual increase towards a more normal level. With that path for the key policy rate, there were prospects that inflation would be slightly below 2½% in the coming years and that capacity utilisation would hold steady at close to a normal level.

In the discussion at its meeting on 23 October 2013, the Executive Board noted that economic growth among Norway's trading partners had been broadly in line with expectations, but that the expected increase in policy rates had again been deferred. Data for the Norwegian economy indicated little change from projected developments. However, household demand appeared to be slightly weaker than projected and house prices had flattened. Consumer price inflation had been lower than projected in September, but the krone had depreciated further. The Executive Board decided to leave the key policy rate unchanged at 1.5%.

In its discussion on 20 November and 4 December, the Executive Board placed emphasis on the following developments:

- Growth among our trading partners remains moderate, but on the whole global growth prospects are slightly weaker than previously projected.

- Policy rates are close to zero in many countries and market expectations concerning policy rates are lower than in September. The European Central Bank (ECB) lowered its key policy rate to 0.25% in November. The first interest rate increases in major advanced economies are now expected in 2015.

- The krone has depreciated. The krone, as measured by the import-weighted krone exchange rate index (I-44), has been about 3.5% weaker so far in the fourth quarter than projected in the September *Report*.

- Bank interest rates on housing loans remained unchanged in Q3.

- Growth in the Norwegian economy is likely to be somewhat lower than projected in the September *Report*. In October, the enterprises in Norges Bank's regional network reported that output growth had slackened more than expected, and they lowered their growth expectations for the period ahead. Registered unemployment has increased slightly more than projected in the September *Report*.

- House prices had declined in the preceding period and had been lower than expected. Growth in household debt remains high.

- In the past few months, consumer price inflation has been somewhat lower than projected. Consumer price inflation adjusted for tax changes and excluding energy products (CPI-ATE) was 1.9% in October.

The point of departure for the Executive Board's assessment of monetary policy is that the key policy rate is set with a view to keeping inflation close to 2.5% over time. The objective of low and stable inflation is weighed against the objective of stable developments in output and employment. Monetary policy also seeks to be robust and take into account the risk of a build-up of financial imbalances. A robust monetary policy also seeks to take into account that the functioning of the economy is not fully known. This normally suggests a gradual approach in interest rate setting.

Policy rates for many of our trading partners are close to zero. In Norway, the key policy rate has been 1.5% since March 2012. The interest rates facing households and enterprises are higher. Underlying inflation is now estimated at between 1¾% and 2¼%. Capacity utilisation is likely close to a normal level.

The Executive Board noted that the analyses in this *Report* imply a key policy rate at today's level in the period to summer 2015, followed by a gradual rise. With this path for the key policy rate, the analysis in this *Report* implies an upward drift in inflation to close to 2½% towards the end of the projection period and capacity utilisation that remains close to a normal level.

In its discussion, the Executive Board pointed out that growth prospects for our trading partners have weakened somewhat. There is still considerable uncertainty surrounding economic developments in Europe. Many countries are implementing structural reforms but it takes time for those reforms to boost growth capacity.

The krone has continued to depreciate through autumn, partly reflecting somewhat weaker key figures for the Norwegian economy. Limited liquidity in the NOK market may have contributed to amplifying the movements in the krone exchange rate. Moreover, expectations concerning monetary policy abroad have influenced the krone exchange rate through autumn. It was noted that foreign-exchange market themes shift rapidly.

The Executive Board focused on housing market developments. House prices and household debt have been rising more than income for a long time. Several indicators point to a decline in housing market activity. The Executive Board noted the uncertainty now associated with future house price developments, pointing out that pronounced changes in house prices could influence household demand.

The Norwegian economy is growing at a moderate pace. The Executive Board noted that growth has slackened in most industries and that the number of enterprises in Norges Bank's regional network reporting capacity constraints has decreased over the past six months. The enterprises have through the year gradually lowered their growth expectations for the period ahead.

The Executive Board discussed factors that have influenced consumer price inflation over the past six months, including method changes. Even if changes in calculation methods may reduce measurement errors over time, during a transitional period it may be more difficult to assess the level of underlying inflation.

In its discussion of monetary policy, the Executive Board gave weight to the fact that inflation has been somewhat lower than projected. At the same time, growth in the Norwegian economy has slowed and house prices have been lower than projected earlier. Capacity utilisation now seems to be close to a normal level, but moving down slightly faster than expected. On the other hand, the krone has depreciated considerably. The Executive Board noted that the analyses in this *Report* imply a somewhat lower forecast for the key policy rate than in the September *Report*.

The Executive Board gave weight to the uncertainty surrounding developments in inflation, output and employment ahead and was of the view that it is thus appropriate to proceed with caution in interest rate setting. It was also pointed out that a reduction in the key policy rate may increase the risk of a renewed build-up of financial imbalances. The Executive Board's overall assessment is that the key policy rate should remain at today's level in the period ahead.

At its meeting on 4 December, the Executive Board decided to keep the key policy rate unchanged at 1.5%. At the same meeting, the Executive Board decided that the key policy rate should be in the interval 1%–2% in the period to the publication of the next *Report* on 27 March 2014, unless the Norwegian economy is exposed to new major shocks.

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