

Executive Board's assessment

Norges Bank's Executive Board has decided to keep the key policy rate unchanged at 0.5%. The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be raised in September 2018.

The economic upturn among Norway's trading partners is continuing, but recent developments indicate slightly weaker global growth prospects than envisaged earlier. Consumer price inflation among trading partners has been broadly as expected. Forward rates now indicate a more gradual rise in global interest rates than in March. Political uncertainty has contributed to volatile interest rate expectations.

Over the past year, growth in the Norwegian economy has been solid, and capacity utilisation has risen. So far in 2018, growth in the mainland economy has been broadly as projected, while labour market developments have been somewhat stronger than expected. Employment has risen and unemployment has fallen. Oil prices have increased, and both spot and futures prices are higher than assumed in the March 2018 *Monetary Policy Report*. There are prospects that growth in the Norwegian economy will be higher in 2018 than in 2017, and the projections for growth in the near term have been revised up.

Inflation has risen slightly since autumn 2017. In May, the 12-month rise in the consumer price index (CPI) was 2.3%. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) has been lower than expected and was 1.2% in May. Wage growth picked up in 2017. This spring's wage settlements suggest that it will continue to rise in 2018, in line with the projection in the *March Report*. The krone exchange rate has recently been close to the March projection.

Persistently high debt growth has added to the vulnerability of the household sector. In recent months, household debt growth has moderated somewhat, but remains higher than household income growth. After falling through 2017, house prices have risen again. An increase in the interest rate level may contribute to restraining house price inflation and debt growth.

In its assessment of monetary policy, the Executive Board gives weight to the continued upturn in the Norwegian economy. Capacity utilisation appears to be close to a normal level and is likely rising faster than expected earlier. Underlying inflation is lower than the inflation target, but rising capacity utilisation implies an increase in price and wage inflation further out.

In its discussion of the risks to the outlook, the Executive Board noted in particular that global growth may prove weaker than assumed, in the light of rising protectionism among other things. Price and wage inflation in Norway may remain moderate despite the upswing in economic activity. On the other hand, the upturn may be stronger than projected in this *Report*, on the back of strong employment growth, higher oil prices and rising house prices.

Monetary policy is expansionary. The outlook for the Norwegian economy suggests that it will soon be appropriate to raise the key policy rate. Uncertainty surrounding the effects of a higher interest rate suggests a cautious approach. As in March, the overall outlook and the balance of risks imply a gradual rate rise in the years ahead.

The Executive Board decided to keep the key policy rate unchanged at 0.5%. The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be raised in September 2018. The decision was unanimous.

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20 June 2018