

Executive Board's assessment

Norges Bank's Executive Board has decided to raise the policy rate by 0.25 percentage point to 1.0%. The Executive Board's current assessment of the outlook and balance of risks suggests that the policy rate will most likely be increased further in the course of the next half-year.

Economic growth among Norway's trading partners has slowed after a broad upswing over several years. Growth was weaker than expected in 2018 Q4, and the current growth projections are lower than in the December 2018 *Monetary Policy Report*. There are still prospects for higher price and wage inflation, but the projections have been revised down. Following a period of large movements in financial markets, global equity prices are now higher than in December. Forward rates indicate that policy rate expectations have fallen since December. Oil prices have risen since December, but futures prices are little changed.

Growth in the Norwegian economy has been solid since autumn 2016. Employment has risen, and unemployment has declined. The global upturn, higher oil prices and low interest rates have contributed to pushing up growth. The upturn in the Norwegian economy is expected to continue, partly fuelled by strong pick-up in investment on the Norwegian shelf in 2019. Further out, lower growth abroad and a decline in petroleum investment will weigh on growth.

Growth in the mainland economy was higher than expected in 2018 Q4. Norges Bank's Regional Network contacts expect output growth to remain firm ahead. Petroleum investment appears to be higher in 2019 and 2020 than projected in December, but somewhat lower further out. Since the December *Report*, employment has risen more than projected, and unemployment has continued to drift down.

Consumer price inflation has risen over the past year, fuelled in part by higher electricity prices. Underlying inflation has also moved higher, partly reflecting higher wage growth. Tighter labour market conditions suggest that wage growth will increase further.

Inflation has been higher than projected in the December *Report*. In February, the 12-month rise in the consumer price index (CPI) was 3.0%. Adjusted for tax changes and excluding energy products (CPI-ATE), inflation was 2.6%. The krone exchange rate is weaker than expected. At the same time, profitability in some sectors, especially oil services, appears to be weaker than envisaged earlier. This may dampen the rise in wage growth ahead.

Persistently high debt growth has increased household vulnerability. Household debt growth has abated somewhat in recent years, but remains higher than growth in disposable income. House prices have risen recently, after showing little change through autumn 2018.

In its discussion of the risk outlook, the Executive Board focused in particular on global economic developments. Over the past year, rising protectionism and political uncertainty have weighed on global growth. Euro-area growth slowed markedly towards the end of 2018. The UK's relations with the EU have yet to be clarified. If trade tensions deepen, growth among trading partners may be lower than projected. At the same time, the krone may remain weak, if global uncertainty persists. The Executive Board

also noted that the upturn in the Norwegian economy may prove to be more pronounced than envisaged. Price and wage inflation may then turn out higher than projected.

The target for monetary policy is annual consumer price inflation of close to 2% over time. Inflation targeting shall be forward-looking and flexible, so that it can contribute to high and stable output and employment and to countering the build-up of financial imbalances.

In its assessment, the Executive Board notes that the monetary stance is accommodative. The Norwegian economy is expanding at a solid pace, and capacity utilisation now appears to be slightly above a normal level. Underlying inflation is a little higher than the inflation target. The uncertainty surrounding global developments and the effects of monetary policy suggests a cautious approach to interest rate setting. Overall, the outlook and the balance of risks imply a gradual interest rate increase ahead.

The upturn in the Norwegian economy appears to be stronger than anticipated earlier. On the other hand, there are prospects for weaker growth and lower interest rates abroad. The policy rate forecast indicates a slightly faster rate rise in 2019 and a somewhat lower policy rate further out than projected in the December *Report*. With this path for the policy rate, inflation is projected to be close to target in the years ahead, at the same time as unemployment remains low. The policy rate path will be adjusted in response to changes in economic prospects.

The Executive Board decided to raise the policy rate by 0.25 percentage point to 1.0%. The Executive Board's current assessment of the outlook and balance of risks suggests that the policy rate will most likely be increased further in the course of the next half-year. The decision was unanimous.

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