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 remain at today's level in the period ahead.

Economic growth among Norway's trading partners has picked up in recent years, and unemployment has fallen. Wage growth abroad has remained moderate, but since autumn 2016 inflation has edged up on the back of higher energy prices. Recent developments suggest that economic growth among trading partners will be a little higher in 2017 than projected earlier, and inflation appears to be broadly as expected. The level of international interest rates is still very low, but market interest rate expectations indicate that interest rates abroad will move up slightly faster than envisaged in the June 2017 *Monetary Policy Report*.

Following several years of weak developments in the Norwegian economy, growth has picked up. Low interest rates, improved competitiveness and an expansionary fiscal policy have contributed to the upturn. So far in 2017, economic growth has been in line with the projections in the June *Report*. Employment has risen and unemployment has fallen. The improvement in the labour market has occurred at a somewhat faster pace than assumed in June. Oil spot and futures prices have edged higher.

There are prospects that overall capacity utilisation in the Norwegian economy will continue to rise in the coming years. It appears that petroleum investment will bottom out in 2017. On the back of higher capacity utilisation, non-oil business investment is also likely to pick up. Higher imports among trading partners will boost exports from Norway. On the other hand, the correction in the housing market suggests that housing investment will not continue to grow in the coming years. In addition, fiscal policy will likely prove to be less expansionary than it has been in recent years. Overall, the growth outlook for the Norwegian economy is little changed since the June *Report*.

The operational target of monetary policy is annual consumer price inflation of close to 2.5% over time. Since summer 2016, inflation has edged down, and developments since the June *Report* have been broadly as projected. In August, the twelve-month rise in consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) was 0.9%. The krone is stronger than assumed in June, which in isolation will pull down inflation. Moderate wage growth will also weigh down on inflation in the coming period.

The risks to the outlook appear to be balanced. Improved confidence indicators and higher consumption growth may be signs of a shift in economic sentiment. This may result in higher-than-projected growth ahead. On the other hand, there is a risk that growth will be dampened by a more marked slowdown in housing investment than envisaged or that the expected upswing in business investment will prove to be more modest than assumed.

The rapid rise in house prices and high debt growth have increased the vulnerability of households in recent years. Since spring, house prices have fallen, and price developments in recent months have been weaker than expected. Household credit growth remains high. Low house price inflation will curb debt accumulation but it will take time for household vulnerabilities to recede. The correction in the housing market may lower the risk of an abrupt and more pronounced decline further out.

The Executive Board judges that there is a continued need for an expansionary monetary policy. Interest rates abroad are low. Capacity utilisation in the Norwegian economy is below a normal level, and the outlook suggests that inflation will remain below 2.5% in the coming years.

In its discussion of monetary policy, the Executive Board emphasises that capacity utilisation in the Norwegian economy is on the rise and that it appears to be somewhat higher than previously assumed. Inflation has declined as expected. Wage growth will likely remain moderate, and the outlook for inflation for the next few years is little changed. Inflation expectations appear to be firmly anchored, and the increase in capacity utilisation suggests that inflation will pick up further out. The changes in the outlook and the balance of risks imply a somewhat earlier increase in the key policy rate than projected in the June *Report*. Uncertainty surrounding the effects of monetary policy suggests a cautious approach to interest rate setting, also when it becomes appropriate to increase the key policy rate.

On the basis of an overall assessment, the Executive Board decided to keep the key policy rate unchanged at 0.5%. The Executive Board's current assessment of the outlook and the balance of risks suggests that the key policy rate will remain at today's level in the period ahead. The decision was unanimous.

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