Executive Board's assessment

Norges Bank's Executive Board has decided to raise the key policy rate by 0.25 percentage point to 0.75%. The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be increased further in 2019 Q1.

The economic upturn among Norway's trading partners continues. Unemployment has fallen further in many countries. Uncertainty, owing in part to global trade conflicts, is dampening the upturn. In the years ahead, capacity constraints will likely cause growth to slow. The growth projections are slightly lower than in the June 2018 *Monetary Policy Report*. Underlying inflation for a number of trading partners remains below target. Accelerating wage growth will likely push up inflation. Global policy rates are on the rise and are expected to increase further in the coming years. Forward rates are little changed since June.

Growth in the Norwegian economy has been solid since autumn 2016, and the labour market has been improving. The global upturn, higher oil prices and low interest rates have contributed to lifting growth. There are prospects for continued solid growth in the Norwegian economy. Higher employment and higher wage growth will likely sustain growth in household consumption. Higher global oil investment is expected to push up export growth. Investment on the Norwegian shelf is also likely to increase substantially in the coming years.

Growth in the mainland economy so far in 2018 has been a little lower than projected in the June *Report*. Labour market developments have also been somewhat weaker than expected. House price inflation has moderated since spring. Since June, oil prices have risen a little, and futures prices are somewhat higher than assumed in the June *Report*.

Inflation has risen markedly in 2018. In August, the 12-month rise in the consumer price index (CPI) was 3.4%. The increase reflects both higher electricity prices and a rise in underlying inflation. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 1.9% in August, higher than projected in the June *Report*. Wage growth picked up in 2017. Tighter labour market conditions suggest that wage growth will increase further, but probably slightly less than projected earlier. The krone exchange rate has recently appreciated, but is still weaker than assumed in June.

In its discussion of the risks to the outlook, the Executive Board focused in particular on the consequences for the Norwegian economy of rising global protectionism and turbulence in some emerging economies. Higher trade barriers and persistent uncertainty may weigh on import growth among Norway's trading partners, but may also lead to the krone remaining weaker than assumed. The extent to which the rise in oil prices and increased oil sector activity will push up wage growth is uncertain. A long period of low interest rates and mounting household debt burdens has led to greater uncertainty surrounding the effects of higher interest rates.

In its assessment of monetary policy, the Executive Board gives weight to the continued upturn in the Norwegian economy. Spare capacity is gradually diminishing, and capacity utilisation now appears to be close to a normal level. Underlying inflation is close to the 2% inflation target.

Overall, the outlook and the balance of risks imply a gradual interest rate increase in the years ahead. If the key policy rate is kept at the current level for too long, price and wage inflation may accelerate and financial imbalances build up further. That would increase the risk of a sharp economic downturn further out. Uncertainty surrounding the effects of higher interest rates suggests a cautious approach to interest rate setting.

The interest rate path is little changed from the June *Report*. With a gradual interest rate increase, inflation is projected to be close to the target some years ahead, at the same time as unemployment remains low.

The Executive Board decided to raise the key policy rate by 0.25 percentage point to 0.75%. The Executive Board's current assessment of the outlook and balance of risks suggests that the key policy rate will most likely be increased further in 2019 Q1. The decision was unanimous.

Øystein Olsen
19 September 2018