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 after summer 2018.

On 2 March, the Government laid down a new Regulation on Monetary Policy. The operational target of monetary policy is now annual consumer price inflation of close to 2% over time. Norges Bank expressed its opinion on the regulation in a letter to the Ministry of Finance on 28 February. In the opinion of the Executive Board, the regulation clarifies the monetary policy mandate and underpins the flexible approach to inflation targeting.

The economic upturn among Norway's trading partners is continuing and interest rates abroad are on the rise. Labour markets are improving, and investment has picked up. Recent developments indicate that global economic growth will be somewhat higher in the years ahead than projected earlier. There are signs of rising wage growth in some countries, but the projections for price inflation among trading partners are little changed. Since the December 2017 *Monetary Policy Report,* both long-term and short-term interest rates abroad have risen.

Growth in the Norwegian economy picked up in 2017, and the negative output gap narrowed. Low interest rates, improved competitiveness and an expansionary fiscal policy have contributed to the upturn. Growth in the mainland economy has been approximately in line with the projection in the December *Report*. Labour market developments have been somewhat stronger than expected. Employment has risen and registered unemployment has fallen. Oil futures prices are little changed since the December *Report* and indicate that oil prices will edge down in the coming years.

There are prospects that growth in the Norwegian economy will be higher in 2018 than in 2017, and the projections have been revised up from the December *Report*. The output gap in Norway will probably close earlier than assumed in December. The upturn among trading partners is boosting Norwegian exports. There is solid growth in business investment and household consumption, and petroleum investment is expected to rise in the years ahead. On the other hand, housing investment has fallen faster than expected, and is likely to fall further.

After falling markedly in the period to autumn 2017, inflation has edged higher. In February, the twelve-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 1.4%, which was somewhat lower than projected. Wage growth picked up in 2017. Since the December *Report*, the krone has strengthened broadly as projected.

Persistently high debt growth has added to the vulnerability of the household sector. High house price inflation has contributed to the increase in household debt. Over the past year, house prices have fallen. The correction in the housing market has reduced the risk of an abrupt and more pronounced decline further out. Household credit growth remains high, but over time lower house price inflation will dampen debt growth.

Overall, the risks to the outlook appear to be balanced. Solid global growth may contribute to a faster upswing in exports and business investment in Norway than anticipated. On the other hand, there is a risk of growing protectionism, which over time may weigh on growth. Price and wage inflation may remain moderate in the face of rising economic activity, as has been the case in other countries in recent years. There is also uncertainty surrounding household behaviour ahead, partly owing to the high prevailing debt burdens.

The new regulation will not result in significant changes in the conduct of monetary policy. Norges Bank will set the interest rate with the aim of stabilising inflation around the target in the medium term. The horizon will depend on the disturbances to which the economy is exposed and the effects on the outlook for inflation and the real economy.

Over time, lower inflation owing to a lower inflation target will result in a correspondingly lower nominal interest rate. The inflation targeting regime is flexible, and weight is given to developments in output and employment. A lower numerical target in and of itself is of little importance for the interest rate outlook in the coming period.

In its discussion of monetary policy, the Executive Board gives weight to the sustained upturn in both the global and Norwegian economy. Economic growth appears to be somewhat stronger than expected, and the output gap for Norway is closing. Underlying inflation is low, but rising capacity utilisation will probably push up price and wage inflation further out.

Monetary policy is expansionary. The outlook for the Norwegian economy suggests that it will soon be appropriate to raise the key policy rate. The uncertainty surrounding the effects of a higher interest rate suggests a cautious approach. Overall, the changes in the outlook and the balance of risks imply a somewhat earlier interest rate increase than in the December *Report*.

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 after summer 2018. The decision was unanimous.

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