

# Executive Board's assessment

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*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. Unemployment is now below pre-crisis levels in a number of trading partner countries. Wage growth abroad has remained moderate, and core inflation is still lower than the inflation targets for most of the countries. Recent developments indicate that global economic growth will be somewhat higher in the years ahead than projected earlier. Inflation appears to be broadly in line with previous projections. Forward rates among trading partners show little change, and indicate a very gradual rise in international interest rates.

Growth in the Norwegian economy has also picked up and the output gap has narrowed. Low interest rates, improved competitiveness and an expansionary fiscal stance have contributed to the upturn. So far in 2017, economic growth has been in line with the projections in the September 2017 *Monetary Policy Report*. Employment has risen and unemployment has fallen. The improvement in the labour market has been greater than assumed in September. Oil prices have risen in recent months, but futures prices a few years ahead have shown little change.

There are prospects that spare capacity in the Norwegian economy will continue to decline in the coming years. Petroleum investment will likely expand in 2018, and growth in non-oil business investment has picked up. Higher imports among trading partners will contribute to boosting Norwegian exports. On the other hand, the correction in the housing market suggests that housing investment will decline in the coming years. In addition, fiscal policy will likely prove to be less expansionary than it has been in recent years. The overall growth outlook now suggests that growth will be somewhat higher in 2018 than projected in the September *Report*.

The operational target of monetary policy is annual consumer price inflation of close to 2.5% over time. After falling markedly since summer 2016, inflation has been fairly stable in recent months. In November, the twelve-month rise in consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) was 1.0%, somewhat lower than projected. The krone is weaker than assumed in September, which in isolation implies rising inflationary impulses ahead. On the other hand, moderate wage growth will weigh down on inflation.

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. The upturn in the Norwegian economy may suggest that any further decline in house prices will be limited. A housing market correction in line with the projections in this *Report* reduces the risk of an abrupt and more pronounced decline further out. Household credit growth remains high, but lower house price inflation will dampen debt growth over time.

Overall, the risks to the outlook appear to be balanced. There is uncertainty as to future movements in the krone exchange rate. The krone has weakened despite the rise in oil prices and little change in the interest rate differential against trading partner countries.

The housing market correction may prove to be more pronounced than envisaged, which may result in a more marked fall in housing investment and weaker consumption growth. On the other hand, developments in registered unemployment may indicate a faster tightening of the labour market than projected in this *Report*.

The Executive Board judges that there is a continued need for an expansionary monetary policy. Interest rates abroad are low. There is still some spare capacity in the Norwegian economy. 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 the upturn in the Norwegian economy is continuing and that the output gap appears to be somewhat narrower than previously projected. Inflation is low, but a weaker krone than expected in September may lead to a faster rise in inflation than forecast earlier. As spare capacity is gradually absorbed, wage growth is also likely to edge up.

On the whole, the changes in the outlook and the balance of risks imply a somewhat earlier increase in the key policy rate than projected in the *September 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.

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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