Executive Board meeting
12 December 2007

The Executive Board’s strategy

- The key policy rate should be in the interval 4½ - 5½% in the period to the publication of the next Monetary Policy Report on 13 March 2008, unless the Norwegian economy is exposed to major shocks. Given the inflation target, we will be mindful of the effects of higher interest rates on the krone exchange rate when inflation is low.
Baseline scenario in *Monetary Policy Report 3/07*
Per cent. 2005 Q1 – 2010 Q4

- **Key policy rate**
- **Output gap**
- **Inflation (CPI)**
- **Underlying inflation (CPI-ATE)**

Sources: Statistics Norway and Norges Bank

---

Difference between money market rate and expected key policy rate\(^1\)
3-month maturity. Percentage points. 1 April – 11 December 2007

- **UK**
- **Euro area**
- **US**
- **Sweden**

Sources: Bloomberg, Reuters (EcoWin) and Norges Bank

---

\(^1\) The expected key rate is measured by the Overnight Indexed Swap (OIS)
\(^2\) Norges Bank’s projections
Risk premia\(^1\) on Norwegian 3-month money market rates
On IMM dates. Percentage points. Normal = 0.1

Credit premia on loans
secured on sub-prime mortgages\(^1\), commercial property loans\(^2\) and conventional mortgages\(^3\). Basis points. 1 January 2006 – 11 December 2007

\(^1\) Difference between forward 3-month money market rates and forward overnight indexed swaps OIS (Overnight indexed swap)
\(^2\) Credit rating BBB-
\(^3\) Agency mortgage (prime) with 30-year maturity
Credit premium on regular corporate bonds\(^1\)

Price for hedging against credit risk.
**Price for hedging against credit risk**


**Equities**

Indices, 1 January 2007 = 100. 1 January 2007 – 11 December 2007

Sources: Bloomberg and Reuters (EcoWin)
Growth forecasts Consensus Forecasts

GDP. Percentage change on previous year

Projections October
Projections November

Source: Consensus Forecasts

Key rates and forward rates
31 October and 11 December 2007

Sources: Reuters and Norges Bank
Average prices for crude oil and natural gas
1997 Q1 – 2007 Q4

Source: Statistics Norway and Norges Bank

Petroleum production in Norway
January 2000 – September 2007

Source: Norwegian Petroleum Directorate
Different indicators of inflation

Registered unemployed and supply of advertised vacancies
Seasonally adjusted

Source: Statistics Norway

1) 12-month moving average. Sources: Norwegian Labour and Welfare Organisation (NAV) and Norges Bank.
Annual wage growth, TRCIS. All groups

Wages per normal person-year.

Sources: Statistics Norway, Technical Reporting Committee on Income Settlements and Norges Bank

Disbursed wages consist of disbursed agreed wages, irregular supplements and bonuses, commissions etc. Compensation for overtime is not included. (Manufacturing, oil and gas, construction, transport and communications, retail trade, commercial services, utilities and hotel and restaurant).

Disposable income 1) and consumption

1) Excluding share dividends.

Sources: Statistics Norway and Norges Bank
Household saving and net lending as a share of disposable income
Excluding share dividends. Last 4 quarters. Per cent.
2002 Q4 – 2007 Q3

Expected consumer price inflation in 2 years
Employee/employer organisations and experts\(^1\). Per cent.
2002 Q3 – 2007 Q4

Sources: Statistics Norway and Norges Bank

Source: TNS Gallup
TNS Gallup's household trend indicator
Unadjusted and trend. 1992 Q3 – 2007 Q4

Source: TNS Gallup

12-month change in house prices

Sources: Norwegian Association of Real Estate Agents, Association of Real Estate Agency Firms, FINN.no, ECON Pöryry, Statistics Norway and Norges Bank
Key policy rate, money market rates and banks' lending rates on new loans\(^1\)

\textbf{Per cent. 2 July 2007 – 30 November 2007}

\begin{center}
\begin{tikzpicture}
\begin{axis}[
    title=Key policy rate, money market rates and banks' lending rates on new loans\(^1\),
    xlabel=Jul-07 - Nov-07,
    ylabel=\text{Per cent.},
    xtick={Jul-07, Aug-07, Sep-07, Oct-07, Nov-07},
    ytick={4.2, 4.4, 4.6, 4.8, 5.0, 5.2, 5.4, 5.6, 5.8, 6.0, 6.2},
    legend style={at={(0.5,0.0)},anchor=south},
    legend cell align={left},
]
\addplot[blue,mark=x] coordinates {
    (Jul-07,4.2) (Aug-07,4.4) (Sep-07,4.6) (Oct-07,4.8) (Nov-07,5.0)
};
\addplot[red,mark=x] coordinates {
    (Jul-07,5.0) (Aug-07,5.2) (Sep-07,5.4) (Oct-07,5.6) (Nov-07,5.8)
};
\addplot[green,mark=x] coordinates {
    (Jul-07,4.4) (Aug-07,4.6) (Sep-07,4.8) (Oct-07,5.0) (Nov-07,5.2)
};
\legend{Mortgage rate, 3-month NIBOR, Key policy rate}
\end{axis}
\end{tikzpicture}
\end{center}

\(^1\) Interest rates on new mortgage loans for NOK 1 million within 60% of purchase price with floating interest rate. Figures for the 20 largest banks, weighted according to market share.

Sources: Norsk familieøkonomi AS and Norges Bank

---

Key policy rate in baseline scenario and estimated forward rates\(^1\)

\textbf{Per cent. At 11 December 2007}

\begin{center}
\begin{tikzpicture}
\begin{axis}[
    title=Key policy rate in baseline scenario and estimated forward rates\(^1\),
    xlabel=Q1 08 - Q3 10,
    ylabel=\text{Per cent.},
    xtick={Q1 08, Q3 08, Q1 09, Q3 09, Q1 10, Q3 10},
    ytick={4, 4.5, 5, 5.5, 6},
    legend style={at={(0.5,0.0)},anchor=south},
    legend cell align={left},
]
\addplot[red,mark=x] coordinates {
    (Q1 08,4.5) (Q3 08,5) (Q1 09,5.5) (Q3 09,6) (Q1 10,6.5) (Q3 10,7)
};
\addplot[black,mark=x] coordinates {
    (Q1 08,4.4) (Q3 08,5.3) (Q1 09,6.2) (Q3 09,7) (Q1 10,7.8) (Q3 10,8.6)
};
\addplot[blue,mark=x] coordinates {
    (Q1 08,4.3) (Q3 08,5.2) (Q1 09,6) (Q3 09,6.8) (Q1 10,7.6) (Q3 10,8.4)
};
\legend{Baseline scenario MPR 3/07, Market 31 October 2007, Market 11 December 2007}
\end{axis}
\end{tikzpicture}
\end{center}

\(^1\) A credit risk premium and a technical difference of 0.20 percentage point have been deducted to make the forward rates comparable with the key policy rate.

Sources: Reuters and Norges Bank
The Executive Board’s strategy

- The key policy rate should be in the interval 4¾ - 5¼% in the period to the publication of the next Monetary Policy Report on 13 March 2008, unless the Norwegian economy is exposed to major shocks. Given the inflation target, we will be mindful of the effects of higher interest rates on the krone exchange rate when inflation is low.