

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.

Inflation among Norway's trading partners has been low for a long time, and capacity utilisation has been below a normal level. This has contributed to a historically low interest rate level abroad. In recent years, growth and capacity utilisation have picked up, and inflation has increased. Recent developments indicate that economic growth in 2017 will be somewhat higher than projected earlier, while inflation will likely be slightly lower. Market interest rate expectations indicate that interest rates abroad will increase more gradually than envisaged in the March 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 lifting activity. It will nonetheless take time for the effects of the oil price decline to dissipate and for activity to normalise. Since the previous *Report*, registered unemployment has decreased and economic growth has been a little higher than expected. Oil prices have fallen below USD 50 per barrel. There are signs of an impending reversal in the decline in petroleum investment, with the prospect of a modest rise in the near term. Growth in housing investment remains high, but is likely to slow ahead. Capacity utilisation in the Norwegian economy is expected to rise gradually in the coming years.

The operational target of monetary policy is annual consumer price inflation of close to 2.5% over time. The depreciation of the krone associated with the oil price decline contributed to pushing up inflation. Since summer 2016, inflation has moved down and has been lower than expected in recent months. In May, the twelve-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 1.6%. The krone is weaker than assumed in the previous *Report*, which in isolation is pulling up inflation. At the same time, low domestic cost growth is weighing on inflation.

Persistently low interest rates lead to financial system vulnerabilities. By taking into account the risk associated with very low interest rates, monetary policy can promote long-term economic stability. The uncertainty surrounding the effects of monetary policy when the key policy rate is at a low level suggests a cautious approach to interest rate setting. The rapid rise in house prices and high debt growth have increased the vulnerability of households in recent years. House price inflation has slowed in recent months. The outlook for the housing market is uncertain. Notably lower-than-projected house price inflation in the period ahead could have a dampening impact on growth in the Norwegian economy, partly as a result of lower housing investment.

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 still below a normal level, and the outlook suggests that inflation will range between 1% and 2% in the coming years.

In its discussion of monetary policy in the near term, the Executive Board emphasises that capacity utilisation in the Norwegian economy appears to be higher than envisaged earlier. Inflation is lower than expected and may continue to drift down in the months ahead, but increased activity and receding unemployment suggest that inflation will pick up. Inflation expectations appear to be firmly anchored. Low house price inflation will curb debt accumulation, but it will take time for household vulnerabilities to recede.

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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