

# Executive Board meeting

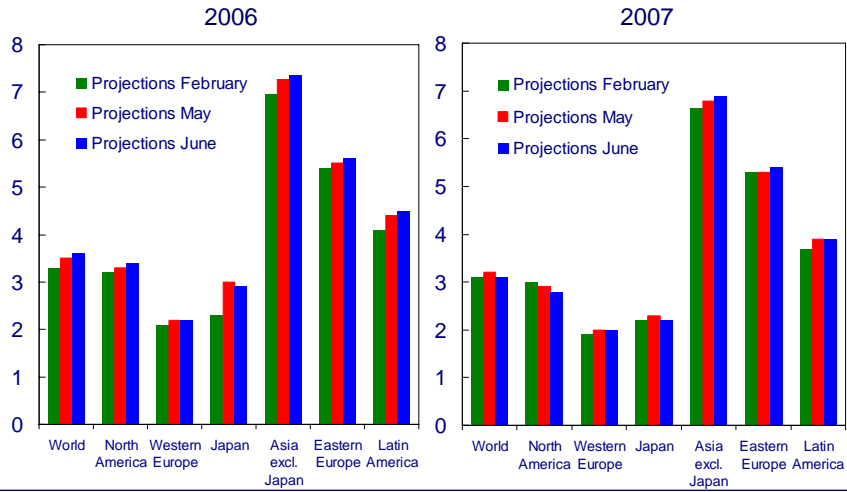
29 June 2006

## Monetary Policy Strategy - Inflation Report 2/06

- The Executive Board's assessment is that the sight deposit rate should be in the interval  $2\frac{3}{4}$  -  $3\frac{3}{4}$  per cent in the period to the publication of the next *Inflation Report* on 1 November 2006, conditional on economic developments that are broadly in line with the projections.
- The interest rate may gradually – in small, not too frequent steps – be brought back towards a more normal level.

### Growth forecasts, Consensus Forecasts

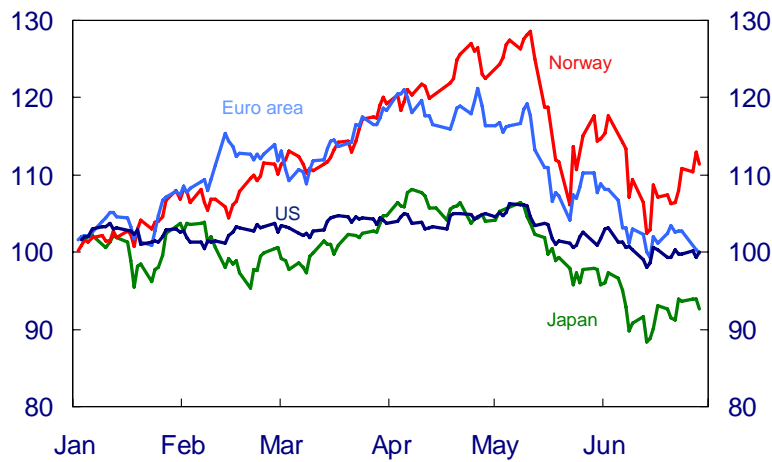
Forecasts for GDP growth published at different times. Per cent



Source: Consensus Forecasts 3

### Equities

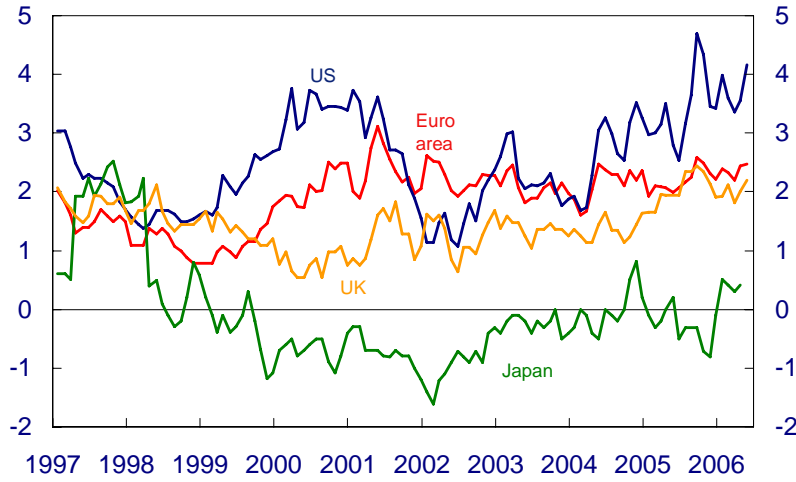
Index, 30 December 2005 = 100. 2 January – 28 June 2006



Sources: STOXX, S&P500, Nikkei and EcoWin 4

### Consumer prices (CPI/HICP)

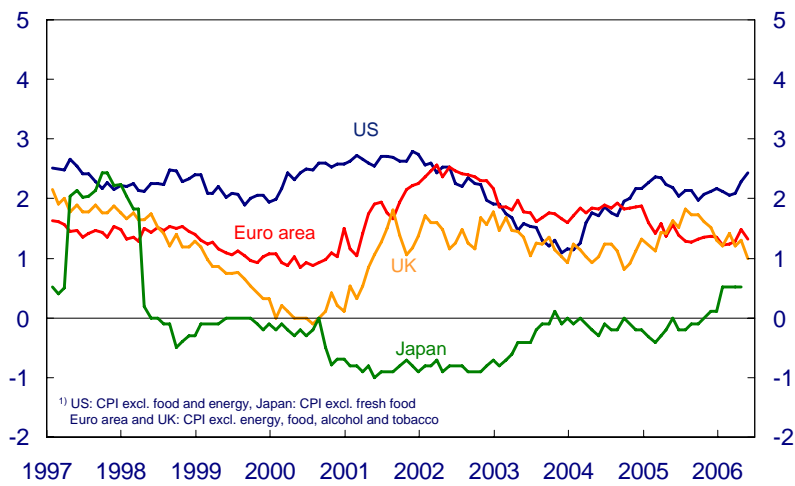
12-month change. January 1997 - May 2006. Per cent



Sources: EcoWin / National statistics 5

### Core inflation<sup>1)</sup>

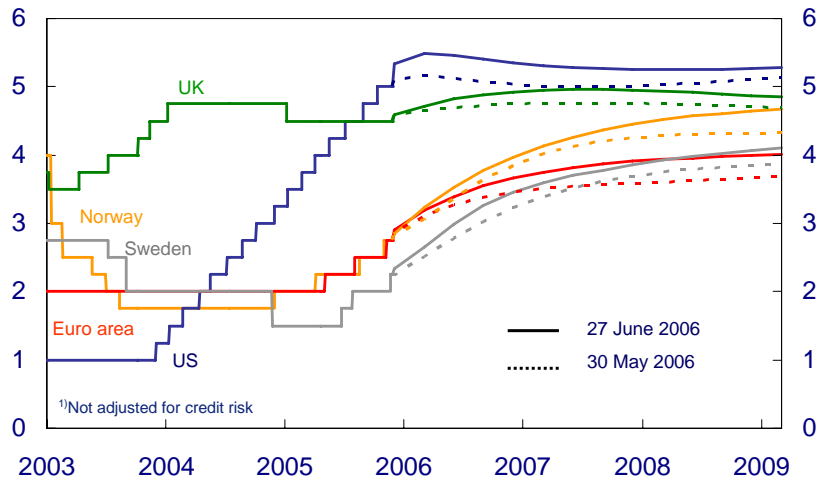
CPI/HICP core. 12-month rise. January 1997 – May 2006. Per cent



<sup>1)</sup> US: CPI excl. food and energy, Japan: CPI excl. fresh food  
Euro area and UK: CPI excl. energy, food, alcohol and tobacco

Sources: EcoWin / National statistics 6

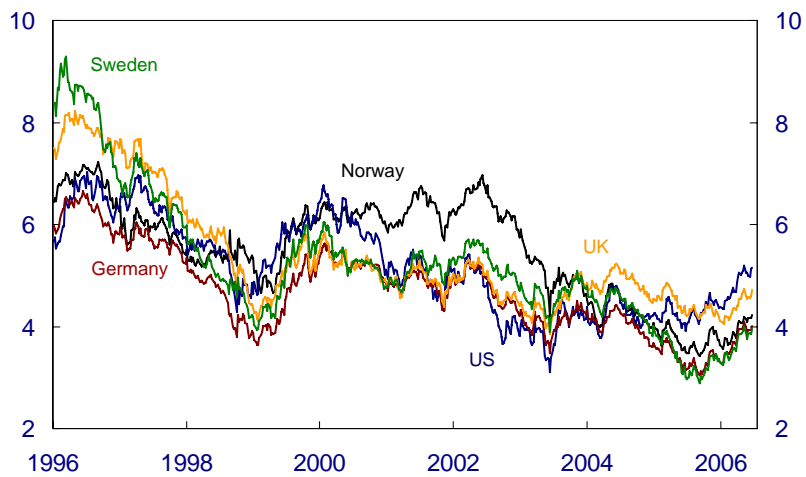
### Actual and expected key rates



Sources: Reuters and Norges Bank

### 10-year yield in various countries

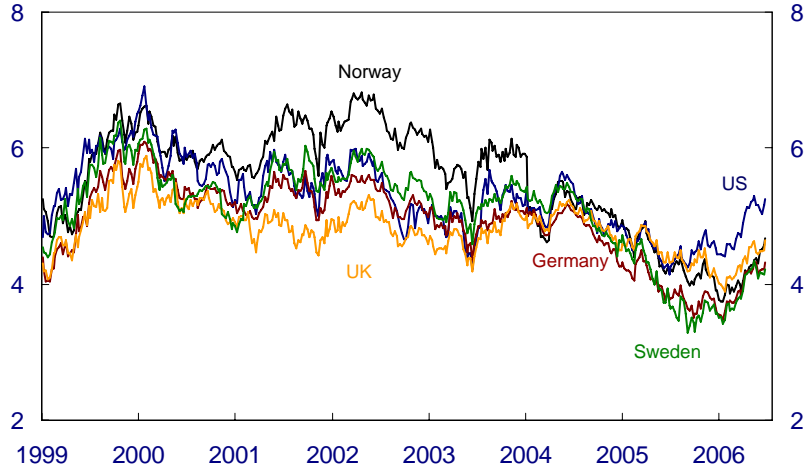
Per cent. Weekly figures. Week 1 1996 – Week 25 2006



Source: Bloomberg

### 5-year yield 5 years ahead in various countries

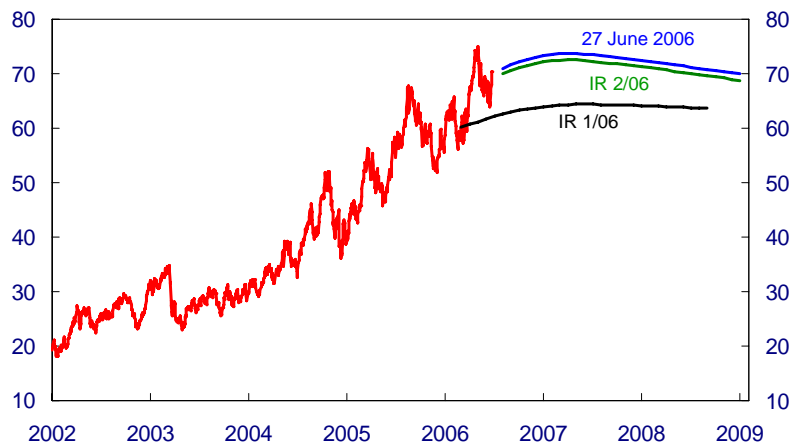
Per cent. Weekly figures. Week 1 1999 – Week 25 2006



Source: Reuters 9

### Oil price Brent Blend and futures prices

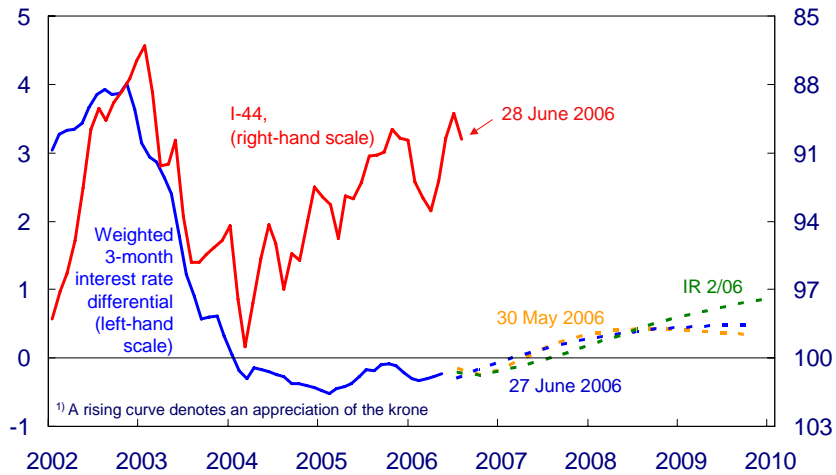
USD per barrel. 3 January 2002 – 27 June 2006



Sources: Telerate, IPE and Norges Bank 10

### 3-month interest rate differential and import-weighted exchange rate (I-44) <sup>1)</sup>

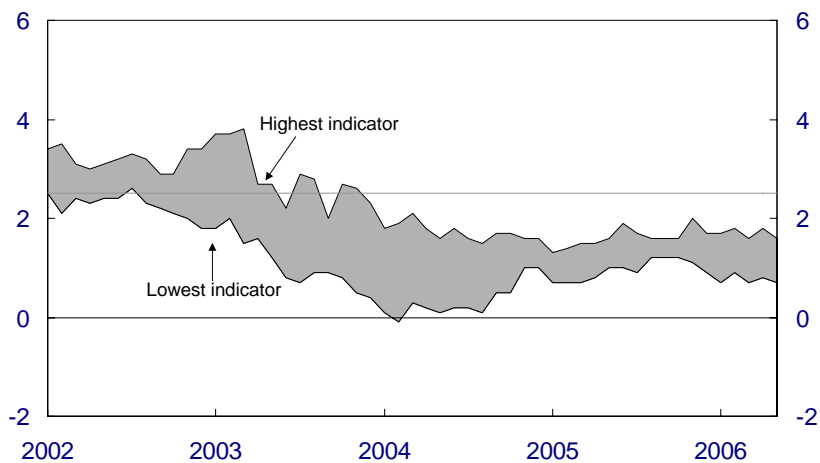
January 2002 – December 2009



Sources Bloomberg and Norges Bank 11

### Uncertainty interval for underlying inflation

Highest and lowest indicator. 12-month rise. Per cent. Jan 02 – May 06

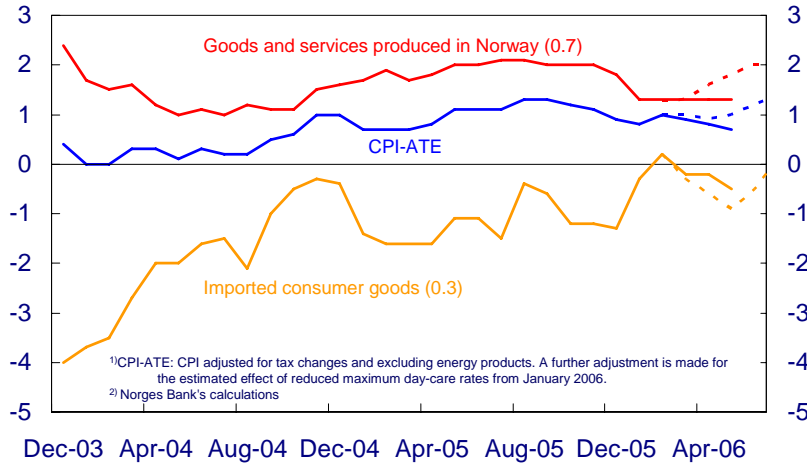


<sup>1)</sup> Highest and lowest indicator of CPI-ATE, weighted median, trimmed mean, volatility-weighted inflation, volatility-adjusted inflation and inflation excluding the most volatile components

Sources: Statistics Norway and Norges Bank 12

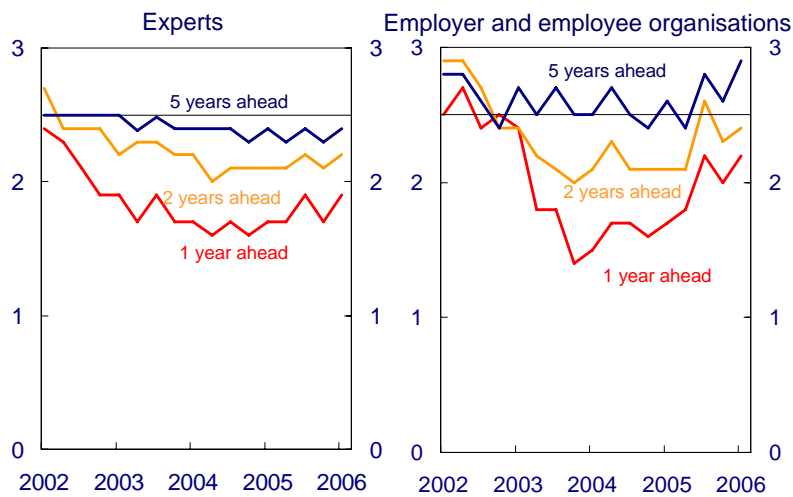
### CPI-ATE 1)

Total and by supplier sector<sup>2)</sup>. Actual inflation and projections in IR 1/06  
12-month change. Per cent. January 2004 - May 2006



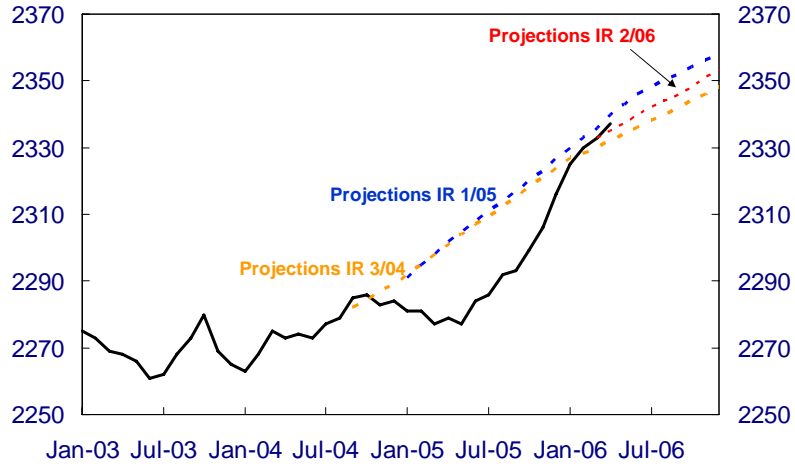
Sources: Statistics Norway and Norges Bank 13

### Inflasjonsforventninger



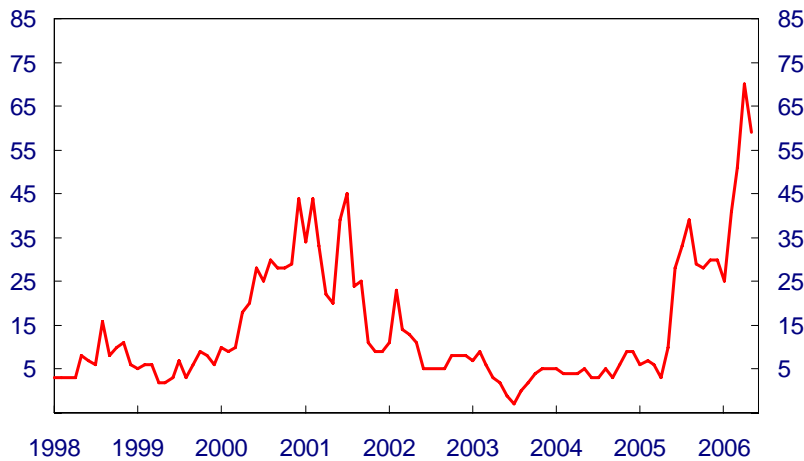
Source: TNS Gallup 14

### Employment (LFS) In 1000s. Seasonally adjusted



Sources: Statistics Norway and Norges Bank 15

### Share of companies in the Swedish construction sector reporting labour shortages as most important production constraint Seasonally adjusted. Per cent. Monthly figures. Jan 96 – Apr 06



Sources: National Institute of Economic Research (Sweden) 16



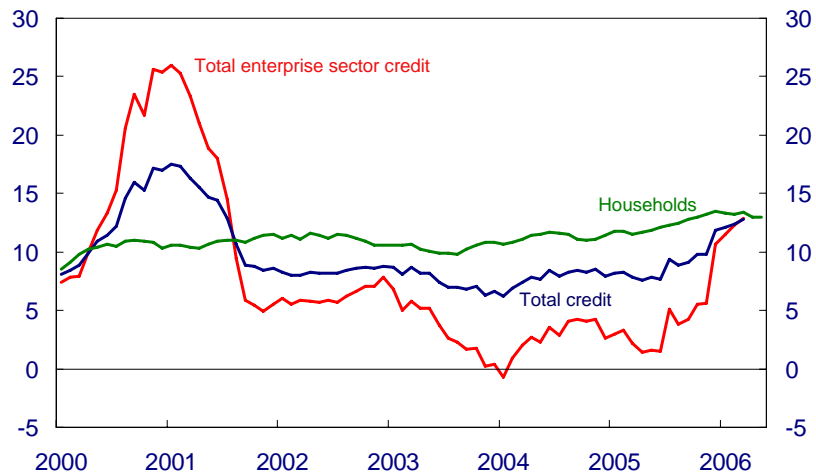
### Growth in population and labour force in Norway

	2006	2007	2008	2009
Growth in population aged 16-74	0.8	0.9	0.9	0.9
Contribution of demographic changes to the labour force	-0.2	-0.2	-0.3	-0.3
Contribution of the increased number of disability pensioners	-0.2	-0.2	-0.2	-0.2
Contribution from cyclical factors	1	¼	0	0
Growth in labour force	1½	¾	½	½

Sources: Statistics Norway and Norges Bank 17

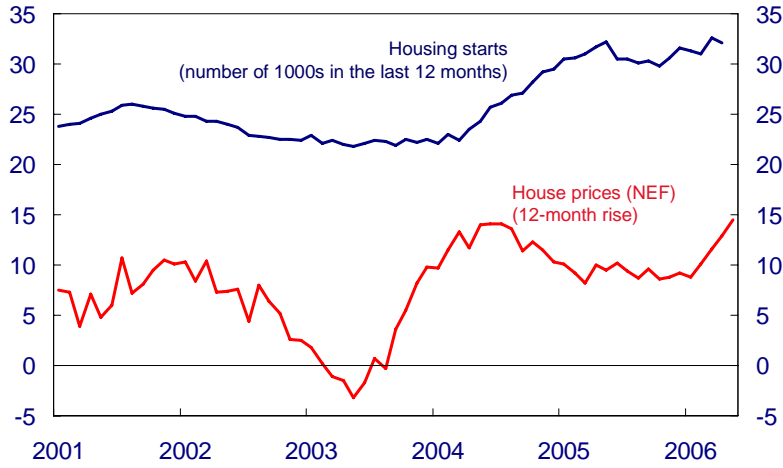
### Credit growth

Total credit, mainland Norway (C3). Credit from domestic sources to households (C2). 12-month change. Per cent



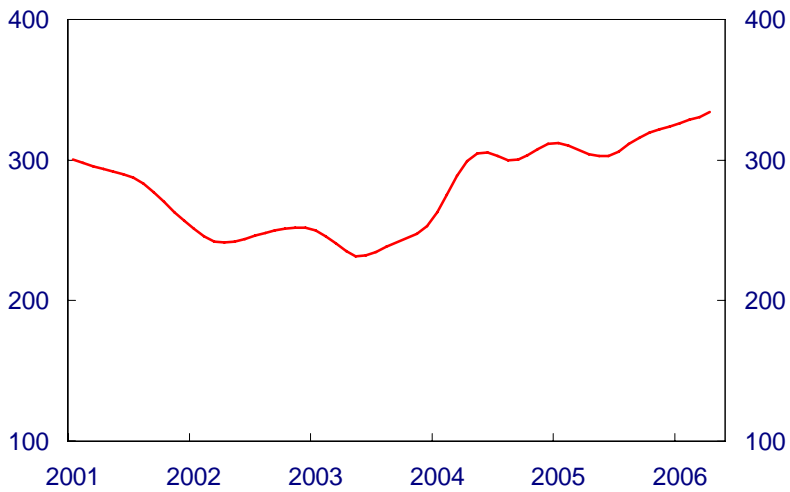
Source: Norges Bank 18

### Housing market January 2001 - May 2006



Sources: Statistics Norway, Norwegian Association of Real Estate Agents (NEF), Association of Real Estate Agency Firms (EFF), ECON and Finn.no 19

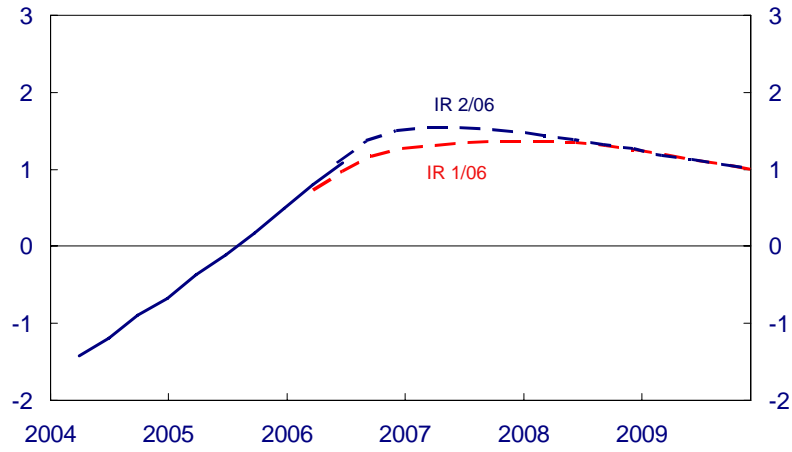
### Commercial building starts Area in 1000 m<sup>2</sup>. Trend. January 2001 – April 2006



Source: Statistics Norway 20

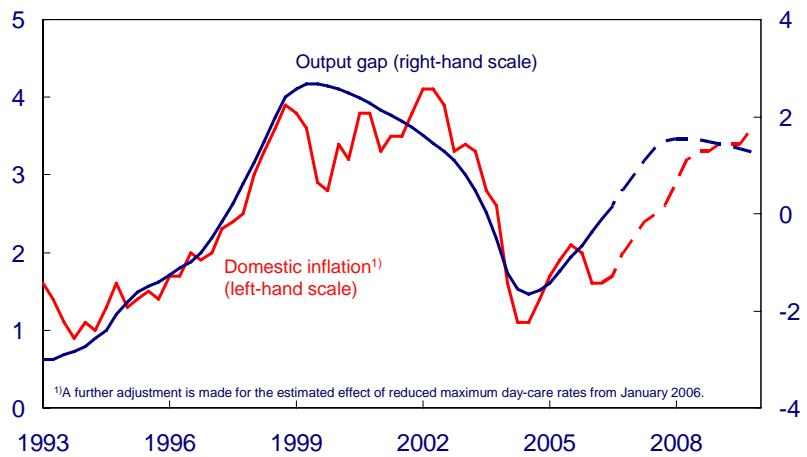
### Estimated output gap in the baseline scenario

Per cent. Quarterly figures. 04 Q1 – 09 Q4



Source: Norges Bank 21

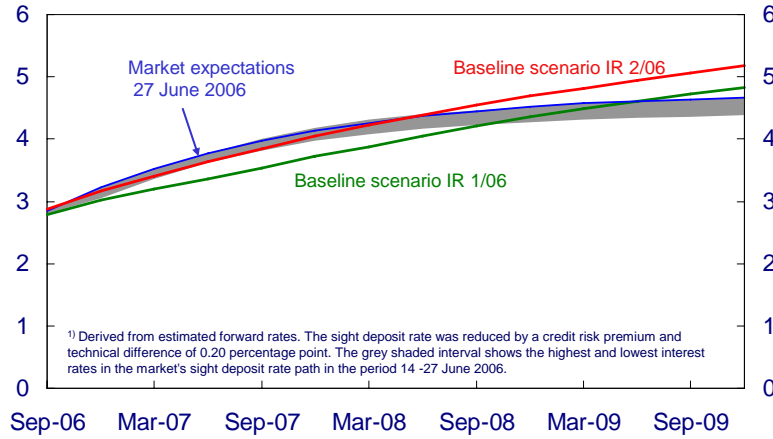
### Domestic inflation (4-quarter change) and level of the output gap (4 quarters back). Per cent. 1993 Q1 - 2009 Q4



<sup>1)</sup>A further adjustment is made for the estimated effect of reduced maximum day-care rates from January 2006.

Sources: Statistics Norway and Norges Bank 22

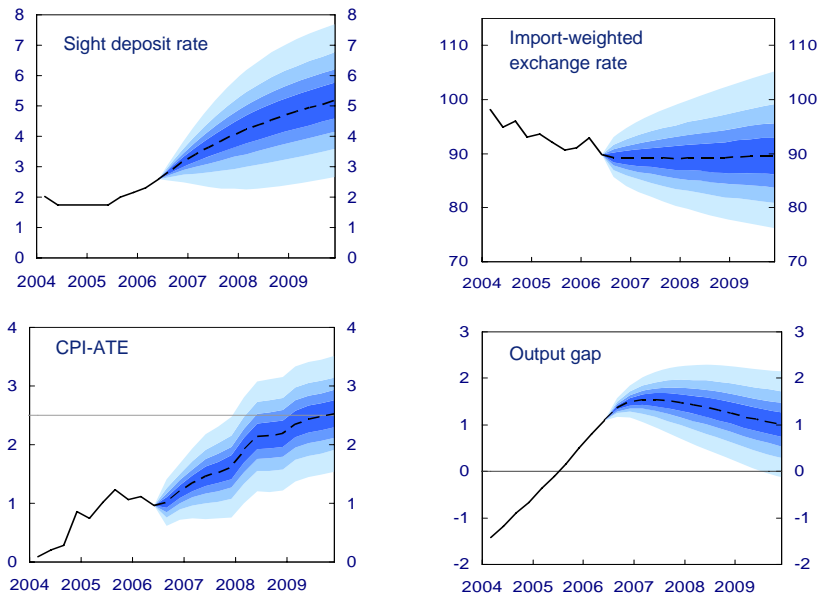
### Sight deposit rate in baseline scenario and market expectations regarding the sight deposit rate<sup>1)</sup> Per cent. 06 Q2 – 09 Q4



<sup>1)</sup> Derived from estimated forward rates. The sight deposit rate was reduced by a credit risk premium and technical difference of 0.20 percentage point. The grey shaded interval shows the highest and lowest interest rates in the market's sight deposit rate path in the period 14 -27 June 2006.

Source: Norges Bank 23

### Baseline scenario in Inflation Report 2/06



Sources: Statistics Norway and Norges Bank 24