

Conclusions – monetary policy strategy

The Executive Board's assessment is:

- Consumer price inflation remains moderate in spite of a prolonged cyclical upturn in the Norwegian economy. Underlying inflation has been relatively stable and ranged between 1% and 1½% for some time. There are nevertheless several factors indicating that inflation will pick up. Wage growth is rising and there are prospects that the economic expansion will last somewhat longer than previously envisaged. Employment is rising approximately as projected and unemployment is lower than during the previous expansion. There is a shortage of labour and certain important input factors in many industries. Temporarily low CPI inflation this year will be followed by temporarily high CPI inflation next year. Consumer price inflation adjusted for tax changes and excluding energy products (CPI-ATE) will probably rise gradually, but the projections are uncertain. Higher forward interest rates abroad reflect expectations that monetary policy among our trading partners will be geared towards keeping inflation at bay.
- New information may reveal aspects of economic developments that indicate that the Norwegian economy is moving on a different path than projected. On the one hand, high capacity utilisation or higher cost inflation may lead to higher-than-projected inflation. On the other hand, sustained high productivity growth, a more pronounced shift towards imports from low-cost countries and a stronger krone exchange rate may result in lower-than-expected inflation.

The Executive Board's strategy:

- The interest rate path presented in this *Report* reflects the Executive Board's trade-off between bringing inflation up towards target and stabilising developments in output and employment. In the light of this trade-off, the interest rate will be increased gradually so that we can assess the effects of interest rate changes and other new information on economic developments. Given the inflation target, we will be mindful of the effects of higher interest rates on the krone exchange rate when inflation is low.
- The key policy rate should be in the interval 4½ - 5½% in the period to the publication of the next *Monetary Policy Report* on 31 October, conditional on economic developments that are broadly in line with projections.