Editorial

Normal times?

Inflation is low. Underlying consumer price inflation has ranged between 1% and 1½% for some time.

Through spring, forward interest rates increased markedly in other countries. This may reflect prospects for solid growth in the world economy, but it may also indicate that central banks now must increase interest rates to keep inflation at bay.

Norges Bank has raised its key policy rate gradually. The interest rate has been increased well ahead of an actual rise in inflation. We have been ahead of the curve. Expected interest rates in money and bond markets one to three years ahead have approached our projections from below.

Norges Bank's Executive Board has decided that the key policy rate should lie in the interval 4½ - 5½% in the period to the publication of the next *Report* on 31 October, conditional on economic developments that are broadly in line with projections. We expect the key policy rate to rise further in the period to summer 2008, but this will largely depend on developments in the world economy. Given the inflation target, we will be mindful of the effects of higher interest rates on the krone exchange rate when inflation is low.

After a period of unusually low inflation and unusually low interest rates, inflation and interest rates are on the rise. At the same time, the strong expansion in the Norwegian economy is expected to moderate. We are perhaps heading towards more normal times.

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