Economic trends

Economic growth among Norway's trading partners remains very low. Growth in the euro area is at a complete standstill, and unemployment is generally very high and rising. Growth in the US economy is moderate, and unemployment has fallen somewhat. The picture among emerging economies is mixed. On balance, the global economic situation appears fairly sombre, and the IMF recently made further downward adjustments in its growth forecasts. Economic policy worldwide, with the exception of Japan, is characterised by cuts in government budgets and expansionary monetary policy. These combined measures have not immediately yielded the effects many had hoped for, but have instead yielded the results others have warned of. There are no clear signs that the orientation of policy will change substantially in the near future. We therefore expect that the weak trend will continue for a while yet, and that the global economic outlook will not improve substantially before a couple of years have passed.

For Norway, the global situation will mean continued weak growth for our traditional export industries, while borrowers will enjoy low nominal interest rates. This means that the forces driving the upturn in the Norwegian economy remain approximately unchanged. The petroleum sector and growth in household demand are adding particular impetus to the upturn. Fiscal policy also makes a small contribution through both some growth in consumption and investment and high growth in transfers to households. These all help to stimulate household demand.

There was a pause in the cyclical upturn in the Norwegian economy at the end of 2012, partly due to weak impulses from the international economy. This led to somewhat more moderate employment growth and higher unemployment - a trend that continued into early 2013. However, production growth in the first quarter was higher than at the end of 2012. Productivity growth was higher last year and in early 2013 than observed earlier in the upturn. This is what might be expected in this stage of the economic cycle, but with growth no stronger than it is at present and the large increase in the labour force as a result of high immigration, unemployment has increased somewhat.

The low growth in Europe has contributed to lower inflation in the euro area recently. As a result of low inflation abroad, the Norwegian krone is slightly weaker than last winter. This, coupled with higher energy prices, has led to a rise in consumer price inflation in Norway from a very low level to a slightly higher level than in the euro area. However, higher productivity growth has served to dampen inflationary impulses. We believe this will continue, and therefore predict that inflation will remain moderate in the near term and appreciably below the inflation target.

We envisage that in the near term household demand may be stimulated by fiscal policy impulses in the form of both high growth in transfers and tax stimuli. Housing investment is now record high, but may still increase somewhat, which will probably dampen inflationary pressures in the housing market. In a year's time, interest rates in Norway may begin to rise gradually, so the increase in both housing starts and house prices can be expected to slow. According to our projections, the Norwegian economy will enter a moderate expansion in 2015. Given somewhat higher interest rates, the real rise in house prices may be very limited.

Assuming a moderate upturn due to a weak global economic situation, growth in output, employment and productivity will all be moderate compared with a more normal business cycle. This is related to slow growth in business investment. We therefore expect little change in unemployment, with only a slight decrease from the present level.

Economic developments in Norway

Economic growth measured by mainland GDP was 3.4 per cent in 2012. Unusually high power production pushed growth up by 0.3 percentage point. The cyclical upturn that started at around the turn of the year 2010/2011 continued through most of 2012, but the decline in power production contributed to fourth quarter growth being lower than trend growth. Developments in manufacturing production were also subdued towards the end of 2012. Activity growth in the Norwegian economy picked up again in the first quarter of 2013 and mainland GDP increased by an annualised 2.7 per cent, compared with only 0.8 per cent in the previous quarter. Growth adjusted for developments in power production was slightly higher. On balance, however, underlying growth through the past two quarters was slower than trend.

More moderate growth has led to weaker labour market developments. Employment growth has been moderate through the past three quarters and, according to

Tablel 1. **Macroeconomic indicators. Growth from previous period unless otherwise noted. Per cent**

	2011*	2012*	Seasonally adjusted			
			12:2	12:3	12:4	13:1
Demand and output						
Consumption in households etc.	2.5	3.0	1.0	0.6	0.4	1.0
General government consumption	1.8	1.8	1.2	0.4	0.4	0.5
Gross fixed investment	7.6	8.0	3.8	2.7	1.8	1.0
Mainland Norway	8.5	3.7	2.9	3.6	0.0	-1.6
Extraction and transport via pipelines	14.1	14.5	6.4	0.6	6.6	5.5
Final domestic demand from Mainland Norway[1]	3.3	2.8	1.4	1.1	0.3	0.4
Exports	-1.8	1.8	1.2	-3.6	-2.0	0.2
Crude oil and natural gas	-6.2	0.9	0.8	-6.2	-3.0	-3.7
Traditional goods	0.0	2.6	0.7	0.5	-1.2	1.6
Imports	3.8	2.4	3.5	0.4	-1.5	0.3
Traditional goods	3.6	2.7	1.3	1.9	-1.5	-0.5
Gross domestic product	1.2	3.1	0.6	-0.6	0.1	-0.2
Mainland Norway	2.5	3.4	0.6	0.8	0.2	0.7
Labour market						
Man-hours worked	1.8	2.0	0.3	0.3	0.1	0.1
Employed persons	1.3	2.2	0.7	0.2	0.3	0.3
Labour force[2]	1.1	1.8	0.4	0.1	0.3	0.3
Unemployment rate, level[2]	3.3	3.2	3.0	3.1	3.5	3.6
Prices and wages						
Annual earings	4.2	4.0	..	..	..	..
Consumer price index (CPI)[3]	1.2	0.8	0.4	0.4	1.2	1.2
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	0.9	1.2	1.1	1.2	1.2	1.0
Export prices, traditional goods	5.7	-4.5	-1.5	-1.1	1.1	0.4
Import prices, traditional goods	4.2	0.7	0.4	0.6	0.0	-0.8
Balance of payment						
Current balance, bill. NOK	351.4	414.0	78.0	94.2	105.2	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.9	2.2	2.3	2.1	1.9	1.9
Lending rate, credit loans[4]	3.6	3.8	3.9	3.8	3.8	3.8
Crude oil price NOK[5]	621	649	641	646	625	634
Importweighted krone exchange rate, 44 countries, 1995=100	88.1	87.1	87.6	87.2	85.8	85.6
NOK per euro	7.79	7.48	7.56	7.39	7.37	7.43

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway's labour force survey(LFS).
[3] Percentage change from the same period the previous year.
[4] Period averages.
[5] Average spot price, Brent Blend.
Source: Statistics Norway and Norges Bank.

the Labour Force Survey (LFS), unemployment has increased by half a percentage point in the past half year. Growth in the labour force is consequently so high at present that economic growth slightly below trend is not sufficient to reduce unemployment. Developments in the number registered as unemployed by the Norwegian Labour and Welfare Administration (NAV) do not show as clear an increase in unemployment as the LFS, but recent NAV figures also indicate that unemployment is now rising. However, our projections indicate that increasing unemployment will not continue.

Consumer inflation has remained low for a long time. The low price inflation continued into 2013, although inflation figures for April were somewhat higher than in the previous months. As a result of higher electricity prices, 12-month CPI inflation has gathered pace and developments in electricity prices through 2012 will result in inflation continuing to increase until after the summer. A somewhat weaker krone exchange rate has nudged the rise in import prices slightly upward, so that CPI inflation adjusted for tax changes and excluding energy products (CPI-ATE) has increased.

The persistently expansionary monetary policy with low interest rates has stimulated both household consumption and the housing market. This has contributed to production growth in market-oriented services and in building and construction and hence to the cyclical upturn in the Norwegian economy. Real house prices are continuing to rise appreciably, and housing investment is increasing strongly. Housing starts are high, although there are some tendencies to more moderate growth. This points to slower growth in housing investment going forward than we have seen through the past four quarters.

Household consumption grew moderately in the second half of last year, but picked up appreciably in the first quarter of 2013. Spending on goods showed the strongest rise. The interest rate level would now appear to have bottomed out in nominal terms. Household income growth is high, and although this year’s wage settlement points to slightly lower wage growth than in 2012, household real disposable income is still increasing fast and in line with growth over the past two years. There is therefore reason to assume that consumption will continue to grow appreciably in the near term.

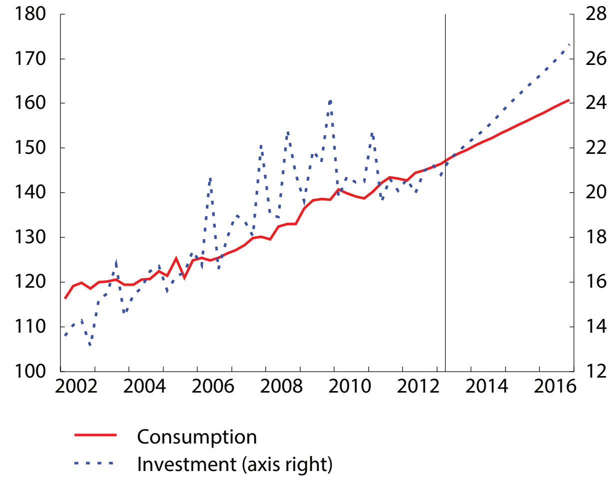
Traditional exports have only increased slightly for several quarters, largely due to the weak growth in international markets and a deterioration in Norwegian cost-competitiveness. We do not envisage that global market growth in the projection period will be as high as that following the bursting of the dot-com bubble in the early 2000s. This will serve to curb not only exports, but also business investment. There is less need for many export-oriented industries to expand their capacity when expectations regarding market growth are moderate. However, we expect petroleum-related investment to increase further from the present high levels. Stronger growth in public consumer capital will boost mainland investment, as will increasing investment in electricity production and distribution networks. General government consumption has increased moderately for the past two years, thereby dampening growth in the mainland economy.

For the past two years, the weak growth in traditional exports and business investment has stood out in particular in contrast to a more normal Norwegian economic cycle. This is attributable to global economic developments. The economic expansion from 2003 to 2007 was characterised by quite strong growth in demand for Norwegian exports and high commodity prices. This was reflected in a strong improvement both in export volumes and in the terms of trade for traditional goods, and resulted into high profitability, high investment and high growth in labour productivity. Weak growth in the global economy, and in particular among our traditional trading partners, has counteracted what up to now has been a very moderate Norwegian cyclical upturn. The business cycle has therefore been atypical at the detailed level of both the supply and demand sides of the Norwegian economy.

Another feature of economic developments is the poor growth in labour productivity so far in the cyclical upturn. Productivity growth is normally countercyclical, in that it increases appreciably towards the end of a decline and at the beginning of an upturn and then abates towards the end of the upturn and at the beginning of the following cyclical downturn. This pattern was clearly evident in the cycle in the 2000s, up to 2009. Productivity growth should normally have picked up after that. It did so in 2010, but productivity developments in 2011 were surprisingly weak, especially in view of the fact that there was output growth in the private sector. Productivity growth picked up somewhat in 2012, and more strongly in the first quarter of 2013. One of the reasons for poor productivity growth is precisely the absence of investment growth in large segments of the business sector. As a result there has not been the increase in capital intensity we might expect in a cyclical upturn, and which would have pushed up labour productivity.

We believe the critical economic situation of many of Norway’s most important trading partners will affect developments for several years to come. This means the upturn in the Norwegian economy will not get any impetus of any significance from abroad in the near future. On the other hand, this means that inflationary impulses from abroad will be limited, and that key interest rates in both the USA and Europe will remain low. As the inflation differential between Norway and the euro area has shrunk to nothing after three years of lower inflation in Norway, the krone exchange rate has weakened a little compared with its high point last

Figure 1. **General government. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

winter. This factor, coupled with slightly moderated wage growth in Norway, has improved the outlook for traditional Norwegian exports.

If the upturn in the Norwegian economy is to resume after the present standstill, domestic demand will have to provide the momentum. Low interest rates will continue to have a positive effect on domestic demand, even though they have been low for a while. Fiscal policy will provide a slightly stronger impetus to growth as a result of higher growth in gross general government investment and strong growth in transfers, which increases household demand. It is more difficult to predict the future stance of fiscal policy, as the general elections in the autumn appear likely to bring about major changes in the composition of the Storting. Although the fiscal rule is expected to continue providing guidelines during the projection period, the effects of fiscal policy on the economy are fairly dependent on the concrete orientation, and not least the distribution of various types of spending and the composition of taxes. We have assumed a certain strengthening of the expansionary stance in the form of some tax cuts, and examine these issues in more depth by analysing the effects of changes in fiscal policy; see Box 2.1. As long as the oil price remains fairly high, the Government Pension Fund Global will continue to grow strongly, thereby providing considerable fiscal scope for manoeuvre. Even if it is not fully exploited, as has been the case under the present Government, this could still give a positive impetus to growth in the near term.

In 2015 and 2016 we expect the growth contributions to equalise more than they will this year and next. This follows from the assumption of increasing global economic growth, with monetary policy gradually normalising and interest rates increasing slightly. Overall mainland economic growth will remain at around 3 per cent annually, which is approximately half a percentage point higher than estimated trend growth in the mainland economy. We forecast that the Norwegian economy will enter a weak expansion in 2015 and 2016.

We envisage relatively labour-intensive growth ahead, such that employment growth remains quite high, but not as high as in the two previous years. We expect the labour force to increase approximately in line with employment, causing LFS unemployment to fall only slightly from 3.6 per cent in 2013. As a result of high immigration from neighbouring economies with unemployment rates that are substantially higher than in Norway, unemployment will not fall much even if employment growth picks up. Increased labour force participation by older workers will have the same effect. Somewhat higher unemployment in 2013 and the near term than in the previous two years will curb real wage growth, as will somewhat higher inflation due to a slightly weaker krone. Growth in household real disposable income will continue, but at a somewhat slower pace than previously projected. This will dampen growth in the housing market for the next few years.

Fiscal policy

Revised figures from the National Accounts show that general government consumption rose by 1.8 per cent from 2011 to 2012. Growth in municipal and non-military central government consumption was about the same, while defence consumption remained virtually unchanged. The figures for municipal consumption have been slightly revised down, compared with previous calculations. Total gross general government investment declined somewhat from 2011 to 2012, while non-military investment rose by 3.7 per cent. It is estimated that public transfers to households, now equivalent to about 17.5 per cent of mainland GDP, rose by 5.4 per cent last year. This is equivalent to real growth of 4.6 per cent. General government consumption and investment combined, including transfers, rose by 2.6 per cent in real terms from 2011 to 2012, and was about the same as the trend growth in the mainland economy.

Preliminary and seasonally adjusted QNA figures show that general government consumption rose by about an annualised 2 per cent in the first quarter of 2013. Growth in general government consumption was strongest. Gross investment fell slightly, compared with the fourth quarter of 2012, but non-military investment remained unchanged.

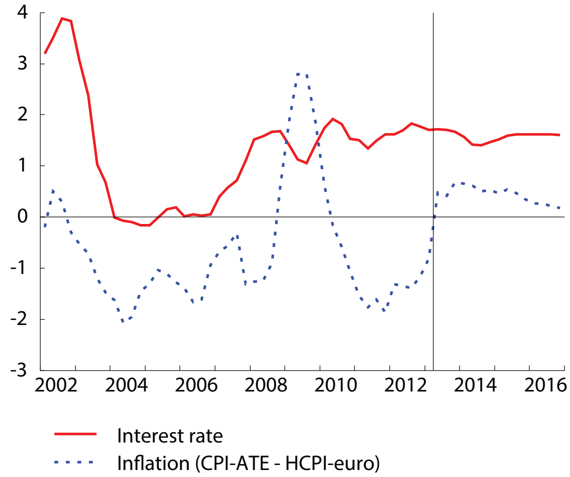
The fiscal policy projections for 2013 are close to the projections in the Revised National Budget 2013 (RNB). Real growth in general government consumption is projected to be 2.5 per cent in 2013. Increased investment in infrastructure means that gross investment will continue to increase, and volume growth this year is projected to be close to 6 per cent. The strong real growth in transfers is continuing in 2013, albeit at a somewhat slower pace than last year. The overall real growth attributable to the three above-mentioned budgetary components, which make up close to 90 per cent of total public spending and account for 46 per cent of mainland GDP, may increase by slightly over half a percentage point from 2012 to 2013, to 3.3 per cent. As usual, direct and indirect taxes for the current year are based on the Storting resolutions adopted last year. The rates have been mainly adjusted to account for rises in prices or income, and may be regarded as unchanged in real terms. An exception is the downward adjustment of charges this year, which in isolation contributes to slightly lower inflation. These projections are essentially the same as in the previous report.

The government projection in the RNB of the structural, non-oil budget deficit (SNOBD) was NOK 105 billion in 2012 – 3.2 per cent of the capital in the Government Pension Fund Global at the beginning of 2012. Our budget projections for 2013 onwards do not deviate much from the RNB on either the spending or the income side. Like the RNB, we project SNOBD in 2013 as a share of the capital in the Fund to be 3.3 per cent.

No fiscal orientation has been adopted for the period 2014–2016. There is therefore great uncertainty regarding the assumptions for this period. In previous economic reports we have continued the main features of the present orientation of fiscal policy. Political opinion polls so far indicate that there will be major changes in the composition of the Storting following the general election in the autumn. This report is based on the assumption that fiscal policy will still be based on the fiscal rule, but that personal tax will be reduced somewhat compared with the level in 2013. The incumbent government recently indicated that it will propose a reduction in corporate tax from 28 to 27 per cent, starting in 2014. This will be financed through a tightening of petroleum taxation and some other tax rules for group companies. It is therefore assumed that part of the fiscal scope for manoeuvre in the near term will be exploited by lowering personal tax by about NOK 15 billion compared with the present level. In purely technical terms, the same change has been made in Statistics Norway's macro model by also lowering the rate for tax on general income gradually from 28 to 27 per cent during the period 2014–2017. This is not based on an assessment of what would be the most probable or suitable orientation of tax policy; only that such a tax reduction would apply to most taxpayers.

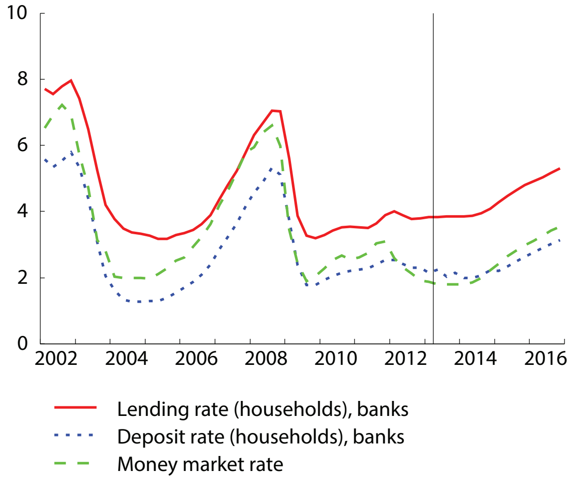
We assume roughly the same growth in general government consumption in the near term as in 2013, but that expenditures will be shifted from general government production of services to purchase of similar services from the private sector. This means privatisation of the actual service production, but not of payment for the services. Service consumption will then still be considered general government consumption according to the National Accounts. The strong growth in gross investment will lead to an increase in services from public

Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Source: Norges Bank and Statistics Norway.

Figure 3. **Norwegian interest rates. Per cent**



Source: Norges Bank and Statistics Norway.

consumption capital in the near term. The Norwegian Defence Force's investment in new fighter jets will also affect investment in the coming four-year period. Both will increase the growth in general government consumption. Calculated as a share of mainland GDP, it is projected that growth in general government consumption will remain fairly constant in the near term, while the value added in general government will fall as a share of mainland GDP.

There is now high real growth in national insurance old-age pensions, while other transfers are growing at a more moderate rate. The real growth in transfers for the period 2014–2016 is therefore projected to generally match real growth in 2013. All in all, real growth on the expenditure side of fiscal policy will thus increase during the period 2014–2016 compared with growth in 2013. This will result in real spending growth of about 3.5 per cent per year. There will also be a reduction in the level of personal taxation, equivalent to just over

Box 1. **Uncertainty surrounding fiscal policy**

Opinion polls on the autumn elections indicate an appreciable change in the composition of the Storting, and there is thus considerable uncertainty associated with the orientation of fiscal policy. This applies to both the magnitude of petroleum revenue spending and the composition of the budget›s expenditure and income sides. Cyclical developments are influenced by both, and individual projections may be very sensitive to details of the orientation.

The political parties in the Storting, with a single exception, support the fiscal rule. Long-term fiscal challenges, uncertainty as to the quantitative expectations regarding real return, and concern for internationally exposed industries are factors that point to moderate spending of petroleum revenue, and in recent years this spending has therefore remained well below the 4 per cent path. The fiscal rule accordingly provides no very clear guidelines for the level of spending of petroleum revenue.

Our projections are based on an orientation of fiscal policy that entails a certain increase in petroleum revenue spending, measured in terms of the structural non-oil budget deficit. However, the budget deficit remains well under the 4 per cent path in all the projection years. Growth in public sector demand is expected to be approximately the same as this year, but with a shift from public sector production towards increased purchase of services from the private sector. In addition, we have assumed gradual general cuts in personal tax which in the course of four years amount to about NOK 15 billion annually. No real changes are assumed to be made in indirect taxes.

This box provides an account of four scenarios that illustrate how our projections will be affected by various changes in fiscal policy assumptions. We consider changes in tax on ordinary income, value-added tax, public production (public consumption) and public investment demand. We have chosen to make changes that can be regarded as general, and have not placed great emphasis on the precise orientation being realistic, but rather that it should provide an adequate picture of the measure. However, details of the formulation of tax policy may have major consequences for certain macro variables and for the distribution among individuals.

All the scenarios are presented as policy tightenings compared with our projection scenario. However, the effects will be nearly symmetrical, so that we can find the effects of a more expansionary policy in the various areas by putting opposite signs on the effects shown in the tables. The estimates have been made such that the initial fiscal impulses are approximately the same, with initial impulses of NOK 3.5–4 billion the first year. This corresponds to cuts in the personal taxes in the projection scenario. After this, the measures are gradually stepped up in the course of the next three years, until 2017.

Consistent with the fact that all the changes imply a tighter fiscal policy, the qualitative effects are largely the same in our scenario. Economic activity is curbed, and real wages are lowered. With a few exceptions, changes in spending have the strongest effect on the real economy, while tax changes have the strongest effect on nominal variables. Business sector activity is most strongly affected by changes in public investment, and least by changes in public production.

Changes in direct and indirect taxes have quite similar effects, and lie between the two spending change scenarios. The two-track economy, where domestically oriented industries and petroleum-related activities flourish and traditional export industries do not, is affected to only a limited degree in the projection period by the direct and indirect tax changes we have studied. Cuts in public production are the most effective, but cuts in public investment also increase traditional exports after a while.

A reversal of cuts in personal taxation implies a gradual increase in general personal tax compared with the projection scenario. Higher personal tax will have a direct effect on household income, and thereby also on household demand. Table 1 shows that growth in household consumption is reduced by 0.1–0.3 percentage point each year from 2014–2016. The effects build up over time, also after the taxes have stopped increasing. The effects of different measures will in general not be completed before a good while after the measure has been implemented. Mainland GDP growth would be reduced in the projection period by about 0.1 percentage point each year. In 2016, house prices would be 1.4 per cent lower, while housing investment would be reduced by almost 0.6 per cent compared with the projection scenario. The effects on other nominal variables and in the labour market are limited.

An increase in indirect taxes will also affect households directly, and many of the effects will be roughly the same. In this scenario, all VAT rates are increased by 2.5 per cent the first year and a further 2.5 per cent each of the next three years. The effect of the higher prices in Norway is to weaken the krone. This measure thus causes nominal variables to increase. Nominal interest rates rise, but not more than real interest rates fall. As a result, demand for dwellings increases, and housing investment rises. From 2018, the rise in inflation slows sharply because there are no more indirect tax impulses, and real interest rates become higher than they would otherwise have been. This causes demand for dwellings to fall, and the effect is amplified by the fact that stocks of dwellings have increased during the period with lower real interest rates.

In the investment shift, non-military public investment is reduced by 5 per cent in 2014, and then by a corresponding amount in each of the following three years. In this case, the increase in unemployment and the reduction in GDP dominate interest rate developments, so that interest rates fall slightly. This causes the krone to depreciate and prices rise, while the situation in the labour market causes wages to fall compared to what they would otherwise have been. As result of lower productivity growth, exports will nonetheless not increase until after the projection period.

The production shift is a 1 per cent reduction in non-military public man-hours and material inputs, which are reduced by the same amount each of the following three years. Owing to the direct effects of employment and limited import leakage, the effect on the labour market is the strongest in this scenario. This leads to by far the strongest effects on interest and exchange rates, and in this case the reduction in relative wage costs measured in a common currency means that internationally exposed industries experience greater activity in the projection period.

→

Table 1. **Reversal of the tax cuts in the projection scenario. Effect in per cent unless otherwise indicated**

	2014	2015	2016	2017	2020
Consumption. household	-0.11	-0.35	-0.68	-1.08	-1.70
Housing investment	-0.01	-0.14	-0.57	-1.32	-3.97
Mainland business investment	-0.01	-0.05	-0.11	-0.18	-0.19
Traditional goods exports	0.00	-0.01	-0.03	-0.05	0.05
Imports	-0.06	-0.21	-0.43	-0.70	-1.22
Mainland GDP	-0.04	-0.13	-0.26	-0.43	-0.68
Mainland GDP excl. general government	-0.05	-0.16	-0.33	-0.53	-0.85
Employed persons	-0.01	-0.03	-0.08	-0.13	-0.24
Unemployment rate. percentage points	0.00	0.01	0.02	0.04	0.09
Money market rate. percentage points	0.00	0.01	0.01	0.00	-0.12
Exchange rate	-0.01	-0.03	-0.01	0.06	0.53
Consumer price index	0.01	0.01	0.03	0.05	0.08
Wages	0.00	0.00	0.00	-0.03	-0.20
House prices	-0.13	-0.60	-1.38	-2.37	-4.34
Household real disposable income	-0.32	-0.67	-1.04	-1.44	-1.63
Memo: Change in tax rate on ordinary income. percentage points	0.25	0.50	0.75	1.00	1.00

Table 2. **Gradual increase in VAT rates to 2017. Effect in per cent unless otherwise indicated**

	2014	2015	2016	2017	2020
Consumption. household	-0.18	-0.40	-0.69	-1.09	-2.21
Housing investment	0.03	0.19	0.50	0.75	-1.59
Mainland business investment	0.03	0.03	0.08	0.07	-0.61
Traditional goods exports	-0.01	-0.02	-0.04	-0.06	-0.12
Imports	-0.10	-0.21	-0.36	-0.57	-1.41
Mainland GDP	-0.05	-0.13	-0.22	-0.35	-0.87
Mainland GDP excl. general government	-0.07	-0.16	-0.27	-0.43	-1.08
Employed persons	-0.02	-0.04	-0.05	-0.08	-0.22
Unemployment rate. percentage points	0.01	0.01	0.01	0.02	0.10
Money market rate. percentage points	0.03	0.08	0.15	0.22	0.35
Exchange rate	0.29	0.44	0.66	0.87	1.21
Consumer price index	0.45	0.91	1.42	1.97	2.51
Wages	0.18	0.38	0.60	0.83	0.91
House prices	0.23	0.67	1.04	1.03	-2.55
Household real disposable income	-0.33	-0.68	-1.05	-1.48	-2.09
Memo: Change in the general VAT rate. percentage points	0.63	1.25	1.88	2.50	2.50

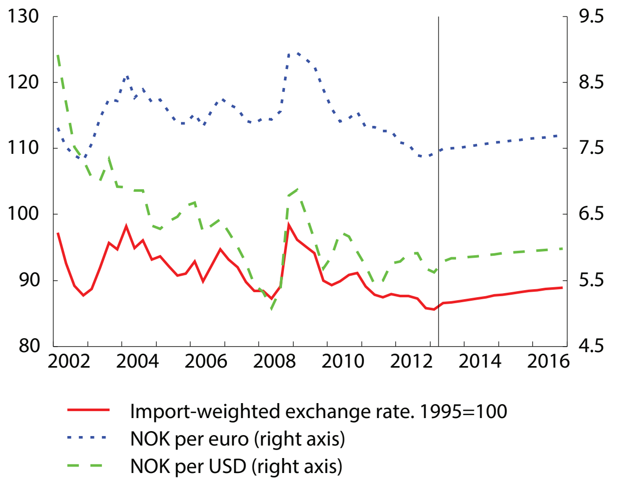
Table 3. **Gradually reduced non-military public investment to 2017 compared with the level in the projection scenario. 5 per cent more each year. Effect in per cent unless otherwise indicated**

	2014	2015	2016	2017	2020
Consumption. household	-0.04	-0.12	-0.26	-0.43	-0.81
Housing investment	0.01	0.05	0.08	0.03	-0.75
Mainland business investment	-0.06	-0.22	-0.42	-0.58	-0.20
Traditional goods exports	-0.02	-0.04	-0.04	-0.01	0.33
Imports	-0.16	-0.37	-0.62	-0.90	-1.26
Mainland GDP	-0.16	-0.34	-0.55	-0.76	-0.90
Mainland GDP excl. general government	-0.19	-0.40	-0.62	-0.83	-0.88
Employed persons	-0.06	-0.15	-0.23	-0.32	-0.33
Unemployment rate. percentage points	0.05	0.08	0.13	0.17	0.18
Money market rate. percentage points	-0.01	-0.02	-0.05	-0.09	-0.23
Exchange rate	0.04	0.11	0.27	0.46	0.98
Consumer price index	0.02	0.05	0.09	0.13	0.20
Wages	-0.03	-0.06	-0.13	-0.23	-0.54
House prices	-0.02	-0.14	-0.35	-0.66	-1.61
Household real disposable income	-0.10	-0.24	-0.41	-0.59	-0.78
Memo: Public sector investment	-4.54	-8.71	-12.76	-16.21	-16.28
Public consumption	-0.01	-0.06	-0.15	-0.27	-0.63

Table 4. **Gradually reduced non-military public sector production up to 2017 compared with the level in the projection scenario. 1 per cent more each year. Effect in per cent unless otherwise indicated**

	2014	2015	2016	2017	2020
Consumption. household	-0.09	-0.26	-0.49	-0.76	-1.20
Housing investment	0.00	-0.06	-0.23	-0.50	-1.50
Mainland business investment	0.09	0.36	0.68	1.10	2.24
Traditional goods exports	0.00	0.07	0.18	0.33	0.97
Imports	-0.16	-0.33	-0.58	-0.84	-1.17
Mainland GDP	-0.22	-0.43	-0.64	-0.84	-0.78
Mainland GDP excl. general government	-0.07	-0.14	-0.21	-0.28	-0.20
Employed persons	-0.24	-0.47	-0.66	-0.82	-0.59
Unemployment rate	0.16	0.25	0.35	0.44	0.35
Money market rate. percentage points	-0.09	-0.14	-0.26	-0.37	-0.58
Exchange rate	0.38	0.61	1.13	1.56	2.05
Consumer price index	0.02	0.09	0.15	0.22	0.20
Wages	-0.15	-0.26	-0.45	-0.72	-1.32
House prices	-0.06	-0.23	-0.48	-0.82	-1.59
Household real disposable income	-0.23	-0.47	-0.73	-1.03	-1.17
Memo: Public consumption	-0.85	-1.68	-2.49	-3.29	-3.25

Figure 4. **Exchange rates**



Source: Norges Bank.

half a per cent of mainland GDP during the projection period.

Oil prices are expected to remain at approximately the current level in the near term. This will be a factor in the continued strong growth of the Government Pension Fund Global, and mean that SNOBD as a share of the Fund will remain more or less unchanged in the period 2013–2016, even with a more expansionary fiscal policy.

Another year of low interest rates

The key rate has been 1.5 per cent since March 2012. This is 0.25 percentage point above the record low level in the summer of 2009. Since the most recent reduction in the key rate, the three-month money-market rate has fallen from 2.3 per cent in April 2012 to 1.8 per cent in May this year. The spread between the key rate and the money-market rate is thus down to 0.3 percentage point, equivalent to the level from the period before the financial crisis.

The sovereign debt crisis in many countries and the repercussions of the financial crisis for the real economy form much of the background for the low interest rate level in Norway. In the euro area, the money-market rate has been lower than 0.2 per cent since September last year. The wide interest rate differential, combined with higher economic growth in Norway than in the euro area, has helped strengthen the krone against the euro. Around year-end 2012, the krone exchange rate was 7.30 against the euro but the krone has subsequently weakened somewhat. At the end of May this year, one euro cost about NOK 7.50, which means that the krone is 6.5 per cent stronger now than the annual average for 2007, the year before the financial crisis. Measured against the import-weighted krone exchange rate, the krone appreciated by 4 per cent during the same period. The strong krone is weakening profitability and activity in the Norwegian internationally exposed business sector. If interest rates in Norway had not been so low, the krone might have been even stronger, thus exacerbating problems for the internationally exposed business sector. Both the appreciation of the krone and weak global growth are resulting in a low rise in imported prices.

Norwegian inflation, measured as the 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE), has been at least one percentage point below the inflation target for three years. The 12-month rise to April this year was 1.5 per cent. The low interest rate level in Norway leads to increased inflation both by curbing the appreciation of the krone and by stimulating domestic demand. In isolation, this contributes to increasing the activity in the economy.

In the view of Statistics Norway, the average lending rate from financial institutions for credit loans secured on dwellings is a good indicator of the mortgage rate in general. At the end of the first quarter of 2013, this rate was 3.8 per cent, while the average deposit rate was 2.3 per cent. Both the interest rate on credit loans and the deposit rate were unchanged compared with the previous quarter, and 0.2 percentage point lower than in the same quarter of the previous year. The difference between these two rates thus has not changed during the past year.

In isolation, low interest rates contribute to a relatively high level of lending from Norwegian banks and financial institutions. Gross private and municipal sector debt (C2), seasonally adjusted and annualised, increased by 5.6 per cent in the first quarter of 2013, compared to the previous quarter. This is the lowest growth level since 2010. Credit growth in the first quarter of 2012 rose to 8.1 per cent. Credit growth has fallen in non-financial enterprises, which may be attributed to low business investment. Here credit growth was 2.4 per cent in the first quarter of this year, while it reached over 10 per cent during the same quarter of 2012. Credit growth in households, seasonally adjusted and annualised, was about 7 per cent in the first quarter of this year. This is in line with the credit growth during the past four years, which has mainly been in the interval 6–8 per cent. Household debt growth is related to both housing investment and developments in house prices. See the discussion in section 2.4.

Our projections are based on the assumption that Norges Bank will maintain the current low key policy rate for a long time to come. This follows to a great extent from the weak global situation, which results in low interest levels abroad. The strong krone and low inflation are reasons for maintaining low interest levels. The Norwegian economy will eventually approach what is considered a normal degree of capacity utilisation, and inflation will probably rise to some extent. We have deferred the interest rate increase compared with our assumptions regarding interest rates in the previous projection. The current assumption is that the key rate will be increased gradually and cautiously starting in

Box 2. **Effects of continued precautionary saving**

In our projection scenario up to 2016, the household saving ratio will fall by over 2 percentage points. We interpret this decline as a consequence of a normalising of household saving behaviour. We demonstrate here the impact on the projection scenario of this assumption in isolation by estimating the effects on the Norwegian economy of the saving ratio remaining at the 2013 level in the period 2014-2016 while the change in the saving ratio in 2016 is continued until 2020. Fiscal policy is assumed to remain unchanged. Monetary policy is adjusted in accordance with flexible inflation targeting, where lower output and employment cause the central bank to reduce the key rate, whereas higher inflation leads to a higher key rate.

For a given initial income level, increased household saving means reduced demand. Output, employment and other factor inputs in mainland industry will accordingly be reduced. Over time, companies will reduce their investments in order to adjust their real capital to a lower demand level. Lower employment will cause unemployment to increase, which will restrain wage growth. Lower activity in the economy means lower productivity, which leads to higher prices. This results in slightly higher interest rates and a slightly stronger krone in the short term. The key rate will not be cut until the increase in the saving ratio has been in effect for a time, and the effects of output and employment are so large that they make up for higher prices. The krone exchange rate will then weaken and import prices in Norwegian kroner will rise and push up consumer prices.

The effect on mainland GDP growth is not reflected directly in the table. In 2014, the effect on growth is only 0.1 percentage point. In 2015, precautionary saving will still mean that GDP growth is reduced by 0.4 percentage point and will therefore not be 3.3 per cent as in the projection scenario, but 2.9 per cent. In 2016, growth will be reduced by 0.3 percentage point, so that this year, too, growth will be 2.9 per cent in the scenario with unchanged precautionary saving. After this the effects on economic growth will be very small, but as the table shows, there will be significant changes in some variables also after 2016, even if no new shocks occur compared with the projection scenario.

High precautionary household saving will also inhibit mainland economic growth, but the cyclical upturn will continue nonetheless in 2014-16, albeit at a very moderate pace.

Continued precautionary saving. Deviation from projection scenario in er cent unless otherwise indicated

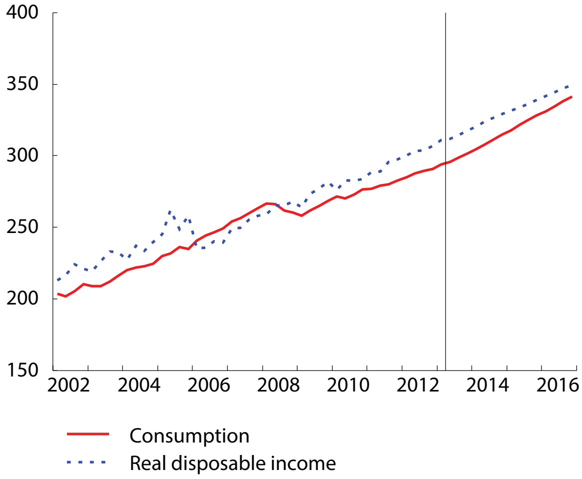
	2014	2015	2016	2017	2020
Consumption, household	-0.28	-1.81	-2.75	-2.82	-2.91
Housing investment	0.00	0.00	-0.05	-0.22	-1.08
Mainland business investment	-0.02	-0.16	-0.38	-0.42	-0.10
Traditional goods exports	-0.01	-0.05	-0.11	-0.11	0.21
Imports	-0.16	-1.06	-1.66	-1.77	-1.94
Mainland GDP	-0.09	-0.62	-0.95	-0.96	-0.89
Employment	-0.02	-0.12	-0.23	-0.26	-0.24
Unemployment rate, percentage points	0.01	0.08	0.12	0.13	0.13
Money market rate, percentage points	0.01	0.05	0.03	-0.01	-0.15
Exchange rate	-0.02	-0.10	-0.01	0.28	0.87
Consumer price index	0.02	0.10	0.17	0.23	0.31
Wages	-0.00	-0.03	-0.09	-0.16	-0.44
House prices	0.00	-0.02	-0.20	-0.49	-1.13
Household real disposable income	-0.04	-0.25	-0.45	-0.53	-0.62
Household saving ratio, percentage points	0.23	1.51	2.25	2.25	2.25

the middle of 2014. The money-market rate follows the key rate to a great extent, and will rise to 3.6 per cent at the end of 2016. Our interest rate projection is largely consistent with Norges Bank's interest projection until 2015, but we have added a somewhat stronger interest rate increase through 2016.

A wide interest rate differential between Norway and the euro area will help keep the krone strong against the euro. However, there is reason to believe that the krone will weaken by about one per cent annually in 2014 and 2015, and somewhat less in 2016. The depreciation is due to inflation increasing more in Norway than abroad. The krone is assumed to be moving towards an exchange rate of 7.70, measured against the euro, in 2016.

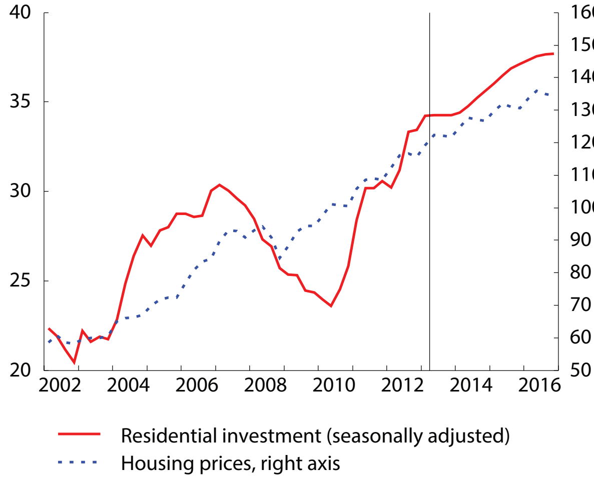
At the end of the first quarter of this year, the interest rate differential between credit loans secured on dwellings and the money-market rate was 1.9 percentage points. This spread was on average over one percentage point lower during the period between the broad launching of such loans in 2006 and the end of 2011. The wide differential is partly due to financial institutions' need to increase their equity capital due to more stringent equity requirements. The competitive situation in the Norwegian financial market appears to allow the increase of equity by raising interest rates. The spread between the interest rate on credit loans and the money-market rate has increased somewhat since the end of the first quarter, as a result of more banks increasing their lending rates while at the same time as the money-market rate has fallen. In our projects we have assumed that this differential is close to 2 percentage points this year and next and falls to

Figure 5. **Income and consumption in households. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

Figure 6. **Residential market. Left axis 2010 prices, NOK billion, quarter. Right axis indices, 2010=100**



Source: Statistics Norway.

1.8 percentage points in 2015 and 2016. The interest rate on credit loans is then expected to be 5.3 per cent at the end of 2016.

Stronger consumption growth

According to seasonally adjusted QNA figures, consumption by households and non-profit organisations increased by a full 1.0 per cent in the first quarter of this year, following moderate growth during the previous quarter. Goods consumption was as much as 1.8 per cent higher in the first quarter than in the fourth quarter of 2012, while consumption of services was weak during the same period. Growth in purchases of cars and other vehicles, which accounts for close to 5 per cent of total consumption, pushed consumption up by about 0.3 percentage point. There was also strong growth in the product groups clothing and footwear, furniture and white goods and sports equipment. The first quarter figures, together with the weak developments through the latter half of last year, signal a somewhat stronger annualised growth in consumption in 2013 than in 2012.

Developments in household income, housing wealth and interest rates are important drivers of consumption. Household real disposable income rose by 3.7 per cent in 2012. Wage income, which is the largest source of household income, was particularly important to income growth last year, as real wage growth was relatively high and employment rose by 2.2 per cent. Higher public transfers, mainly as a result of increased pension payments, also made a strong contribution to income growth. Low inflation was another factor behind the high rise in real income. However, net interest income made a negative contribution to growth, as interest expenses on loans increased more than interest income on bank deposits, and household debt rose as a share of disposable income.

Wage income and public transfers are expected to remain important to income growth during the next few years. Tax relief may also have an impact in the near term. However, higher interest rates and rising inflation will dampen growth in real disposable income. The expectation is thus annual growth in real disposable income of a bare 3.5 per cent during the present year, about 4 per cent next year and about 3 per cent in both 2015 and 2016. Continued growth in house prices, albeit at a more moderate pace than previously, will increase housing wealth, and stimulate consumption. Our projections for income, housing wealth and interest rates imply that consumption will grow by about 3.5 per cent this year; nearly half a percentage point higher than in 2012. Consumption growth may rise to close to 4.5 per cent in both 2014 and 2015, and then fall back to 4 per cent in 2016. This is somewhat weaker consumption growth than during the 2004–2007 cyclical upturn. As population growth is now higher, the difference in consumption growth per capita will be even greater.

The household saving ratio is now envisaged to reach about 8.5 per cent this year; about the same as last year. In line with the developments in income and consumption which have been assumed here, the saving ratio may gradually drop to a level of just over 6 per cent towards the end of the projection period. This implies that precautionary saving, which helped explain the higher saving ratio in the wake of the financial crisis, will gradually play a smaller role during the cyclical upturn up to 2016. This will be discussed in further detail in box 2.2.

Lower rise in house prices

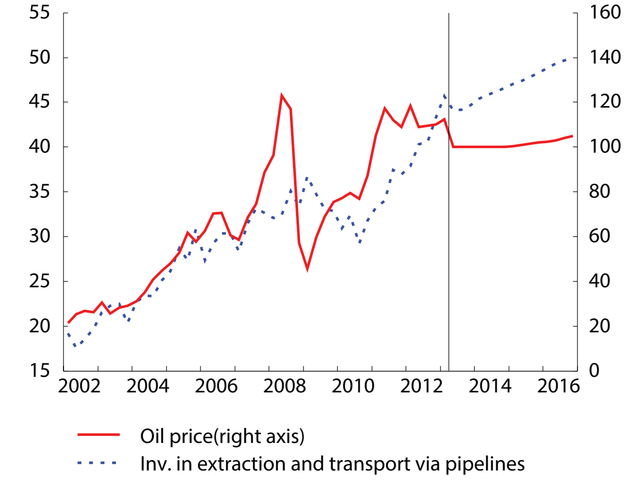
Housing investment has reached record levels, and rose by 2.4 per cent in the first quarter of 2013. The growth has been brought about by investment in new residential buildings, while refurbishment of existing residential buildings showed weak developments. The figures are consistent with housing starts, which have shown a clearly rising trend, in terms of both utility space and the number of housing starts after bottoming out in the

Table 2. **Main economic** indicators 2012-2016. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Ac-counts 2012*	Forecasts 2013			2014			2015		2016	
		SN	NB	MoF	SN	NB	MoF	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	3.0	3.5	3 1/4	3.4	4.3	3 1/2	..	4.4	3 1/2	4.0	3
General government consumption	1.8	2.5	2	2.5	2.4	2 1/2	..	2.4	..	2.4	..
Gross fixed investment	8.0	5.4	..	5.9	4	..	..	4.6	..	4.2	..
Extraction and transport via pipelines[1]	14.5	8.9	11	10.0	4.2	5	5.0	3.3	4	4.2	4
Mainland Norway	3.7	3.9	4	4.4	3.9	6	..	5.0	..	4.3	..
Industries	3.2	0.8	..	1.9	4.2	..	..	4.1	..	5.0	..
Housing	7.4	6.9	..	6.8	2.2	..	..	4.8	..	2.5	..
General government	-0.6	5.7	..	6.0	6.1	..	..	6.9	..	5.7	..
Demand from Mainland Norway[2]	2.8	3.3	3	3.3	3.7	3 3/4	..	4.0	3 1/4	3.6	3
Stockbuilding[3]	-0.2	0.0	..	..	0.0	..	..	0.0	..	0.0	..
Exports	1.8	-0.3	..	-1.3	2.1	..	..	1.7	..	2.4	..
Crude oil and natural gas	0.9	-1.1	..	-5.5	1.9	..	..	0.0	..	0.4	..
Traditional goods[4]	2.6	0.0	1/2	0.5	1.5	1/4	..	2.2	..	3.7	..
Imports	2.4	4.5	3 3/4	4.7	4.5	3 1/2	..	5.0	..	4.5	..
Traditional goods	2.7	2.9	..	4.8	4.6	..	..	4.5	..	4.3	..
Gross domestic product	3.1	1.7	1 3/4	1.4	2.7	2 1/4	3.0	2.7	2	2.8	2 1/4
Mainland Norway	3.4	2.4	2 3/4	2.6	3.0	3	3.0	3.3	2 1/2	3.2	2 3/4
Labour market											
Employed persons	2.2	1.2	1 1/2	1.3	1.2	1 1/4	..	1.6	1	1.5	1
Unemployment rate (level)	3.2	3.6	3 1/4	3.4	3.5	3 1/4	3.5	3.5	3 1/2	3.4	3 3/4
Prices and wages											
Annual earnings	4.0	3.7	4	3 1/2	3.8	4 1/4	..	3.8	4 1/2	4	4 1/4
Consumer price index (CPI)	0.8	1.8	1 1/2	1.7	1.9	1 1/2	..	2.1	2	2.2	2
CPI-ATE[5]	1.2	1.4	1 1/4	1.2	1.9	1 1/2	..	2.1	2	2.2	2
Export prices, traditional goods	-4.5	-0.2	..	0.3	2.1	..	..	2.5	..	2.3	..
Import prices, traditional goods	0.7	0.2	..	0.3	1.6	..		1.9	..	1.9	..
Housing prices	6.7	5.3	..	..	4.3	..	..	3.4	..	2.9	..
Balance of payment											
Current balance (bill. NOK)	414.0	319.7	..	323.0	274.5	..	..	254.5	..	250.4	..
Current balance (per cent of GDP)	14.2	10.7	..	10.8	8.9	..	..	7.8	..	7.3	..
Memorandum items:											
Household savings ratio (level)	8.5	8.5	..	..	8.3	..	..	7.0	..	6.3	..
Money market rate (level)	2.2	1.8	1.8	1.7	2.0	2.1	1.7	2.7	2.8	3.3	..
Lending rate, credit loans (level)[6]	3.9	3.8	..	..	3.9	..	..	4.5	..	5.1	..
Crude oil price NOK (level)[7]	649	595	..	600	588	..	587	600	..	618	..
Export markets indicator	1.4	1.1	..	..	3.3	..	..	4.6	..	6.1	..
Importweighted krone exchange rate (44 countries)[8]	-1.2	-0.7	-1.8	0.5	1.1	-1.2	..	0.9	0	0.7	0.6

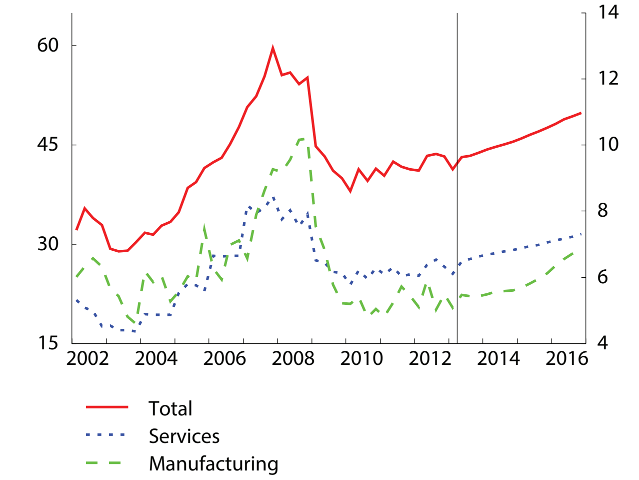
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports, which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Yearly average.
[7] Average spot price, Brent Blend.
[8] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.2 (2012-2013), (MoF), Norges Bank, Pengepolitisk rapport 1/2013 (NB).

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

Figure 8. **Investments. Mainland Norway. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

wake of the financial crisis. There were 30 000 housing starts in 2012, which is on a level with the highest figure during the previous cyclical upturn, and 10 000 more than in 2009. However, the rate of housing starts has slackened during the past few months. The prospect of a somewhat lower rise in house prices points to moderate developments in housing starts in the near term. This will reduce growth in housing investment. Housing investment will remain almost 7 per cent higher in 2013 than in 2012, due to strong growth in housing investment in 2012 and into the first quarter of 2013. Housing investment will then remain at a high level in the near term. Annual growth in investment is expected to fluctuate around 3 per cent for the remainder of the projection period.

An increase in household disposable income, population growth and low interest rates has a positive impact on house prices. Research shows that household borrowing and house prices mutually influence each other. During the past two years, household gross debt and house prices have risen at about the same pace, and a couple of percentage points more than growth in household disposable incomes.

Our calculations have taken into account the interaction between household debt and house prices. In isolation, high housing investment contributes to increased gross household debt, but dampens the rise in house prices. As long as interest rates remain at a low level, growth in household gross debt is expected to remain at about 8 per cent throughout the projection period. Together with nominal growth in household disposable income of some 5 per cent during the next four years, this will lead to house prices continuing to rise in the near term. However, the calculations indicate that the rise in house prices will taper off further into the projection period as growth in real disposable income declines and the real interest rate after tax rises. We believe that the rise in house prices will fall from just over 5 per cent in 2013 to about 3 per cent in 2016, so that the real rise in house prices is just under 1 per cent.

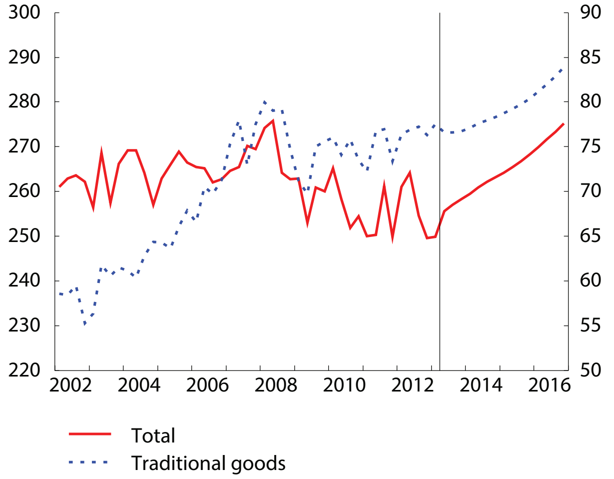
Petroleum activities remain high

Petroleum industry investment, which includes platforms and modules in addition to oil drilling and exploration activity, onshore facilities and new oil and gas pipelines, showed a clear increase in the first quarter, with 5 per cent growth. This is a continuation of the strong developments during the past two years.

Last year, growth was mostly driven by a strong rise in investment in platforms and modules. With more oil rigs on the Norwegian continental shelf, drilling companies have been able to increase their activities after several years of limited capacity. Investment in the first quarter of this year was thus driven up by increased exploration and production drilling. The improved capacity will also help give drilling a further lift in the years ahead. Increased production drilling is linked to both start-up of new fields and work to augment production from existing fields. The prospects for profitable discoveries have improved, both because oil prices have remained high and because several major discoveries have been made in the past few years. These are important reasons why the level of exploration drilling is high and will remain so in the near term.

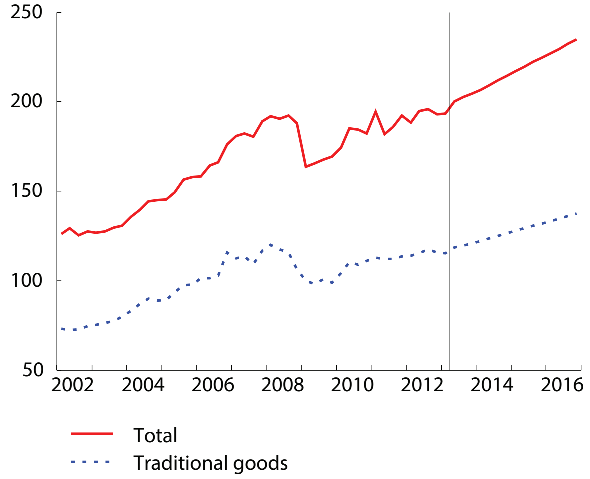
In the years following the financial crisis, there were only a few platform construction starts. Several platforms and modules were started in 2011 and 2012, and some of them should be completed during the coming year. The completion of a number of large projects is thus depressing investment, as they are not being entirely replaced by major new development projects. Maintenance and upgrading of existing fields has increased in recent years, and will continue to rise in the near term. This investment will result in a cautious upswing in overall investment in platforms and modules. This, coupled with a moderate increase in exploration and production drilling, means that there will be

Figure 9. **Exports. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

somewhat stronger growth in petroleum investment than in trend mainland economic growth.

The RNB contains proposed changes to corporate taxation, which entail cutting it from 28 to 27 per cent from 2014. At the same time, the special tax on petroleum production and hydropower will be increased by one percentage point, so that the resource rent is taxed as before. In addition, the so-called free income, which is an amount deducted oil companies' tax basis before the special tax is calculated, will be adjusted downward from 7.5 to 5.5 per cent. The change in free income increases the oil companies' financing costs for new investment projects. It is a small change, but affects profitability. The oil price fluctuates a great deal, and there is great uncertainty related to developments in prices in the near term, which may have a significantly greater effect on the profitability of projects than the tax increase. The tax increase may nevertheless lead to certain less profitable fields being shelved or postponed. It is assumed that the tax change will have little impact on overall oil investment during the projection period.

Petroleum production, measured in oil equivalent, fell clearly from the first quarter of 2012 to the first quarter of this year. Reduced production in several fields is pushing down production. After a clear fall in the production of oil and gas throughout the 2000s, production has remained at the 2010 level for the past few years. It is assumed that overall production will not change much in the next few years.

Export prices for oil and gas rose moderately in the first quarter. The export price for crude oil follows developments in the spot price, while the export price for gas is linked to the spot prices of both gas and oil. The spot price for oil fell appreciably this spring, and will be a factor causing the export price to be lower in 2013 than the previous year. The crude oil price is expected to remain near the current level for the next few years, so that the export price will not fall any further. Gas prices are expected to shadow oil prices in the long term, but only to a limited extent in the short term. A moderate decline in the export price for gas is expected in 2013.

Rising mainland investment

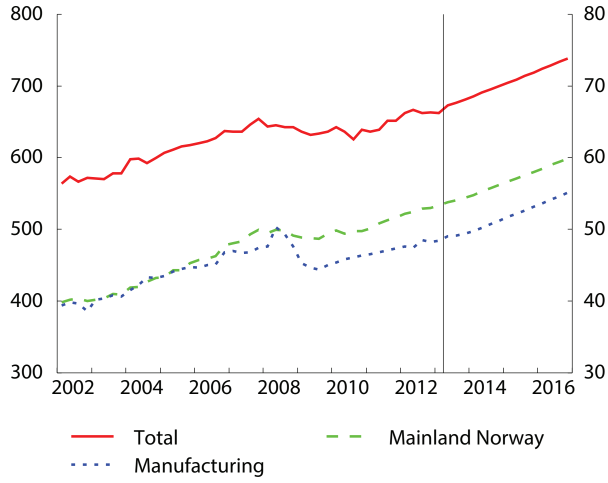
Almost two years of moderate underlying growth in mainland business investment have reversed into a decline during the past two quarters. The decline is broad-based. A 4.0 per cent decline in investment in services was recorded in the first quarter, compared with the previous quarter. Investment in services is now at about the same level as the second half of 2009, when the rebound after the financial crisis began. The decline in leasing of commercial buildings, which accounts for about 30 per cent of mainland investment, has been particularly pronounced.

The sharp decline in manufacturing, which was 7.8 per cent in the first quarter compared with the previous quarter, must be seen in the context of strong growth in the fourth quarter of 2012. The decline in the first quarter of this year nevertheless reflects weak developments in investment. The investment level in manufacturing in the first quarter of 2013 was also at about the same level as at year-end 2009. First quarter investment figures for manufacturing signal moderate developments going forward, and are consistent with Statistics Norway's survey of companies' investment intentions. In their reporting for the first quarter of 2013, manufacturing companies' estimates indicated a reduction in investment of about 5 per cent this year.

Investment in power supply has grown strongly for a long time, and the investment level quadrupled between 2000 and 2012. The power companies' projections in the first quarter indicated that the 2013 investment level would remain more or less unchanged compared with 2012. In particular, investment in local, central and regional grids, mainly in Western, Central and Northern Norway helped maintain the high investment level. The grid companies have estimated that investment in the power network may reach over NOK 100 billion in the ten-year period from 2012.

The weak global economic situation is constraining the profitability of future investment projects. The uncertainty is also perceived to be greater than normal, and will be reflected in slow growth in industrial investment in the years ahead. Investment growth is expected to pick up from about 1 per cent in 2013 to about 5 per cent in 2016. These are low growth rates compared with previous cyclical upturns. The expected upswing in the pace of investment is partly due to reduced uncertainty in the international economy towards the end of the projection period. This will be particularly important to export-oriented manufacturing companies. Investment growth in manufacturing is expected to pick up from about 1 per cent in 2013 to just over 12 per cent in 2016.

Figure 11. **Gross domestic product. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

Weak export growth this year

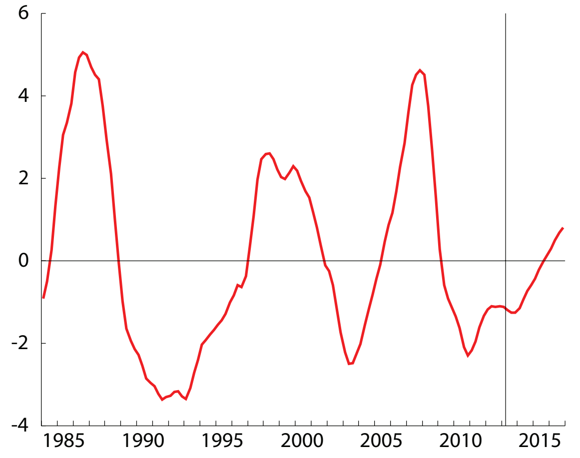
Norway's foreign trade has shown an increasing surplus over the past three years. Exports of oil and gas at rising, and now high, prices coupled with imports of goods at low and in some cases falling prices have led to major terms of trade gains. This explains much of the surplus. In isolation, developments in the volume of exports and imports have contributed to reducing the surplus. Many Norwegian export companies have experienced a loss of cost-competitiveness. Together with a weak global economic situation, this has dampened growth in the demand for Norwegian export goods. At the same time, growth in international demand has maintained import growth at a high level.

Exports of oil and gas, and traditional goods and services were higher in 2012 than in 2011, measured in constant prices. However export growth was weak through 2012. Oil and gas exports fell in the second half of 2012, and seasonally adjusted QNA figures show that the decline continued during the first quarter of this year by 3.7 per cent. On balance, the volume of traditional goods exports did not change much through the year. Large product groups like metals, farmed fish, chemical products and electricity showed a tendency towards declining exports last year. The tendency manifested itself through a decline in the first quarter of 2013 in exports of farmed fish, chemical products and electricity. Important export goods that exhibited growth through 2012 and into the first quarter of this year include engineering and pharmaceutical products. Growth in traditional goods exports in the first quarter of this year amounted to 1.6 per cent. As was the case with traditional goods exports, overall service exports basically maintained an approximately constant volume in 2012, but grew in the first quarter of this year by a full 4.2 per cent. Exports of services related to oil and gas production and pipeline transport of oil and gas grew for the second consecutive quarter. International shipping continued to fluctuate around last year's level, with an increase in freight volume in the first quarter of 2013, following a corresponding decline the previous quarter.

The weak global economic situation, not least in an EU in a time of crisis, and Norwegian export companies' cost-competitiveness point towards poor growth in exports of both traditional goods and services this year. From 2014 we expect a somewhat improved global economic situation and that gradually higher market growth will also include Norwegian export products. In isolation, a weakening of the krone exchange rate will make Norwegian export products more competitive. The growth in exports is unlikely to be as strong as market growth. This means that Norwegian exports will continue to lose market shares. Exports of oil and gas are largely determined by the production side, and here the situation is expected to remain more or less unchanged for the next few years.

Relatively strong growth in the Norwegian economy and deteriorated cost-competitiveness have maintained import growth at a high level for the past three years. However, traditional goods imports increased slightly in 2012, with a substantial decline in imports of large product groups like metals, textiles, clothing and footwear, chemicals, non-military ships and boats, and large military procurements. Imports of services are high, and rose by well over 6 per cent last year. However, seasonally adjusted figures for the first quarter of 2013 continued to show a weak tendency through the second half of last year. Traditional goods imports fell by 0.5 per cent, while service imports rose by 0.2 per cent. Import growth is expected to increase during the next few years, in pace with growth in domestic demand. The price index for traditional exports fell in 2012. It is not expected to rise until 2014. Oil prices have already fallen considerably this year, and are not expected to rise until well into the projection period. The rise in import prices will be weak this year, as it was in 2012, and will only rise slightly with the

Figure 12. **Output gap. Mainland Norway. Deviation from trend. per cent**



Source: Statistics Norway.

weakening of the krone and the incipient global economic upturn from 2014.

Over the past three years the rising oil price contributed substantially to the increase in the trade surplus, which reached NOK 384 billion in 2012. The expected developments in the oil price will no longer help increase the trade surplus, either in 2013 or in the next two years. Reduced net exports and terms of trade losses are expected to reduce the trade surplus to less than NOK 300 billion this year, and to less than NOK 230 billion in 2016. Net factor income and transfers is expected to show a growing surplus, boosted by profits from an increasingly large Government Pension Fund Global. This will check the decline in the current account surplus. The account balance as a percentage of GDP is projected to fall from 10–11 per cent this year to less than 7 per cent in 2016.

Pause in the recovery

Activity growth in the Norwegian economy picked up during the first quarter of 2013. Annualised mainland GDP is estimated to have increased by 2.7 per cent, following only 0.8 per cent in the fourth quarter of 2012. While power production contributed to boosting mainland GDP growth in 2012 by an annual average of 0.3 percentage point, it has pushed down growth through the past three quarters. Mainland GDP excluding power production increased by an annualised 3.1 per cent in the first quarter of this year and 1.2 per cent in the fourth quarter of 2012. Overall, developments through the past two quarters are thus somewhat lower than the trend growth of around 2.5 per cent, even if the negative growth input from power production is excluded. After a bare two years of a moderate cyclical upturn from the start of 2011, the recovery appears to have taken a pause. We do not expect growth to rise appreciably above trend before 2014. As a result of the pronounced growth through the first three quarters of 2012, annualised mainland GDP is projected to increase by 2.4 per cent this year nonetheless.

There are relatively wide differences in activity development across industries. Growth in industries that deliver extensively to the petroleum industry is relatively high. In the first quarter, value added in mechanical workshops, shipyards and in the repair and installation of machinery increased by 2.3 per cent on balance. However activity in other manufacturing declined by 1.7 per cent. Overall, value added in manufacturing increased by 0.3 per cent. In the segment 'Other goods production', there was strong growth in building and construction, while other industries such as power supply and aquaculture reported a marked decline.

Value added in market-oriented services, which account for over half of mainland GDP, increased by 0.6 per cent in the first quarter after slightly slower growth in the previous quarter. Activity slowed in the first quarter in postal services and distribution, hotels and restaurants, finance and insurance, and property management, while there was a pronounced upswing in other industries. Production in the mainland industries is fairly representative of developments through the last four quarters.

In the first quarter, as in the preceding four, growth in general government value added was approximately the same as the average for other industries. Earlier in the cyclical upturn, general government growth was appreciably lower than growth in mainland industry.

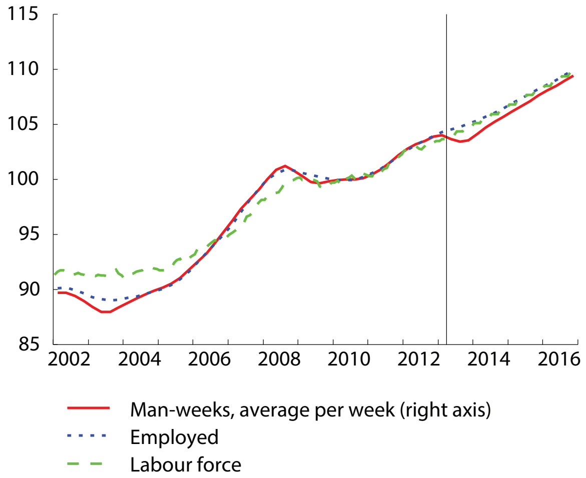
Value added in the petroleum industry fell markedly in the first quarter, thereby continuing the tendency through the second half of 2012. The preliminary QNA figures for services incidental to the petroleum extraction industry also show a fall in the first quarter, albeit of a very minor order. However, this represents a break with a very clear growth tendency through the previous two and a half years. Overall GDP fell by 0.2 per cent in the first quarter. In the near term we expect petroleum production to remain more buoyant, such that overall GDP does not grow very much less than the mainland economy.

We expect moderate developments in activity through the remainder of 2013. Positive demand impulses are expected to be generated primarily by the public sector and petroleum activities, as well as by household consumption. Investment demand is expected to pick up somewhat in a number of industries from 2014. A gradual increase in demand in Norwegian export markets will also lead to a rise in exports. The pause in the recovery may accordingly end in late 2013 –early 2014. Our projections indicate mainland GDP growth of about 3 per cent in the years 2014 to 2016. From 2015 we expect mainland GDP to rise above trend, and the economy can then be said to be in an expansion.

For the remainder of 2013 we still forecast that industries supplying the petroleum sector will grow more than others, while production in export-intensive industries in particular will show little or negative growth. Activity growth in service industries is expected to remain buoyant, while general government production will grow a little less than the average for mainland industry.

We believe that many of these trends will continue going forward, but activity in export-oriented industries will gradually pick up as a result of global economic developments. Industries oriented towards business sector investment may also experience slightly higher growth. Activity growth in both manufacturing and fish farming may pick up. We assume a certain shift in public sector demand from own production to purchase of consumer services. This will lead to a further increase in activity in market-oriented services, while growth in general government activity will fall back slightly.

Figure 13. **Labour force. employment and number of man-hours. Seasonally adjusted and smoothed indices. 2010=100**



Source: Statistics Norway.

The labour market

Employment has increased since the second half of 2010. In 2012, growth in employment was 2.2 per cent. Growth was somewhat weaker during the second half than in the first half of 2012, and only 0.3 per cent in the first quarter of this year. According to the Labour Force Survey (LFS), there were 2 000 more employees on average in the period February–April than in the previous three-month period. There was a moderate increase in employment in 2012 and in the first quarter of 2013 compared with employment growth during the economic boom prior to the financial crisis. The strong population growth means that the growth in employment, as a share of the population aged 15–74, is approximately unchanged.

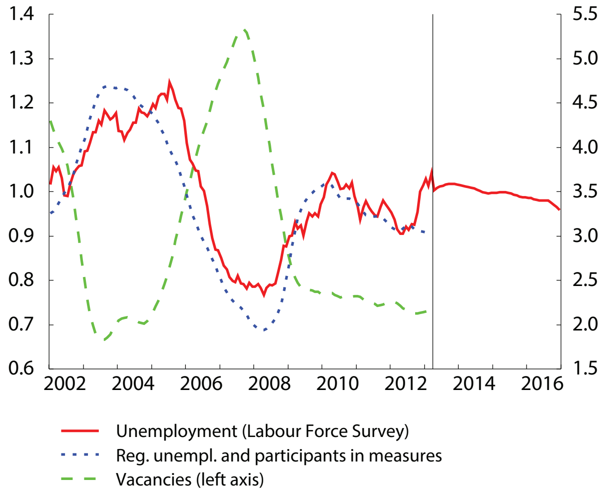
There are also considerable differences in employment changes across manufacturing industries compared with the previous upturn, when employment growth was broad-based. Employment has grown considerably in construction, other services, and petroleum production and petroleum-related services during the past two years. The growth in employment in these manufacturing industries was also markedly higher than the average for the first quarter of this year. General government employment also helped to push up first-quarter employment growth. Growth in manufacturing employment rose by 0.6 per cent in the first quarter, and was stronger than the growth in overall employment. Manufacturing employment is thus rising again after falling in 2011, and rising weakly in 2012. However, there are great differences across industries. Retail trade employment was roughly unchanged in the first quarter, and this industry is thereby lowering the average, as was the case in 2011 and 2012. Employment fell in some other service oriented industries and in international shipping.

The average growth in the number of man-hours worked in mainland Norway was at the same level as the growth in employment in 2012. There was one working day less in 2012 than in 2011, and this in isolation reduces the number of man-hours worked per employee. However, the reduction in both sick leave and lay-offs registered by the Norwegian Labour and Welfare Administration increased the number of man-hours worked. On the other hand, the use of overtime was reduced in several manufacturing industries, and the wide-reaching strike in connection with last year's wage settlement lowered the number of man-hours worked. There was a weak rise in the number of man-hours worked in the first quarter of this year, as in the previous quarter, and lower than the 2012 average. There are considerable differences across manufacturing industries here as well.

The unemployment rate rose in the wake of the financial crisis, and peaked at 3.6 per cent in the fourth quarter of 2010, according to the LFS. It then remained fairly stable around the average of 3.2 per cent for 2012 until December. LFS unemployment rose towards the end of last year, and averaged 3.7 per cent in the period February–April 2013. This is the highest unemployment rate recorded since May 2010.

So far this year, there has been a limited rise in unemployment recorded by the Norwegian Labour and Welfare Administration. At the end of April 2013, some 84 000 persons were either on labour market programmes or registered as unemployed. This level is somewhat higher than in January, and higher than the 2012 average. There has been an increase in both the number of registered unemployed and the number of persons on ordinary labour market programmes. The Norwegian Labour and Welfare Administration regards unemployment lasting 26 weeks or longer as long-term unemployment. The long-term unemployed made up about 44 per cent of the unemployed in April 2013, and this share has increased slightly so far this year. This is attributable to a slight increase in the number of job seekers who have looked for work for 26–77 weeks, and

Figure 14. **Unemployment and number of vacancies. Per cent of labour force. Seasonally adjusted and smoothed**



Source: The Norwegian Labour and Welfare Service and Statistics Norway.

a decline in those who have looked for work for longer than this.

Developments in the labour force as a percentage of the population is affected by demographic factors like changes in the size and composition of the population (including immigration), but also by changes in the supply of labour. Labour force participation declined in the first quarter compared with the same period last year. It can be attributed to a decline in labour force participation among persons aged 25–74. On the other hand, there is a strong increase in employment among persons aged 15–24. This age group is also sensitive to cyclical changes and had the greatest decline in labour force participation after the financial crisis. Labour force participation was 71.3 per cent during the period February–April 2013.

The number of vacancies declined during the last three quarters of 2012, compared with the same period the previous year. The decline in vacancies continued in the first quarter of this year. In construction and manufacturing there was a decline in advertised vacancies in the first quarter, compared with the same period last year.

The weak global tendency indicates that internationally exposed industries will also have weak employment developments during the current year, but that this may be reversed towards the end of the projection period. It is further assumed that public sector employment will not contribute much to growth in employment, but that purchase of public services will increase during the projection period. This will lead to higher growth in employment in market-oriented services from 2014 and in the near term. We forecast that the growth in the first quarter will persist until the end of 2013, and that overall employment growth will be 1.2 per cent this year. Growth in employment will pick up towards the end of the projection period, and is projected at about 1½ per cent in 2015 and 2016.

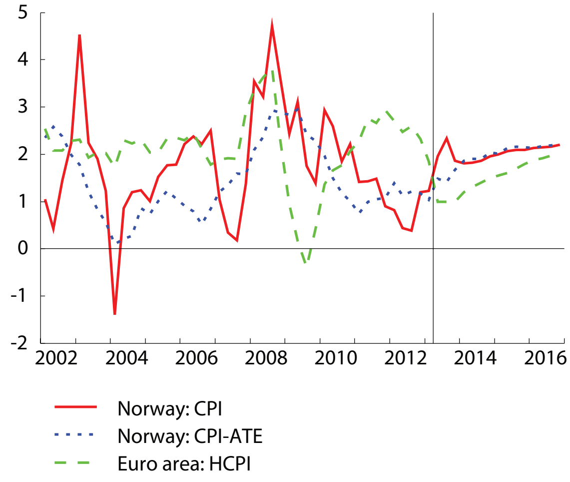
Population growth was moderate in the first quarter of this year. There is still considerable cross-border migration, but the number of immigrants was somewhat lower than during the same period last year, while the number of emigrants was higher. Developments in both the Norwegian and the global economy imply that there will be considerable inward labour migration also in the near term, although the growth is expected to decline slightly. It is assumed that the labour force will continue to grow, and on an annual basis somewhat more than employment, so that unemployment will rise slightly somewhat. We project LFS unemployment at 3.6 per cent this year, but that it will fall slightly towards the end of the projection period, as both the Norwegian and the global economy improve.

Somewhat slower wage growth

There are now signs of slowing wage growth. Norwegian manufacturing wages are at a very high level compared with competing countries, and the major global economic downturn, together with the strengthened krone exchange rate has put pressure on the profitability of internationally exposed manufacturing. The pay increases from the interim settlements this year have accordingly been moderate. In April, the parties agreed on a frame that is estimated to result in annual wage growth of 3.4 per cent for manufacturing workers. Several settlements have applied this frame. In the public sector, the parties have agreed on small central pay increases that are estimated to result in wage growth of 3.5 per cent. The growth in annual wages therefore appears likely to be somewhat lower than last year, but also depends on an uncertain wage drift. Wage drift covers all wage growth not resulting from the negotiated wage settlements, and captures the outcome of local pay increases. It is also affected by structural conditions. About half of manufacturing wage-earners are designated white-collar workers and negotiate their wages locally. As certain manufacturing segments are doing well and can raise wages to attract labour, the wage drift among salaried employees can turn out to be higher than that assumed in the wage settlements. On the other hand, it is assumed that unemployment will increase somewhat this year, which points in the direction of lower wage drift both inside and outside manufacturing. Wage growth of 3.7 per cent is projected for the entire economy this year.

Developments in productivity and product prices are important factors behind business sector profitability. The growth in productivity in manufacturing is currently appreciably higher than in the rest of the business sector, partly because value added in the most important manufacturing industries supplying the petroleum industry is growing strongly. The value added in these industries accounts for about half the value added in manufacturing, and developments here are therefore important. At the same time, the growth in value added in a number of export-oriented industries has been low and in some cases negative. This has dampened

Figure 15. **Consumer price indices. Percentage growth from the same quarter previous year**



Source: Statistics Norway.

productivity growth in manufacturing. In the period 2014–2016, growth in value added should be more moderate in the supplier industry and manufacturing productivity should grow a little less than this year. The effect in isolation will be to lower profitability and thus curb wage growth in manufacturing. The higher unemployment level will reduce wage growth both inside and outside manufacturing and wage growth in 2014 and 2015 is expected to be fairly similar to this year.

Foreign demand is expected to pick up in the near term. A gradually weakened krone exchange rate and international recovery will lead to product prices in Norwegian kroner rising for internationally exposed manufacturing and pushing up the growth in value added in the manufacturing segments that are under most pressure. This will also be reflected in increased wage growth in manufacturing, but not until 2016. The labour market will play a fairly modest role, with small changes in employment and inward labour migration. Wage growth in other parts of the economy is thus envisaged to remain about the same as wage growth in manufacturing. Wage growth in 2016 is projected to be 4.0 per cent. According to our projections, real wage growth will be just under 2 per cent every year until the end of 2016.

Prospects of somewhat higher inflation in the short term

Despite the fact that the average wage per hour worked has been rising by over 4 per cent for several years, underlying inflation remains very low. The year-on-year rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) remained relatively stable through 2012 around the annual average of 1.2 per cent. The year-on-year change in this index then edged down to 0.9 per cent in March before rebounding to 1.5 per cent in April. An important cause of the low rise in prices in recent years has been a steady fall in prices for imported consumer goods due to low global inflation and an almost continuous appreciation of the krone since December 2009. One reason for the rise in the inflation rate in April is probably the weakening of the krone observed in recent months. The fact that Easter fell in different months this year and last also affects consumer price measurements. The consumer price index (CPI) rose by 1.9 per cent from April 2012 to April 2013, while the CPI excluding electricity (CPI-AE) rose by 1.2 per cent. An increase in electricity prices including grid rent therefore accounted for 0.7 percentage point of the 12-month rise in the CPI. A fall in prices for fuel and lubricants due to somewhat lower crude oil prices pushed growth down.

The rise in food prices has been moderate in recent years, and has exerted downward pressure on the CPI. Following a fall from February to March 2013, food prices rose in April and were one of the chief causes of the higher CPI inflation in that month. The rise in food prices in April must be considered against the backdrop of a fall in prices in March, when a number of special Easter offers were recorded. It is therefore likely that some of the rise in prices is temporary. In May, the farmers' unions and the state reached agreement on an agricultural agreement for 2013-2014. According to the Ministry of Agriculture and Food, this year's agricultural agreement in isolation will increase food prices to consumers by about half a per cent, which is in line with the outcome of the 2012 settlement. Given import restrictions and a high share of domestically produced foods, the agricultural settlement is important for food price developments. However, there is also substantial and growing import of foods, both processed and in the form of raw materials that are processed by the food industry. Competition for market shares among grocery store chains is contributing to a moderate rise in prices for this product group.

The CPI-ATE broken down by delivery sector shows that there has been a steady fall in prices for imported consumer goods in recent years. This trend has continued in 2013, but the fall in prices for these products was far less in April than in the preceding months. The weak trend in prices for this product group cannot be explained solely by developments in international prices and exchange rates. Measures to increase efficiency and narrow margins in retail trade and transport are contributory factors. A substantial part of household durable and semi-durable consumer goods are imported, and prices have been falling or rising at a very moderate pace. Traditional dealers have increasingly had to contend with competition from internet-based operators in these markets. This is exemplified by the car industry where, in addition to internal competition from other makes of car, dealers in particular makes are now encountering competition from operators who have specialised in importing new cars as well. Readily available price information and an anticipated increase in the volume of internet-based trade is fuelling competition in markets and thereby probably also curbing consumer price inflation.

Actual and imputed rent increased by 3.0 and 2.3 per cent respectively in the year to April 2013. Actual rent increased by 0.2 per cent on the previous month, while imputed rent dipped slightly. Actual rent for households that rent their dwelling is measured by means of a sample survey of developments in real rents in both established and new rentals. For owner-occupied dwellings, the value of housing consumption is included in the imputed rent and measured indirectly by means of the rental equivalence method, which involves measuring the opportunity cost of an owner-occupied dwelling by means of the rent for a corresponding dwelling in the rental market. Rents obtained from the rental market also form the basis for calculating developments in imputed rents. Differences in geographical weightings and in the distribution of weightings for dwelling of different sizes constitute one reason why indices may show different developments. We do not expect any major increase from the current rent level and hence contributions to a rise in the CPI-ATE from this consumption group in 2013, but expect the rise in prices to pick up somewhat in the following years given an expected increase in residential mortgage rates and general inflation.

In other service groups, prices for postal services have declined slightly in 2013 after rising substantially for many years. Prices for package tours increased by 5.7 per cent from March to April. Prices on this consumption group normally rise in April, but the 12-month change in prices is negative. A weak decline in prices for crude oil will affect fuel prices and probably inhibit price increases for all types of transport in the near term.

The energy market was characterised by high reservoir levels and low prices in 2012. Drier, colder weather this past winter than the previous one caused higher electricity consumption and less inflow into water reservoirs. A weaker resource situation has pushed the system price for power in the Nord Pool area up to a higher level. This trend appears likely to continue, and although wetter weather recently has brought forward prices down, these prices are still about twice as high in the third quarter as last year's system price for the same period. Grid rent and electricity tax dampen the effects of the fluctuations in power prices in consumers' overall purchase prices. We expect household electricity prices, including grid rent, to increase by slightly less than 15 per cent as an annual average from 2012 to 2013. In the longer term, there is uncertainty as to how Nordic power prices will be affected by increased production capacity in the power market. Through the joint Norwegian-Swedish green certificate scheme for subsidising renewable energy, it is expected that 26.4 TWh of new power production will be established in Norway and Sweden in the period 2012–2020. This, coupled with the new Olkiluoto 3 nuclear power station in Finland, with planned start-up in 2016, will result in an increase in power production of about 40 TWh in a normal year. Greater power production capacity in the Nord Pool area implies low prices. Investment costs for ongoing and planned refurbishment and development of the main grid, which must be covered by the consumers through grid rent, plus an annual increase in power prices associated with the green certificate scheme will both have the opposite effect. We project that electricity prices including grid rent will rise slightly further in 2014, but do not anticipate major price changes in the following years.

We have adjusted the interest rate path downwards since the previous economic report, and the import-weighted krone exchange rate is now developing appreciably more weakly than in our previous report. Even if wage growth slows somewhat, inflation will rise. According to our calculations, the rise in the CPI-ATE will be 1.4 per cent as an annual average in 2013. Thereafter, CPI-ATE inflation is expected to increase gradually to 2.2 per cent in 2016 - still lower than the inflation target. Given our projections for energy price developments, CPI inflation in 2013 will be 0.4 per cent higher than the rise in the CPI-ATE. On the basis of our assumptions about energy prices, and that there will be no overall changes in taxes in real terms, CPI inflation will be the same as CPI-ATE inflation in the years 2014-2016.

Table 3. **National accounts: Final expenditure and gross domestic product. At constant 2010 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2011	2012	11.2	11.3	11.4	12.1	12.2	12.3	12.4	13.1
Final consumption expenditure of households and NPISHs	1 117 099	1 150 637	279 019	280 079	282 731	284 865	287 703	289 552	290 704	293 673
Household final consumption expenditure	1 066 563	1 099 147	266 460	267 380	270 024	271 889	274 812	276 730	277 943	281 030
Goods	539 517	551 161	135 029	135 633	136 522	136 695	138 937	138 799	139 103	141 560
Services	485 440	500 618	121 016	121 432	122 449	123 742	124 466	125 860	126 333	126 638
Direct purchases abroad by resident households	70 184	76 988	17 557	17 560	18 224	18 840	18 830	19 466	19 911	20 135
Direct purchases by non-residents	-28 577	-29 620	-7 142	-7 245	-7 170	-7 388	-7 422	-7 395	-7 405	-7 303
Final consumption expenditure of NPISHs	50 535	51 490	12 559	12 699	12 706	12 976	12 891	12 822	12 761	12 642
Final consumption expenditure of general government	568 702	578 964	142 218	143 433	143 189	142 791	144 526	145 095	145 715	146 489
Final consumption expenditure of central government	287 460	292 616	71 823	72 432	72 517	72 067	72 974	73 392	73 664	74 290
Central government, civilian	250 557	255 804	62 617	63 080	63 206	62 896	63 794	64 172	64 445	65 173
Central government, defence	36 903	36 812	9 206	9 353	9 311	9 171	9 180	9 220	9 219	9 117
Final consumption expenditure of local government	281 241	286 348	70 394	71 000	70 672	70 724	71 552	71 703	72 051	72 199
Gross fixed capital formation	518 409	560 035	124 955	133 239	132 089	133 776	138 813	142 592	145 126	146 551
Extraction and transport via pipelines	141 612	162 108	34 042	37 445	36 973	37 909	40 344	40 595	43 288	45 690
Service activities incidential to extraction	-4 013	1 823	-4 081	243	-75	148	407	694	580	692
Ocean transport	12 190	13 748	2 743	3 016	3 144	3 763	3 479	3 309	3 276	3 778
Mainland Norway	368 621	382 356	92 252	92 534	92 047	91 956	94 584	97 994	97 983	96 391
Mainland Norway excluding general government	285 297	299 505	72 678	71 888	71 961	71 344	74 609	77 006	76 721	75 579
Industries	165 914	171 258	42 484	41 716	41 370	41 124	43 406	43 658	43 272	41 340
Manufacturing and mining	21 205	21 354	5 232	5 714	5 441	5 103	5 917	5 026	5 487	5 078
Production of other goods	42 230	43 581	10 787	10 828	10 454	10 755	10 617	10 990	11 221	10 756
Services	102 479	106 324	26 464	25 174	25 475	25 265	26 873	27 642	26 563	25 507
Dwellings (households)	119 384	128 247	30 195	30 172	30 591	30 220	31 202	33 348	33 449	34 238
General government	83 324	82 851	19 574	20 646	20 086	20 612	19 975	20 988	21 262	20 813
Changes in stocks and statistical discrepancies	113 523	108 038	24 056	18 792	36 085	27 803	26 002	26 087	24 899	18 718
Gross capital formation	631 932	668 073	149 011	152 031	168 174	161 578	164 816	168 679	170 025	165 269
Final domestic use of goods and services	2 317 733	2 397 673	570 248	575 543	594 093	589 235	597 045	603 326	606 443	605 430
Final demand from Mainland Norway	2 054 421	2 111 957	513 489	516 046	517 966	519 612	526 813	532 641	534 401	536 553
Final demand from general government	652 025	661 815	161 792	164 079	163 274	163 403	164 501	166 083	166 976	167 302
Total exports	1 011 430	1 029 148	250 313	261 179	249 907	261 048	264 174	254 558	249 541	249 925
Traditional goods	299 237	307 083	76 709	76 949	73 374	76 369	76 881	77 228	76 303	77 496
Crude oil and natural gas	441 961	445 968	105 039	116 507	106 770	115 370	116 248	108 987	105 674	101 801
Ships, oil platforms and planes	13 768	8 761	6 609	3 026	2 613	2 086	3 187	2 089	1 399	1 668
Services	256 465	267 336	61 955	64 697	67 150	67 223	67 858	66 255	66 165	68 960
Total use of goods and services	3 329 163	3 426 821	820 561	836 722	844 001	850 283	861 219	857 884	855 985	855 356
Total imports	753 912	771 962	181 936	185 882	192 348	188 295	194 971	195 782	192 908	193 449
Traditional goods	451 068	463 109	112 017	112 214	113 710	113 978	115 508	117 692	115 915	115 385
Crude oil and natural gas	11 964	11 258	2 461	2 560	2 741	2 776	3 905	2 488	2 035	3 027
Ships, oil platforms and planes	36 025	25 855	6 335	7 080	6 122	5 570	7 073	6 661	6 649	6 625
Services	254 855	271 741	61 123	64 028	69 775	65 971	68 485	68 942	68 309	68 411
Gross domestic product (market prices)	2 575 251	2 654 859	638 625	650 840	651 653	661 988	666 248	662 102	663 077	661 907
Gross domestic product Mainland Norway (market prices)	2 036 566	2 106 327	508 297	512 732	516 502	521 405	524 716	528 972	529 980	533 544
Petroleum activities and ocean transport	538 685	548 532	130 328	138 108	135 151	140 583	141 532	133 129	133 097	128 363
Mainland Norway (basic prices)	1 747 295	1 809 747	436 163	440 228	443 243	448 413	450 820	453 582	455 060	457 752
Mainland Norway excluding general government	1 337 315	1 391 837	333 636	337 283	339 777	344 496	346 728	348 981	349 760	351 790
Manufacturing and mining	187 309	191 891	46 784	47 063	47 311	47 583	47 422	48 481	48 238	48 365
Production of other goods	224 074	244 364	55 301	57 592	58 348	60 697	62 058	60 781	60 481	60 691
Services incl. dwellings (households)	925 932	955 583	231 552	232 629	234 118	236 216	237 248	239 719	241 041	242 734
General government	409 980	417 909	102 527	102 945	103 466	103 917	104 092	104 601	105 300	105 962
Taxes and subsidies products	289 271	296 581	72 134	72 504	73 259	72 991	73 896	75 390	74 920	75 792

Source: Statistics Norway.

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2010 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2011	2012	11.2	11.3	11.4	12.1	12.2	12.3	12.4	13.1
Final consumption expenditure of households and NPISHs	2.5	3.0	0.8	0.4	0.9	0.8	1.0	0.6	0.4	1.0
Household final consumption expenditure	2.5	3.1	0.8	0.3	1.0	0.7	1.1	0.7	0.4	1.1
Goods	1.3	2.2	0.9	0.4	0.7	0.1	1.6	-0.1	0.2	1.8
Services	2.4	3.1	0.5	0.3	0.8	1.1	0.6	1.1	0.4	0.2
Direct purchases abroad by resident households	12.0	9.7	3.8	0.0	3.8	3.4	-0.1	3.4	2.3	1.1
Direct purchases by non-residents	0.4	3.7	2.1	1.4	-1.0	3.1	0.4	-0.4	0.1	-1.4
Final consumption expenditure of NPISHs	2.5	1.9	0.0	1.1	0.1	2.1	-0.7	-0.5	-0.5	-0.9
Final consumption expenditure of general government	1.8	1.8	1.5	0.9	-0.2	-0.3	1.2	0.4	0.4	0.5
Final consumption expenditure of central government	0.9	1.8	1.5	0.8	0.1	-0.6	1.3	0.6	0.4	0.8
Central government, civilian	1.0	2.1	1.4	0.7	0.2	-0.5	1.4	0.6	0.4	1.1
Central government, defence	0.2	-0.2	2.2	1.6	-0.4	-1.5	0.1	0.4	0.0	-1.1
Final consumption expenditure of local government	2.8	1.8	1.5	0.9	-0.5	0.1	1.2	0.2	0.5	0.2
Gross fixed capital formation	7.6	8.0	-2.4	6.6	-0.9	1.3	3.8	2.7	1.8	1.0
Extraction and transport via pipelines	14.1	14.5	2.4	10.0	-1.3	2.5	6.4	0.6	6.6	5.5
Service activities incidential to extraction	..	..	..	-106.0	-130.7	-298.6	174.6	70.5	-16.4	19.3
Ocean transport	-27.2	12.8	-18.2	10.0	4.2	19.7	-7.5	-4.9	-1.0	15.3
Mainland Norway	8.5	3.7	0.8	0.3	-0.5	-0.1	2.9	3.6	0.0	-1.6
Mainland Norway excluding general government	10.5	5.0	5.8	-1.1	0.1	-0.9	4.6	3.2	-0.4	-1.5
Industries	3.5	3.2	5.4	-1.8	-0.8	-0.6	5.5	0.6	-0.9	-4.5
Manufacturing and mining	4.5	0.7	8.7	9.2	-4.8	-6.2	15.9	-15.1	9.2	-7.5
Production of other goods	8.4	3.2	6.8	0.4	-3.5	2.9	-1.3	3.5	2.1	-4.1
Services	1.5	3.8	4.2	-4.9	1.2	-0.8	6.4	2.9	-3.9	-4.0
Dwellings (households)	21.9	7.4	6.4	-0.1	1.4	-1.2	3.3	6.9	0.3	2.4
General government	2.2	-0.6	-14.1	5.5	-2.7	2.6	-3.1	5.1	1.3	-2.1
Changes in stocks and statistical discrepancies	3.0	-4.8	-31.8	-21.9	92.0	-23.0	-6.5	0.3	-4.6	-24.8
Gross capital formation	6.7	5.7	-8.7	2.0	10.6	-3.9	2.0	2.3	0.8	-2.8
Final domestic use of goods and services	3.4	3.5	-1.7	0.9	3.2	-0.8	1.3	1.1	0.5	-0.2
Final demand from Mainland Norway	3.3	2.8	1.0	0.5	0.4	0.3	1.4	1.1	0.3	0.4
Final demand from general government	1.9	1.5	-0.7	1.4	-0.5	0.1	0.7	1.0	0.5	0.2
Total exports	-1.8	1.8	0.1	4.3	-4.3	4.5	1.2	-3.6	-2.0	0.2
Traditional goods	0.0	2.6	6.2	0.3	-4.6	4.1	0.7	0.5	-1.2	1.6
Crude oil and natural gas	-6.2	0.9	-7.5	10.9	-8.4	8.1	0.8	-6.2	-3.0	-3.7
Ships, oil platforms and planes	59.6	-36.4	331.9	-54.2	-13.6	-20.2	52.8	-34.5	-33.0	19.3
Services	2.2	4.2	-1.1	4.4	3.8	0.1	0.9	-2.4	-0.1	4.2
Total use of goods and services	1.8	2.9	-1.1	2.0	0.9	0.7	1.3	-0.4	-0.2	-0.1
Total imports	3.8	2.4	-6.4	2.2	3.5	-2.1	3.5	0.4	-1.5	0.3
Traditional goods	3.6	2.7	-0.8	0.2	1.3	0.2	1.3	1.9	-1.5	-0.5
Crude oil and natural gas	0.6	-5.9	-49.8	4.0	7.1	1.3	40.7	-36.3	-18.2	48.8
Ships, oil platforms and planes	20.1	-28.2	-61.9	11.8	-13.5	-9.0	27.0	-5.8	-0.2	-0.4
Services	2.3	6.6	1.9	4.8	9.0	-5.5	3.8	0.7	-0.9	0.2
Gross domestic product (market prices)	1.2	3.1	0.5	1.9	0.1	1.6	0.6	-0.6	0.1	-0.2
Gross domestic product Mainland Norway (market prices)	2.5	3.4	1.5	0.9	0.7	0.9	0.6	0.8	0.2	0.7
Petroleum activities and ocean transport	-3.3	1.8	-3.5	6.0	-2.1	4.0	0.7	-5.9	0.0	-3.6
Mainland Norway (basic prices)	2.6	3.6	1.7	0.9	0.7	1.2	0.5	0.6	0.3	0.6
Mainland Norway excluding general government	2.6	4.1	1.8	1.1	0.7	1.4	0.6	0.6	0.2	0.6
Manufacturing and mining	2.1	2.4	0.6	0.6	0.5	0.6	-0.3	2.2	-0.5	0.3
Production of other goods	2.2	9.1	3.5	4.1	1.3	4.0	2.2	-2.1	-0.5	0.3
Services incl. dwellings (households)	2.8	3.2	1.6	0.5	0.6	0.9	0.4	1.0	0.6	0.7
General government	2.4	1.9	1.4	0.4	0.5	0.4	0.2	0.5	0.7	0.6
Taxes and subsidies products	2.0	2.5	0.6	0.5	1.0	-0.4	1.2	2.0	-0.6	1.2

Source: Statistics Norway.

Table 5. **National accounts: Final expenditure and gross domestic product. Price indices. 2010=100**

	Unadjusted		Seasonally adjusted							
	2011	2012	11.2	11.3	11.4	12.1	12.2	12.3	12.4	13.1
Final consumption expenditure of households and NPISHs	101.3	101.3	102.1	101.5	101.2	101.3	102.3	101.5	101.7	102.5
Final consumption expenditure of general government	103.9	103.9	107.0	103.2	104.0	105.5	106.0	106.5	107.2	108.6
Gross fixed capital formation	103.5	103.5	106.8	102.4	103.6	106.0	105.6	106.3	106.9	108.1
Mainland Norway	103.8	103.8	107.2	103.0	104.1	105.5	106.0	106.6	107.6	108.4
Final domestic use of goods and services	102.9	102.9	105.2	103.2	102.9	103.5	104.5	105.3	105.2	106.0
Final demand from Mainland Norway	102.5	102.5	104.4	102.2	102.5	103.2	103.9	103.8	104.3	105.3
Total exports	112.8	112.8	114.9	112.3	111.7	116.8	117.8	114.6	113.9	113.7
Traditional goods	105.7	105.7	101.0	106.9	104.8	104.7	102.5	101.0	99.9	101.0
Total use of goods and services	105.9	105.9	108.1	106.0	105.6	107.4	108.6	108.2	107.8	108.3
Total imports	102.9	102.9	103.5	103.4	102.6	103.7	102.1	104.4	104.3	104.2
Traditional goods	104.2	104.2	104.9	104.3	103.7	104.7	104.4	104.8	105.4	105.4
Gross domestic product (market prices)	106.8	106.8	109.5	106.7	106.5	108.5	110.4	109.3	108.9	109.4
Gross domestic product Mainland Norway (market prices)	102.6	102.6	104.5	102.9	102.8	102.8	103.6	104.1	104.6	105.7

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2011	2012	11.2	11.3	11.4	12.1	12.2	12.3	12.4	13.1
Final consumption expenditure of households and NPISHs	1.3	0.8	0.9	-0.2	0.1	0.9	-0.8	0.2	0.8	0.5
Final consumption expenditure of general government	3.9	3.0	0.3	0.8	1.4	0.5	0.5	0.7	1.3	1.8
Gross fixed capital formation	3.5	3.1	0.6	1.2	2.3	-0.3	0.6	0.6	1.2	1.3
Mainland Norway	3.8	3.3	0.6	1.0	1.4	0.4	0.6	1.0	0.7	2.0
Final domestic use of goods and services	2.9	2.2	1.6	-0.4	0.6	1.0	0.8	-0.1	0.7	1.4
Final demand from Mainland Norway	2.5	1.9	0.7	0.3	0.7	0.7	-0.2	0.5	0.9	1.1
Total exports	12.8	1.9	1.2	-0.5	4.5	0.9	-2.7	-0.6	-0.2	-1.6
Traditional goods	5.7	-4.5	-0.3	-2.0	-0.1	-2.1	-1.5	-1.1	1.1	0.4
Total use of goods and services	5.9	2.1	1.5	-0.3	1.7	1.1	-0.4	-0.4	0.4	0.5
Total imports	2.9	0.5	0.6	-0.7	1.1	-1.5	2.3	-0.2	0.0	-1.5
Traditional goods	4.2	0.7	0.0	-0.5	0.9	-0.3	0.4	0.6	0.0	-0.8
Gross domestic product (market prices)	6.8	2.5	1.8	-0.2	1.9	1.8	-1.0	-0.4	0.5	1.0
Gross domestic product Mainland Norway (market prices)	2.6	1.8	1.2	-0.1	0.0	0.7	0.5	0.4	1.1	1.5

Source: Statistics Norway.

Table 7. **Main economic indicators 2003-2016. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

											Forecasts			
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013	2014	2015	2016
Demand and output														
Consumption in households etc.	3,2	5,4	4,4	5,0	5,4	1,8	0,0	3,8	2,5	3,0	3,5	4,3	4,4	4,0
General government consumption	1,3	1,2	1,4	1,9	2,7	2,7	4,3	1,3	1,8	1,8	2,5	2,4	2,4	2,4
Gross fixed investment	0,8	11,1	13,5	9,8	11,4	0,2	-7,5	-8,0	7,6	8,0	5,4	4,0	4,6	4,2
Extraction and transport via pipelines	15,9	10,4	19,2	4,0	6,1	5,2	3,4	-9,5	14,1	14,5	8,9	4,2	3,3	4,2
mainland Norway	-2,9	10,6	12,2	10,5	13,3	-1,3	-13,2	-4,5	8,5	3,7	3,9	3,9	5,0	4,3
Industries	-11,2	10,6	18,6	15,2	21,9	0,8	-23,1	-5,1	3,5	3,2	0,8	4,2	4,1	5,0
Housing	1,8	16,3	9,7	4,0	2,7	-9,0	-8,2	-1,6	21,9	7,4	6,9	2,2	4,8	2,5
General government	12,5	3,9	2,0	9,7	8,0	4,5	7,4	-6,8	2,2	-0,6	5,7	6,1	6,9	5,7
Demand from Mainland Norway[1]	1,6	5,1	4,9	5,2	6,3	1,4	-1,6	1,5	3,3	2,8	3,3	3,7	4,0	3,6
Stockbuilding[2]	-1,1	2,3	-0,1	1,1	-0,2	-0,1	-2,8	3,5	0,1	-0,2	0,0	0,0	0,0	0,0
Exports	-0,1	1,0	0,5	-0,8	1,4	0,1	-4,2	0,4	-1,8	1,8	-0,3	2,1	1,7	2,4
Crude oil and natural gas	-0,8	-0,7	-5,0	-6,6	-2,4	-1,3	-2,0	-6,9	-6,2	0,9	-1,1	1,9	0,0	0,4
Traditional goods	3,7	3,6	5,3	6,1	9,2	3,5	-8,0	3,4	0,0	2,6	0,0	1,5	2,2	3,7
Imports	1,2	9,7	7,9	9,1	10,0	3,9	-12,5	9,0	3,8	2,4	4,5	4,5	5,0	4,5
Traditional goods	5,7	12,8	8,4	11,6	7,2	1,2	-12,9	9,1	3,6	2,7	2,9	4,6	4,5	4,3
Gross domestic product	1,0	4,0	2,6	2,3	2,7	0,1	-1,6	0,5	1,2	3,1	1,7	2,7	2,7	2,8
Mainland Norway	1,3	4,5	4,4	4,8	5,3	1,5	-1,6	1,7	2,5	3,4	2,4	3,0	3,3	3,2
Manufacturing	2,9	5,1	3,9	2,6	3,5	2,9	-7,4	2,4	2,1	2,4	2,2	2,9	3,8	3,7
Labour market														
Total hours worked, Mainland Norway	-2,1	1,9	1,5	3,3	4,3	3,5	-2,3	0,0	1,7	1,9	0,6	1,5	1,9	1,9
Employed persons	-1,2	0,5	1,3	3,5	4,1	3,3	-0,4	-0,5	1,3	2,2	1,2	1,2	1,6	1,5
Labor force[3]	-0,1	0,3	0,8	1,9	2,5	3,4	0,0	0,5	1,1	1,8	1,3	1,5	1,6	1,5
Participation rate (level)[3]	72,9	72,6	72,4	72,0	72,8	73,9	72,8	71,9	71,4	71,5	71,5	71,5	71,7	71,8
Unemployment rate (level)[3]	4,5	4,5	4,6	3,4	2,5	2,6	3,2	3,6	3,3	3,2	3,6	3,5	3,5	3,4
Prices and wages														
Wages per standard man-year	4,5	3,5	3,3	4,1	5,4	6,3	4,2	3,7	4,2	4,0	3,7	3,8	3,8	4,0
Consumer price index (CPI)	2,5	0,4	1,6	2,3	0,8	3,8	2,1	2,5	1,2	0,8	1,8	1,9	2,1	2,2
CPI-ATE[4]	1,1	0,3	1,0	0,8	1,4	2,6	2,6	1,4	0,9	1,2	1,4	1,9	2,1	2,2
Export prices, traditional goods	-1,0	8,4	4,0	11,3	2,4	2,8	-6,0	4,5	5,7	-4,5	-0,2	2,1	2,5	2,3
Import prices, traditional goods	0,0	2,6	0,3	4,0	3,7	3,9	-1,5	0,1	4,2	0,7	0,2	1,6	1,9	1,9
Housing prices[5]	1,7	10,1	8,2	13,7	12,6	-1,1	1,9	8,3	8,0	6,7	5,3	4,3	3,4	2,9
Income, interest rates and excange rate														
Household real income	4,6	3,3	7,8	-6,4	6,3	4,0	4,1	2,7	4,1	3,7	3,3	3,9	3,0	3,2
Household saving ratio (level)	9,0	7,0	9,8	-0,5	0,9	3,8	7,1	5,8	7,3	8,5	8,5	8,3	7,0	6,3
Money market rate (level)	4,1	2,0	2,2	3,1	5,0	6,2	2,5	2,5	2,9	2,2	1,8	2,0	2,7	3,3
Lending rate, credit loans(level)[6]	6,5	4,2	3,9	4,3	5,0	6,8	4,0	3,4	3,6	3,9	3,8	3,9	4,5	5,1
Real after-tax lending rate, banks (level)	2,2	2,5	1,3	0,7	2,9	1,1	0,7	0,1	1,3	2,1	0,9	1,0	1,2	1,6
Importweighted krone exchange rate (44 countries)[7]	1,3	3,0	-3,9	0,7	-1,8	0,0	3,3	-3,7	-2,4	-1,2	-0,7	1,1	0,9	0,7
NOK per euro (level)	8,0	8,4	8,0	8,1	8,0	8,2	8,7	8,0	7,8	7,5	7,5	7,6	7,6	7,7
Current account														
Current balance (bill. NOK)	195,2	220,6	322,8	357,7	287,4	408,3	279,3	303,2	351,4	414,0	319,7	274,5	254,5	250,4
Current balance (per cent of GDP)	12,3	12,6	16,5	16,4	12,5	16,0	11,7	11,9	12,8	14,2	10,7	8,9	7,8	7,3
International indicators														
Exports markets indicator	2,6	7,7	7,0	9,6	5,6	1,2	-10,4	10,9	5,3	1,4	1,1	3,3	4,6	6,1
Consumer price index, euro-area	2,1	2,1	2,2	2,2	2,2	3,3	0,3	1,7	2,7	2,5	1,2	1,4	1,7	1,9
Money market rate, euro(level)	2,3	2,1	2,2	3,1	4,3	4,6	1,2	0,8	1,4	0,5	0,1	0,5	1,1	1,7
Crude oil price NOK (level)[8]	201	255	356	423	422	536	388	484	621	649	595	588	600	618

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[2] Change in stockbuilding. Per cent of GDP.
[3] According to Statistics Norway›s labour force survey(LFS). Break in data series in 2006.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Break in data series in 2004.
[6] Yearly average. Lending rate, banks until 2006
[7] Increasing index implies depreciation.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 28 May.