Economic trends

The Norwegian economy is now in an expansionary period after an upturn lasting about two years. Quarterly national accounts figures for the first quarter show that mainland output growth is well above trend in the first quarter of 2005, while a number of production disruptions in the petroleum sector have contributed to clearly weaker overall growth in GDP. The outlook for the rest of the year indicates that the upturn will continue to end-2005. A sharp increase in petroleum investment, a very expansionary monetary policy, positive fiscal impulses and an international upturn, albeit weak, have contributed to the upturn in Norway. Consumer price inflation was very low at the beginning of 2005, but now appears to be showing signs of edging up in line with previous projections. The recent appreciation of the krone, however, has generated substantial uncertainty around the outlook for inflation. Should the current exchange rate remain high for a long period, it can virtually be ruled out that the inflation target will be reached, even within a three-year horizon. In spite of a marked upturn, employment growth has been moderate and unemployment has shown only a modest reduction. There is little indication of any general labour market pressures. This year's wage settlement has been completed without any conflicts and with moderate nominal pay increases. Nonetheless, wage developments imply that real wage growth will be high in 2005.

It is still assumed that economic growth will slow somewhat in 2006 and particularly in 2007. This assumption is partly based on more negative cyclical developments abroad, which will curb growth in demand for Norwegian exports. Petroleum investment will not continue to increase in the years ahead. It is more a question of how sharp the decrease will be, and we have assumed a fairly moderate decline. Fiscal policy should, if anything, have a slightly contractionary effect in the period ahead if the budget deficit is to be brought back into line with the fiscal rule. Finally, monetary policy will not generate any further substantial expansionary impulses, and the contribution to growth from a low interest rate level will gradually moderate in the period ahead. Against this background, we believe that the upturn and the current expansionary period in the Norwegian economy will be moderate.

This economic survey includes projections up to end-2009. According to our calculations, the upturn in the Norwegian economy will peak in the first half of 2006, and the economy will then revert to a more cyclically neutral situation towards the end of 2007. After a moderate downturn in 2008 and 2009, our projected path ends in a more or less cyclically neutral situation towards the end of 2009. High oil prices, which are generally expected to persist in the longer term, will contribute to rapid growth in the Government Petroleum Fund in the period ahead. This may provide the basis for a somewhat larger budget deficit as from 2008 than previously assumed, thereby stimulating the economy and curbing the effects of reduced petroleum investment. The expected upturn in 2009 will also be supported by a new, albeit weak international upturn. The next five-year period is expected to be characterised by continued low nominal and real interest rates, moderate wage and price inflation and unemployment at around 4 per cent. Calculations thus show that balanced developments in the Norwegian economy may be consistent with persistently low real interest rates.

The cut off date for information used in this issue was 14 June 2005.

Cyclical developments in Norway

Output growth in the mainland economy in the first quarter of 2005 was approximately in line with developments through 2004, showing that the upturn in the Norwegian economy is still in progress. Total GDP growth, on the other hand, was somewhat lower in the first quarter, but this is largely due to temporary reductions in petroleum production. The growth outlook for the rest of the year indicates that 2005 will to a great extent be a repeat of 2004. Inflation was surprisingly low at the beginning of the year, but the underlying increase in the rate of inflation now appears to be more in keeping with expectations six months ago. The recent marked appreciation of the krone, however, has generated uncertainty around the inflation outlook. In spite of a marked cyclical upturn, LFS unemployment has not fallen, although registered unemployment has edged down. There are no general labour market pressures, even though the manufacturing sectors that are most affected by the strong increase in investment in the petroleum sector may now encounter difficulties in finding qualified labour to fill vacant positions. This year's wage settlement has been completed without any conflicts and with moderate nominal pay increases. Nonetheless, wage developments imply that real wage growth will be high in 2005.

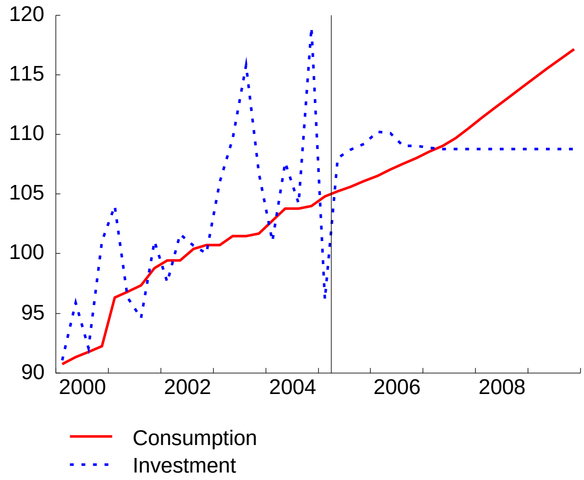
Macroeconomic indicators 2002-2005. Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	2003	2004	04.2	04.3	04.4	05.1
Demand and output						
Consumption in households etc.	3.0	4.4	0.0	0.9	1.4	-0.2
General government consumption	1.4	2.3	1.0	0.0	0.2	0.7
Gross fixed investment	-2.0	9.1	1.7	4.7	9.5	-7.4
Mainland Norway	-2.2	6.1	2.2	4.0	6.2	-5.6
Extraction and transport via pipelines	16.9	12.3	2.2	3.3	9.8	-8.5
Final domestic demand from Mainland Norway[1]	1.6	4.1	0.6	1.2	1.9	-0.9
Exports	1.6	0.9	-0.2	-1.0	-1.3	0.8
Crude oil and natural gas	-0.6	-0.5	-1.7	-3.6	-4.9	2.1
Traditional goods	5.1	3.0	-1.2	5.5	2.4	-1.2
Imports	2.2	9.1	2.3	3.0	2.8	-2.4
Traditional goods	4.3	11.0	4.0	3.2	-0.1	0.6
Gross domestic product	0.4	2.9	1.1	-0.8	1.1	0.5
Mainland Norway	0.7	3.5	0.9	1.0	1.4	0.9
Labour market						
Man-hours worked	-1.2	2.0	0.5	0.8	0.4	-0.3
Employed persons	-0.6	0.2	0.4	0.2	-0.1	0.2
Labour force[2]	0.0	0.2	0.6	0.2	-0.2	0.2
Unemployment rate, level[3]	4.5	4.5	4.5	4.5	4.4	4.5
Prices and wages						
Wages per standard man-year[4]	3.9	3.8	3.8	4.1	4.3	3.9
Consumer price index (CPI)[4]	2.5	0.4	0.9	1.2	1.2	1.0
CPI adjusted for tax changes and excl. energy products (CPI-ATE)[4]	1.1	0.3	0.2	0.3	0.8	0.7
Export prices, traditional goods	-2.2	7.9	-1.2	2.6	1.1	1.1
Import prices, traditional goods	0.4	3.8	-0.5	0.5	-0.3	0.0
Balance of payment						
Current balance, bill. NOK	200.3	227.8	48.3	61.0	65.2	73.0
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	4.1	2.0	2.0	2.0	2.0	2.0
Lending rate, banks[5]	6.1	4.2	4.1	4.1	4.0	4.0
Crude oil price NOK[6]	204.7	257.3	242.5	283.1	279.9	298.0
Importweighted krone exchange rate, 44 countries, 1995=100	92.8	95.6	94.9	96.1	93.1	93.6
NOK per euro	8.00	8.37	8.26	8.39	8.20	8.24

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Unemployed (Labour Force Survey) and employment (NA) excl. maritime personnel in ocean transport.
[3] According to Statistics Norway's labour force survey (LFS).
[4] Percentage change from the same period the previous year.
[5] End of period.
[6] Average spot price. Brent Blend.
Sources: Statistics Norway and Norges Bank.

The upturn in the Norwegian economy has now lasted for two years, and it would appear that the upturn may continue through 2005, coming to a halt in 2006. Three factors are important in explaining these developments. First, we assume that external cyclical impulses will gradually moderate. Second, fiscal policy may be tightened slightly again in 2006 compared with this year in order to be in line with the fiscal rule. Third, it is likely that strong growth in petroleum investment will not continue in 2006, but, on the contrary, be slightly lower. Monetary policy will probably be tightened slightly again in the second half of the year in the form of higher nominal interest rates, which via an increase in household net interest expenses may have a dampening effect on household demand in 2006 compared to 2005, in spite of some fall in real interest rates. On this basis, it is likely that an overheating of the Norwegian economy ahead can be avoided.

General government
Seasonally adjusted volume indices, 2002=100



Source: Statistics Norway.

However, the uncertainty surrounding these assumptions should not be underestimated. There is a considerable down-side risk associated with developments in the global economy in the period ahead. However, international cyclical developments may also be more positive than assumed. Higher interest rates abroad may then counteract these developments and Norges Bank may as a result increase interest rates by more than the half percentage point we have assumed for the period ahead. Balance problems in the economy may be aggravated if fiscal policy is expansionary in 2006, in contrast to the signals in the Revised National Budget for 2005. Counteracting such a stimulus in a period of expansion will pose a dilemma to monetary policy and Norges Bank as regards internal and external stability in the value of the krone.

In this economic survey, the time horizon for our calculations has been extended to 2009. As earlier analyses have shown, it appears that the Norwegian economy will revert to a more cyclically neutral situation towards the end of 2007, i.e. that the expansion will come to an end in the course of 2007. Tight fiscal policy, an international downturn and lower petroleum investment are the main factors behind this picture. In 2008, the fiscal rule, according to the Revised National Budget for 2005 (RNB), will again provide scope for higher budget deficits, thereby stimulating the economy. Due to high oil prices, which we generally expect to persist in the longer term, the Petroleum Fund will grow rapidly in the period ahead. This may provide the basis for somewhat larger budget deficits than previously assumed.

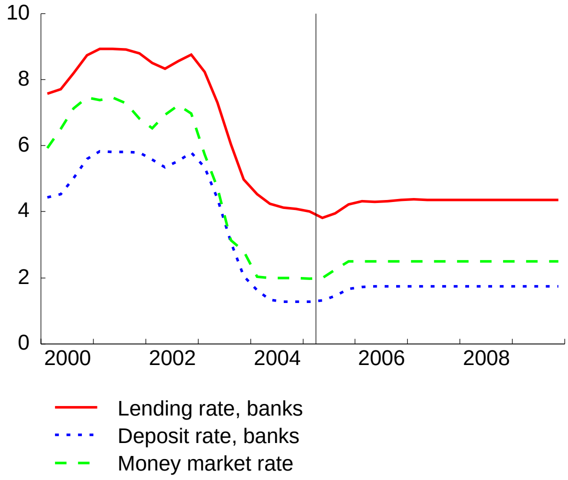
On the other hand, if interest rates, as we have assumed, do not rise to a particularly high level in nominal or real terms in the current period of expansion, the scope for a substantial monetary policy stimulus will be limited in 2008 and 2009. Most other OECD countries do not have the same fiscal policy leeway as Norway, and are likely to continue to be burdened with large budget deficits when the next downturn begins. There is therefore no reason to expect that the next upturn in the OECD area, expected to begin in 2008, will be particularly pronounced.

Fiscal policy – weak impulses until 2008

Fiscal policy has on the whole been expansionary since 2000, measured by the budget deficit (structural and non-oil) as a share of trend-adjusted GDP for mainland Norway. According to the RNB (Table 3.8.), the structural, non-oil deficit has doubled from 2001 to 2005. The increase in the deficit was strongest in the beginning of the period, when the Norwegian economy was in a downturn. The deficit has moderated over the past few years, but is projected to be positive again in 2005, in spite of a clear upturn in the Norwegian economy since the first half of 2003 and the period of strong expansion from end-2004. Since 2001, general government spending on goods and services has grown (in nominal terms) approximately in pace with overall growth in expenditure. Transfers to foreign sectors and to the business sector and households have risen at a somewhat higher pace, while tax revenues from mainland Norway have increased far less than the overall growth in expenditure. Against this background, the weakening of the structural budget can largely be attributed to increased transfers and tax reductions in the period 2001-2005.

For 2005 we have incorporated, on a discretionary basis, the budget resolutions that have been adopted, including the changes in the VAT system introduced from the beginning of the year, which have pushed up consumer price inflation by approximately 0.4 per cent from 2004 to 2005. In the two years ahead, we assume that fiscal policy will be tightened somewhat (again measured by the structural, non-oil deficit as a

Norwegian interest rates
Per cent



Sources: Norges Bank and Statistics Norway.

percentage of trend GDP for mainland Norway), as indicated in the Revised National Budget for 2005. For 2008, our calculations show that the Norwegian economy moves from an expansionary phase into a mild downturn in 2008 and 2009. This will occur at the same time as the fiscal policy rule will allow some increase in the budget deficit (measured as above), because the Petroleum Fund is expected to have become so large by then that the expected return can justify higher budget deficits. In the years 2008 to 2010, our calculations (based on the assumption of higher oil prices in these years than assumed in the Revised National Budget for 2005) show that fiscal policy can be stimulated by NOK 25 billion, or 1.7 per cent of mainland GDP (measured at 2005 prices). This is roughly equivalent to fiscal policy impulses from 2001 to 2003. Our projections are therefore based on a slightly tighter fiscal stance over the next two years, followed by a more expansionary fiscal stance in line with the fiscal rule in 2008 and 2009, when the economy will be in a downturn.

For 2006 and 2007, growth in general government spending on goods and services is assumed to be moderate, with some rise in consumer spending, but approximately constant investment. Real direct and indirect tax rates are also kept unchanged, and growth in benefits is projected to increase in line with the regulatory framework without any substantial regulatory changes. It is assumed that the pension compromise adopted by the Storting will not result in substantial changes in social security expenditure up to 2010 compared with the current system. A change in the tax system has been announced (for example in the split-income model) in 2006. It is assumed that on the whole this will be revenue neutral. The expected change in the tax system in 2006, however, influences developments in 2005 because of unusually large dividend payments this year. These payments are expected to be sharply reduced in 2006 and for a few years ahead.

The introduction in 2006 of private occupational pensions for those who are not already included in similar schemes will increase private pension expenditure as from 2006. Preliminary and very uncertain estimates indicate that this in isolation may result in a rise in labour costs of approximately NOK 3 billion in 2006. This accounts for over 5 per cent of private sector labour costs as a whole. However, such employer contributions are usually passed on to employees. It is assumed this will also occur in this case and that growth in disbursed wages per normal person-year in 2006 and 2007 will be somewhat lower that previously assumed. It is assumed that costs will be passed on over these two years and that wage growth will not be influenced in subsequent years. The impact on inflation will therefore be fairly modest. At the present time, we have not conducted a thorough study of which industries will be most affected by the introduction of occupational pensions for all, but assumed that this will have the same impact on all industries. We have also assumed that no payments will be made from the new pension scheme in the years to 2010, but that only savings will be affected. On the one hand, lower wage disbursements as a result of the scheme will reduce household saving, but on the other hand, payments into the fund will increase saving, resulting in a limited net effect on total saving over time.

As referred to above, we assume that there is room for a clear fiscal stimulus after 2007. Based on estimated growth in the Petroleum Fund, we have quantified the stimulus to approximately NOK 8 billion at 2005-prices in each of the years from 2008 to 2010. We have also distributed this expansion equally between increased general government consumption and reductions in personal tax reductions. The rate of growth in general government consumption therefore increases in 2008 and 2009 compared with the preceding years. The effects on the Norwegian economy of various alternative fiscal assumptions are shown in the last paragraph of the section on the Norwegian economy on page 16.

Weak rise in interest rates

After two years of sharp interest rate reductions, Norges Bank's key rate has remained at 1.75 per cent since March last year. At its monetary policy meeting on 25 May, Norges Bank decided to leave the sight deposit rate unchanged at 1.75 per cent. At the same time, it was signalled that interest rate increases would occur in "small, not too frequent steps".

The Norwegian economy is now experiencing a period of strong economic expansion. In line with the signals from Norges Bank, we assume that the sight deposit rate will be raised by a total of 0.5 percentage points in the course of the second half of this year. This implies that the money market rate will rise to 2.5 per cent by the end of the year. This is somewhat lower than the level that has been priced into the FRA market in mid-June, with a gradual rise in interest rates to 2.7 per cent in the course of the year.

Lower global economic growth and reduced petroleum investment will bring the Norwegian economy into a downturn in early 2006. In the course of 2007, the economy will shift towards recession. We therefore assume that there will be no further interest rate increases and that the money market rate will remain at 2.5 per cent throughout the projection period.

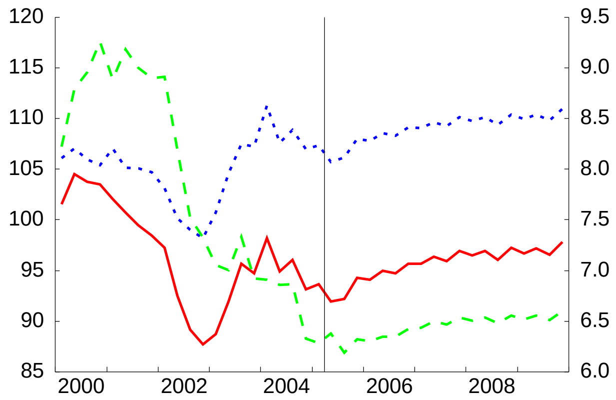
The krone has appreciated since the beginning of the year, especially against the euro. This is probably related to the result of the outcome of the referendum on the EU constitution in France and the Netherlands. We have assumed that the depreciation of the euro is temporary. Measured by the import-weighted krone exchange rate, the krone is assumed to depreciate by 1.5 per cent through the projection period compared with the level in 2004. This movement in the krone exchange rate is consistent with achieving the inflation target in summer 2007. The effects of a stronger krone on the Norwegian economy are discussed in a separate box.

Strong developments in the petroleum sector

Developments point towards strong growth in investment in production and pipeline transport in 2005. Although preliminary quarterly national accounts figures show a fall in investment volume from the fourth quarter of 2000 to the first quarter of 2005, this is probably due to seasonal adjustment problems.

Statistics Norway's most recent investment intentions survey now indicates that investment in 2005, measured at current prices, may reach NOK 92 billion. This an increase of NOK 3.5 billion compared with the previous survey. The initial estimate for 2006 is NOK 65 billion – an estimate that is usually adjusted upwards considerably as the projection year approaches. For this year and next we have based our projection on the survey, while for subsequent years we have chosen the Norwegian Petroleum Directorate's alternative high-level scenario as a guideline. For 2005, the volume of investment is expected to be 25 per cent higher than last year. Development projects in the Snøhvit, Ormen Lange and Kristin fields are expected to contribute most, but exploration activity is also expected to pick up sharply in comparison with last year. Measured at constant prices, the level of investment in 2005 is projected at about the same level as the peak year 1998. In relative terms, this nevertheless makes a lower contribution to GDP; in 1998 investment accounted for over 7.8 per cent of mainland GDP, as against a good 6.7 per cent in 2005. Major investment projects will be largely phased out through

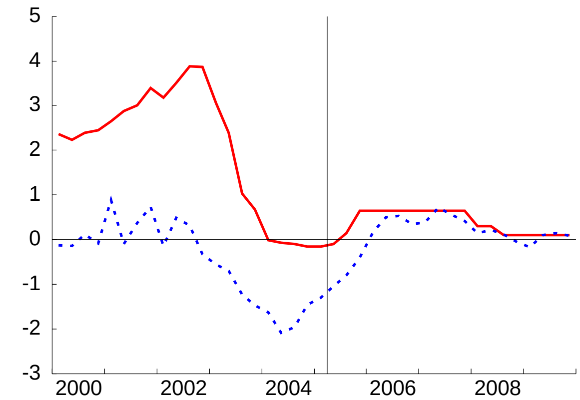
Exchange rates



Import-weighted exchange rate. 1995=100
NOK per euro (right axis)
NOK per USD (right axis)

Sources: Norges Bank and Statistics Norway.

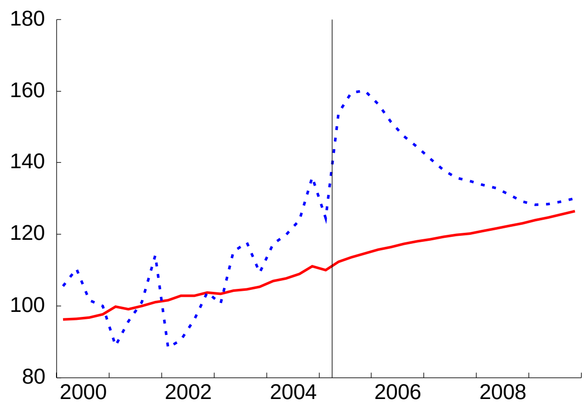
Interest rate and inflation differential between NOK and the euro
Percentage points



Interest rate
Inflation (CPI-ATE - HCPI-euro)

Sources: Norges Bank and Statistics Norway.

Domestic demand
Seasonally adjusted volume indices, 2002=100



Demand from Mainland Norway
Inv. in extraction and transport via pipelines

Source: Statistics Norway.

Effects of a stronger krone

The baseline scenario is based on a depreciation of the krone from the strong level prevailing in mid-June. The box presents an alternative calculation that shows the consequences of a path where the krone does not depreciate in the period ahead. While the krone exchange rate against the euro gradually depreciates to 8.60 towards the end of 2009 in the baseline scenario, the krone is assumed to remain at 8.00 through the entire projection period in the alternative scenario. With unchanged exchange rate assumptions in relation to other foreign currencies, this implies an import-weighted krone exchange rate that is 1.3 per cent stronger than in the baseline scenario in 2005, 4.2 per cent in 2006 and gradually rising to 6.2 per cent in 2009. In the alternative calculation, all other exogenous variables are held unchanged in relation to the baseline scenario, including nominal interest rates. This is not a realistic assumption, but the calculation is meant to illustrate the isolated importance of the krone exchange rate not least for price developments.

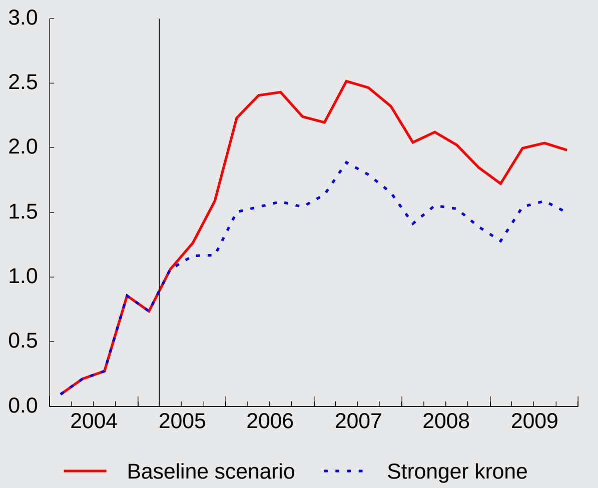
Effects of a stronger krone. Percentage deviation from the path in the baseline scenario, unless otherwise indicated

	2005	2006	2007	2008	2009
Consumption in households etc.	0.0	-0.2	-0.2	0.0	0.2
Gross fixed investment, Mainland Norway	0.0	-0.6	-1.1	-0.9	-0.6
Industries	0.0	-0.5	-1.0	-0.7	-0.5
Housing	0.0	-1.2	-2.0	-2.0	-1.4
Export, traditional goods	-0.2	-0.5	-0.7	-0.8	-0.9
Imports	0.1	0.1	0.2	0.4	0.6
GDP Mainland Norway	0.0	-0.4	-0.5	-0.5	-0.4
Manufacturing	-0.2	-1.1	-1.7	-2.0	-2.1
Employed persons	0.0	-0.2	-0.4	-0.4	-0.4
Unemployment (percentage points)	0.0	0.2	0.2	0.2	0.2
Wages	0.0	-0.4	-1.0	-1.4	-1.9
Consumer price index	-0.1	-0.9	-1.5	-2.1	-2.5
Inflation (percentage points)	-0.1	-0.8	-0.6	-0.5	-0.5
Housholds real disposable income	0.2	0.7	0.8	0.9	1.0
Household savings ratio (percentage points)	0.1	0.9	1.0	0.9	0.7
Import weighted krone exchange rate	-1.3	-4.2	-5.4	-5.8	-6.2
Import prices	-0.6	-3.1	-4.3	-4.9	-5.3

The immediate effect of a stronger krone than assumed in the baseline scenario is a reduction in import and export prices in krone terms and a decline in prices in Norway for domestically produced goods for which prices are determined on the world market. This will reduce consumer prices directly, but also indirectly through reduced prices for inputs and lower wages. Lower wages are mainly the result of reduced prices, while real wages show an increase. As a result, household real disposable income increases. Under the assumption of unchanged nominal interest rates, the real interest rate moves up somewhat, which has a dampening impact on household demand in spite of the increase in income. Towards the end of the projection period, however, consumption is higher than in the baseline scenario as a result of persistently higher income also through higher capital income.

The appreciation of the krone leads to a deterioration in cost competitiveness. As a result, export shares show a fall and import shares rise. A weaker activity level also leads to reduced business investment. In the alternative scenario, mainland GDP is reduced by around 0.5 per cent as from 2006 and employment gradually falls almost to the same extent. Exposed businesses are the hardest hit, and in 2009 value added in manufacturing is 2.4 per cent lower than in the baseline scenario. Inflation is generally a half percentage point lower than in the baseline scenario.

CPI-ATE
Percentage growth from the same quarter previous year



Source: Statistics Norway.

2006 and 2007. A persistently high oil price, combined with oil companies' positive response to the allocations in the last licensing round are fuelling expectations of a high investment level also in the last two years of the projection period – although clearly lower than in 2005. The investment volume is expected to fall by a good five per cent from 2005 to 2006, and by a further 8 per cent to 2007. In the last two years of the projection period, the volume is expected to fall somewhat below this again, so that in 2009 the level of investment is expected to be slightly above last year's level.

Seasonally adjusted production figures for oil and gas showed a small increase in the first half of 2004, and then fell markedly in the latter half of the year. The

Household real disposable income. Percentage growth on previous year

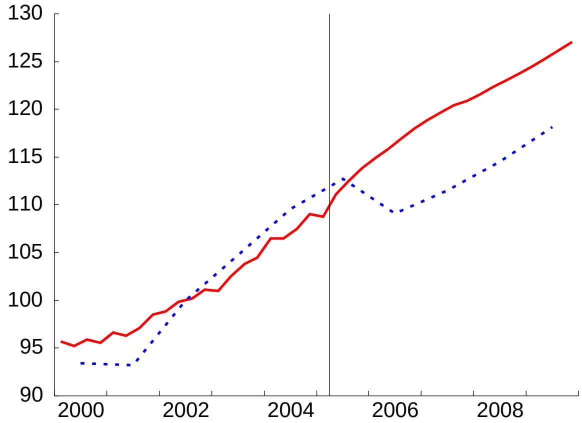
	2004	2005	2006	2007	2008	2009
Real disposable income incl. dividends	4.6	2.9	-3.2	2.2	2.7	3.2
Real disposable income excl. dividends	3.9	3.2	2.1	1.5	2.4	3.1

decline seems to have continued in the first quarter of 2005. This must be seen in connection with the major (planned) maintenance-related production disruptions at several fields, in addition to technical problems. The Snorre platform was not in production again until the end of January, and this contributed strongly to the decline in production in the first quarter. For 2005, total production is expected to be somewhat below the level in 2004. Even though gas production is expected to pick up through the year, the decline in oil production will have a larger impact. Through 2006 production of both oil and gas is expected to rise to an estimated level that is 5 per cent higher than in 2005. Production is then assumed to remain at about the same level through the remainder of the projection period. For this period, oil production is assumed to decline by 3 per cent annually, while gas production is projected to show an annual increase of over 10 per cent. This is somewhat higher than the estimates in the Revised National Budget for 2005, and must be seen in the context of our assumption that the investment level will be clearly higher from 2006-2009.

Continued strong growth in household consumption

According to preliminary national accounts figures, consumption for households and non-profit institutions grew by 4.4 per cent from 2003 to 2004 at constant prices. Consumption growth last year was in line with growth in household real disposable income of 4.6 per cent, or 3.9 per cent if record dividend payments are excluded (see table). The unusually high dividend payments, which have probably had a limited stimulatory effect on consumption, are partly related to adaptations made in response to the reintroduction of dividend tax in 2006. Seasonally adjusted figures show a decline in household consumption of 0.2 per cent in the first quarter of this year calculated from the previous quarter, after growth of as much as 1.4 per cent in the fourth quarter of 2004. This can be explained by the sharp increase in car purchases at the end of last year, which was followed by a decline at the beginning of this year. Disregarding car purchases, consumption growth was 0.4 per cent in the fourth quarter of last year and 1.2 per cent in the first quarter of this year, and underlying consumption growth is therefore strong. Strong growth in household consumption in recent years must be seen in connection with the fall in (and the low level of) real interest rates combined with high income growth.

Income and consumption in households
Volume indices, 2002=100

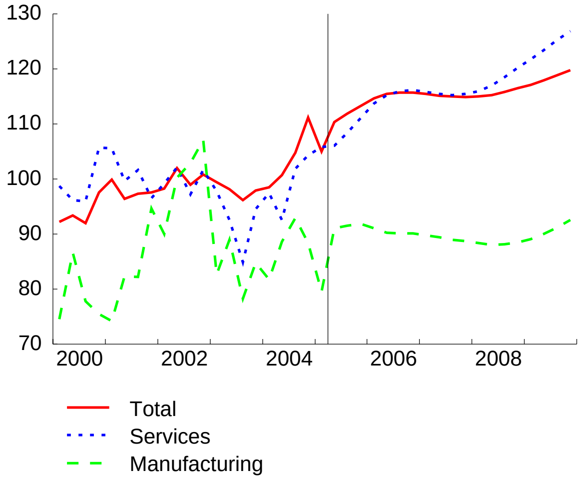


Source: Statistics Norway.

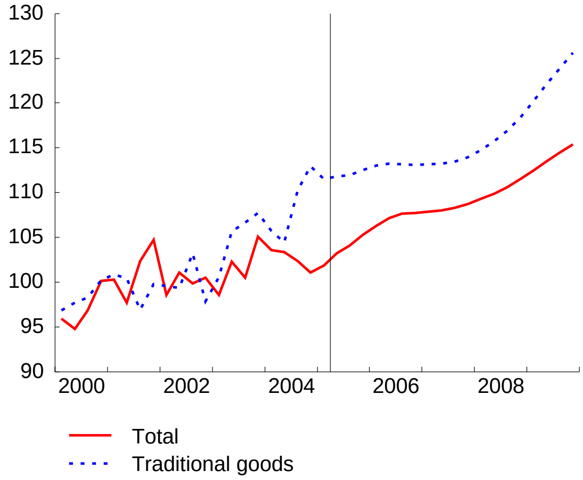
Residential market
Left axis adj. indices, 2002=100, right axis per cent

Source: Statistics Norway.

In the projection period 2005-2009, it is likely that growth in household real disposable income will be lower than in 2004, even if a tax-motivated decline in dividend payments is excluded. This will occur in spite of somewhat stronger growth in wage income and government transfers through the period. The decline in net capital income and higher consumer price inflation will push down real growth in household income. The forthcoming dividend tax and adaptations to this tax means that dividend estimates are highly uncertain. Even if growth in real disposable income is projected to be lower ahead compared with 2004, growth in consumption will still remain firm in the years 2005 to 2007. The discontinuation of tax-motivated dividend payments is not likely to have any significant impact on consumption. The projected strong growth in consumption in the years ahead primarily reflects developments in the real interest rate. Even if the nominal interest rate level is assumed to



Source: Statistics Norway.



Source: Statistics Norway.

be marginally higher ahead, the real interest rate will still fall through the period 2005-2007 as a result of higher consumer price inflation. A decline in real interest rates implies in itself that consumption in the current period will be relatively cheaper than in the next period, with the result that households move forward consumption to the current period at the expense of consumption in later periods. The prospect of some increase in the real interest rate towards the end of the projection period will contribute to a fall in consumption growth to around 2.5 per cent in both 2008 and 2009.

Given our projections, the saving ratio may fall from a record-high level of 10.3 per cent in 2004 to a historically low level of around 1.5 per cent in 2007. Towards the end of the projection period, the saving ratio will edge up again to around 2.5 per cent. The fall in the saving ratio, combined with growth in housing investment through the projection period, will be reflected in a marked fall in household net lending. In nominal terms, household net lending is expected to decline from about NOK 53 billion in 2004 to almost -33 billion in 2007. Close to half of the decline can be ascribed to changes in dividend payments, however.

Slower growth in housing investment

According to the revised national accounts figures, housing investment rose by as much as 12.3 per cent at constant prices in 2004, compared with a decline of 5.3 per cent in 2003. Housing starts came to a little less than 29 500 in 2004, which represents an increase of 31 per cent. Seasonally adjusted figures show that housing investment grew by as much as 4.1 per cent in the first quarter of this year. First-quarter statistics for housing starts indicate that the sharp upswing in housing investment from the end of 2003 is continuing in 2005. The prospect of a clear fall in real interest rates, combined with a sustained rise in real prices for resale homes, will contribute to annual growth in housing investment of about 16 per cent this year.

Growth in housing investment will gradually slow in 2006. Brisk investment growth since end-2003 will contribute to pushing up housing wealth to a desired (and very high) level in relation to the level of real incomes and real interest rates. Growth in housing investment is likely to be close to zero in 2007. Resale home prices are expected to rise by a little less than 8 per cent in 2005, i.e. a continued strong rise in real prices, but at a markedly lower rate than in 2004. The rise in resale home prices is then expected to level off further through the remainder of the projection period, primarily as a result of higher real interest rates and moderate income growth.

Continued growth in mainland business investment

Gross mainland business investment increased by 6 per cent in 2004 after passing the cyclical trough in summer 2003. Investment growth is projected to continue in 2005 at about the same pace as in 2004. New figures for manufacturing investment plans show that enterprises are planning to increase investments further in 2005 in relation to the previous year, but the plans for 2006 do not point a further increase. Investment growth was also buoyant in the electricity production industry, but the level of growth is expected to remain unchanged ahead. It seems that a number of plans to develop gas plants and other infrastructure for domestic use of natural gas may now be realized – and the first one will start operating as early as the summer of this year. If many such plans are realized, other large industrial projects may be realized both in the wood processing industry and other traditional Norwegian export industries in the years ahead. However, we have not explicitly based our projections on a large-scale realization of such projects in the years following 2005.

Main economic indicators 2004-2009. Accounts and forecasts. Percentage change from previous year unless otherwise noted

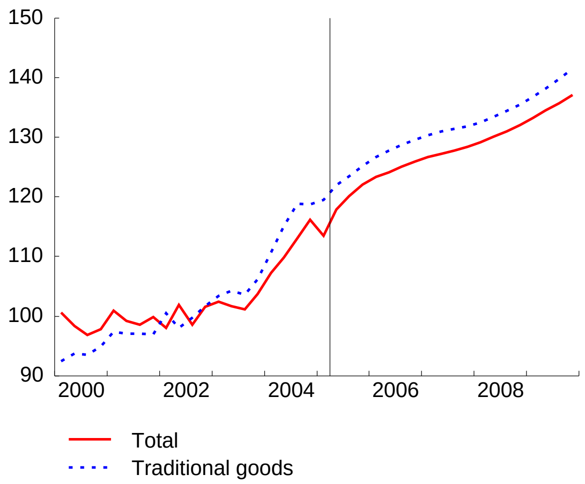
	Accounts	Forecasts										
		2005			2006			2007		2008		2009
	2004	SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB	SN
Demand and output												
Consumption in households etc.	4.4	4.1	4.1	4 1/4	4.0	3.0	3 3/4	3.2	2 1/2	2.2	2	2.5
General government consumption	2.3	1.7	1.7	1 3/4	1.8	1.0	1 1/2	1.8	1 1/2	3.1	1 1/2	2.9
Gross fixed investment	9.1	12.5	9.4	..	1.5	-2.6	..	-2.6	..	-0.4	..	1.2
Extraction and transport via pipelines[1]	12.3	25.0	21.7	25	-5.6	-15.0	-5	-8.5	-2 1/2	-2.9	0	-2.7
Mainland Norway	6.1	6.9	3.2	7 1/4	4.0		6 1/2	-0.5	2 1/4	0.4	1/2	2.5
Industries	6.0	4.2	4.6	..	5.7	3.6	..	-0.9	..	0.3	..	4.2
Housing	12.3	15.7	11.0	..	3.4	-0.1	..	0.1	..	0.8	..	1.1
General government	-0.6	2.1	1.0	..	0.3	0.3	..	-0.2	..	0.0	..	0.0
Demand from Mainland Norway[2]	4.1	3.9	3.7	4	3.4	2.3	3 3/4	2.2	2 1/4	2.1	1 3/4	2.6
Stockbuilding[3]	1.1	-0.1		..	0.0		..	0.0	..	0.0	..	0
Exports	0.9	1.5	1.9	..	3.9	4.5	..	0.5	..	1.9	..	3.4
Crude oil and natural gas	-0.5	0.0	-0.2	..	5.8	4.7	..	0.1	..	1.2	..	1.7
Traditional goods	3.0	3.4	4.9	5 1/2	1.4	4.2	3 1/2	0.1	3 1/2	2.7	3 1/2	5.7
Imports	9.1	7.1	5.4	7 1/2	4.5	2.5	3 1/2	2.5	2 1/4	2.3	1 3/4	3.6
Traditional goods	11.0	5.9	4.8	..	4.5	3.2	..	2.3	..	2.1	..	3.8
Gross domestic product	2.9	3.1	3.2	3 3/4	2.8	2.2	3	0.9	2	1.7	2	2.3
Mainland Norway	3.5	3.8	3.6	4	2.3	2.0	3	1.1	2 1/4	1.8	2	2.6
Labour market												
Employed persons	0.2	0.6	0.8	1 1/2	1.2	0.6	1 1/2	0.2	3/4	0.2	1/4	1.3
Unemployment rate (level)	4.5	4.3	4.3	4	3.9	4.1	3 1/2	4.2	3 3/4	4.4	4	3.7
Prices and wages												
Wages per standard man-year	3.8	3.7	3 1/4	4	3.5	3 3/4	4 1/2	3.5	4 3/4	3.3	4 3/4	3.5
Consumer price index (CPI)	0.4	1.5	1 1/4	1 1/4	2.3	1 3/4	2	2.4	2 1/4	2.1	2 1/2	2.0
CPI-ATE[4]	0.3	1.2	1	1	2.3	1 1/2	1 3/4	2.4	2 1/4	2.0	2 1/2	1.9
Export prices, traditional goods	7.9	1.3	..	..	-1.8	..	..	0.6	..	3.1	..	2.1
Import prices, traditional goods	3.8	-1.5	..	..	-0.5	..	..	0.4	..	1.3	..	1.2
Housing prices[5]	10.1	8.4	..	..	2.5	..	..	2.9	..	-0.3	..	3.0
Balance of payment												
Current balance (bill. NOK)	227.8	258.1	248.9	..	255.0	260.8	..	248.1	..	268.6	..	304.8
Current balance (per cent of GDP)	13.5	14.1		..	13.5		..	12.7	..	13.2	..	14.2
Memorandum items:												
Household savings ratio (level)	10.3	9.1	8.5	..	2.4	4.1	..	1.4	..	1.9	..	2.6
Money market rate (level)	2.0	2.2	2.3	2 1/4	2.5	3.2	3 1/4	2.5	4	2.5	4 3/4	2.5
Lending rate, banks (level)[6]	4.2	4.0	..	..	4.3	..	..	4.4	..	4.4	..	4.4
Crude oil price NOK (level)[7]	257	301	300	..	286	285	..	292	..	310	..	337
Export markets indicator	5.8	4.0	..	..	3.2	..	..	1.2	..	3.6	..	7.2
Importweighted krone exchange rate (44 countries)[8]	3.0	-2.7	..	-2 1/4	2.0	..	- 1/4	1.4	1/4	0.5	1/2	0.4

[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] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[5] Freeholder.
[6] Households' borrowing rate in private financial institutions. Yearly average.
[7] Average spot price, Brent Blend.
[8] Increasing index implies depreciation.
Sources: Statistics Norway (SN), Ministry of Finance, St.meld. no.2 (2004-2005), (MoF), Norges Bank, forecasts based on forward interest and exchange rates, Inflasjonsrapport 1/2005 (NB).

Gross investment in private service industries is also expanding. Vacancy rates for commercial property have fallen and are fuelling investment growth. In distributive trades, investment growth has been buoyant and is expected to remain so in the period ahead, although growth is expect to be more moderate than in 2005. In the banking and insurance industry, investment is also expected to increase in the period ahead owing to the general upturn in the Norwegian economy and solid profitability in the industry. More generally, experience suggests that the upturn in the Norwegian economy will gradually lead to increased real capital requirements and thereby to higher gross investment in 2005 and 2006.

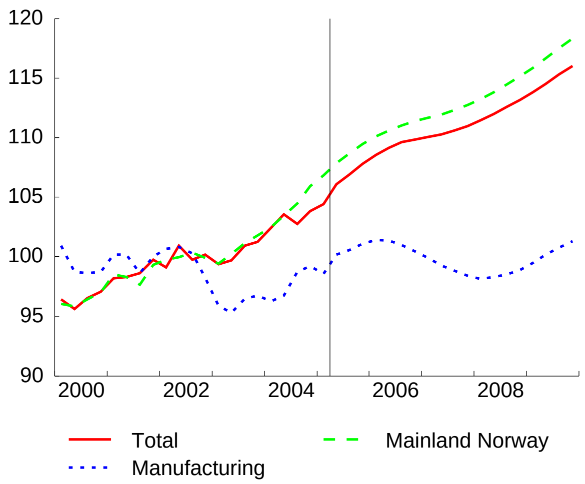
Our calculations show that growth in the Norwegian economy will slow in 2007 and that the economy will shift into a downturn in the course of the second to third quarter. Business investment will then also decline as real capital requirements are reduced. We do not believe that the moderate interest rate increase towards the end of 2005 will have any considerable

Imports
Seasonally adjusted volume indices, 2002=100



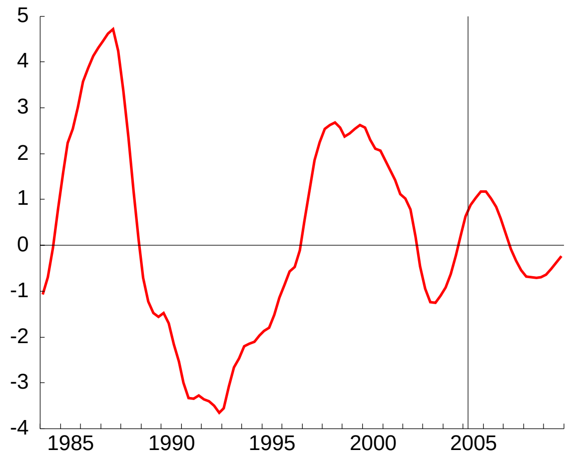
Source: Statistics Norway.

Gross domestic product
Seasonally adjusted volume indices, 2002=100



Source: Statistics Norway.

Output gap, Mainland Norway
Deviation from trend, per cent



Source: Statistics Norway.

impact on business investment. It is primarily normal cyclical movements that are driving the ongoing investment upswing and the investment decline through 2007 and 2008. In 2009, a renewed cyclical upswing will be accompanied by new investment projects. On the whole, it can be said that the fluctuations in investment are fairly moderate in the years ahead given that gross investment is traditionally a volatile demand component. The main reason for this is that we expect fairly moderate business cycle fluctuations ahead, i.e. the Norwegian economy will not be exposed to any severe external shocks or any substantial policy shocks in the years ahead.

International downturn pushes down export growth

In 2004, exports of traditional goods increased by 3 per cent compared with the previous year, against 5.1 per cent in 2003. In the first quarter of this year, traditional merchandise exports fell by a seasonally adjusted 1.2 per cent, after having shown slower growth through the latter half of last year. The first-quarter decline primarily reflected reduced exports of refined petroleum products, which was offset by reduced imports of the same products.

Export prices for traditional goods rose markedly through 2004. This is in line with normal developments during an international expansion. The krone depreciation through 2003 also made a contribution. The rise in export prices continued into 2005, increasing by 1.1 per cent in the first quarter. The rise in metal and chemical prices was particularly sharp in 2004, but the rise slowed somewhat in the first quarter of this year.

Our projections are based on the assumption that the international economy will pass a cyclical peak towards the end of 2005, and then shift into a moderate downturn. Weaker global demand will curb growth in traditional merchandise exports from 3.4 per cent in 2005 to zero growth at the end of 2006. Subsequently, export growth is expected to pick up markedly towards the end of the projection period.

Growth in traditional export goods is expected to be somewhat lower than market growth during the entire projection period. This implies that export industries will see a fall in market shares. The slowdown in the international economy is assumed to be accompanied by lower commodity prices. Chemical and metal prices are projected to show a marked decline. On the other hand, prices for refined petroleum products – petrol, diesel and heating oil – are expected to exhibit a sharp rise also during the international downturn. Overall, prices for traditional exports are expected to show a weak rise already from the end of 2005. In 2008, export growth and the rise in export prices will pick up in pace with the upswing in the international economy. The depreciation of the krone will also make a contribution to this.

Continued high growth in imports in 2005

In volume terms, imports expanded by 9 per cent in 2004 and for traditional goods growth was as high as 11 per cent. The strong rate of growth in 2004 partly reflected compositional effects of demand, i.e. the increase in domestic consumption of goods and services was particularly high for components with a traditionally high import content. Another factor behind growth in imports is the considerable deterioration in competitiveness in exposed industries over a few years even though the krone depreciation from 2003 to 2004 largely normalized the situation. The change in the krone exchange rate led to a marked rise in import prices from 2003 to 2004.

Growth in the volume of imports is expected to show a pronounced increase again in 2005, with a continued contribution from import-intensive demand components. Strong growth in petroleum investment in 2005 will make a particularly strong contribution to pushing up import growth. Growth in other investment and household consumption will have the same effect. To some extent, the moderate rise in prices for imported goods in 2005 is also favouring a shift in household consumption towards import-intensive goods and services, such as clothing and footwear, electrical goods and tourism (incl. border trade). The appreciation of the krone in the first half of 2005 is amplifying this tendency, but we assume that a gradual reversal will take place as a result of a weaker krone exchange rate in the next few years.

In 2006, import growth is expected to remain fairly high, i.e. about twice as high as GDP growth, which is the rule of thumb for the relationship between aggregate imports and GDP growth. At an aggregated level, when growth in imports is considerably higher than demand growth, this reflects shifts in the composition of demand and relative prices, which are normal during the business cycle. According to our projections, import growth will moderate when the economy enters into a downturn in 2007. Both in 2007 and 2008, import growth is projected at a little more than 2 per cent. Import growth subsequently edges up, but remains low from a historical perspective. This reflects our assumption of weak growth in investment during the next cyclical upturn partly as a result of a continued decline in petroleum investment.

Cyclical upturn continues into 2006

The Norwegian economy has experienced a cyclical upturn for two years and entered into a strong expansion towards the end of 2004. Growth in mainland GDP was 3.5 per cent last year, and growth in 2005 is projected to be approximately the same as last year, or slightly higher, in line with earlier projections. The upswing in the Norwegian economy is broadly based and includes most main industries. Primary industries exhibited growth in 2004 and growth is expected to continue this year. The same applies to manufacturing, where a weak international cyclical upturn, combined with an increase in petroleum investment, is underpinning growth this year. Strong growth in household consumption is fuelling growth in private service production and the rise in housing investment is boosting production in the construction and building industry. The upswing in business investment is also making a contribution to growth.

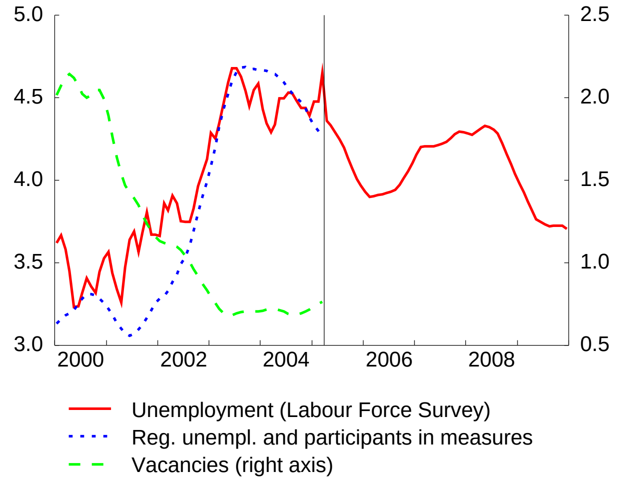
What are the factors that might contribute to moderating growth in the years ahead? First, the rise in petroleum investment is not expected to continue next year. Large projects are nearing completion and it is unlikely that new projects can fully compensate for this, in spite of high oil prices. Moreover, fiscal policy is not expected to generate any demand stimulus in 2006 and 2007, but instead have a dampening impact on growth in the Norwegian economy. We also assume that monetary policy will be tightened somewhat through a small increase in interest rates in the latter half of 2005. More importantly, however, our calculations show that the growth impulses from the monetary policy stimulus that started in 2003 will gradually diminish and contribute to lower growth in household consumption and housing investment in 2006 and 2007 after a few years of very high growth. Finally, a moderate global cyclical downturn is expected to push down growth in demand for traditional Norwegian export goods, and thereby have a dampening impact on growth in manufacturing, but also on growth in other export-oriented industries. All these factors suggest that growth will slow ahead. According to our projections, growth in the mainland economy will be 2.3 per cent in 2006, or approximately on a par with projected trend growth. In 2007, growth is projected at only 1.1 per cent. This implies that the Norwegian economy will return to a cyclically neutral situation towards mid-2007. An expansion spanning three years is shorter than the strong and long-lasting expansion from 1997 to mid-2002. It is more interesting to note that the downturn that is now behind us was so short and mild. Should our projections for the next two years be on the mark, the current upturn will also be moderate in terms of amplitude (see figure on GDP deviation from trend).

How deep might the downturn in 2008 and 2009 be? We believe that the increased margin of manoeuvre for fiscal stimulus will reduce both the amplitude and duration of the downturn (see previous section on fiscal policy). Another important factor behind the upswing in the Norwegian economy is a projected international cyclical upturn. Market growth for traditional Norwegian export products is projected to pick up towards the end of 2008 and through 2009 and 2010, leading to renewed growth in exports and manufacturing production. An important and highly un-

Labour force, employment and number of man-hours
Millions. Seasonally adjusted and smoothed indices

Source: Statistics Norway.

Unemployment and number of vacancies
Seasonally adjusted and smoothed
Per cent of labour force



Sources: The Directorate of Labour and Statistics Norway.

certain variable is petroleum investment ahead. We have assumed a negative contribution to growth in each year following 2005, particularly in 2007. As from 2008, we assume that high oil prices will sustain oil investment at a fairly high level in a historical context, although we do not anticipate a renewed upswing but rather a moderate decline. According to our calculations, the cyclical upturn in 2009 and 2010 will therefore be fairly moderate and bring us back to around trend level for mainland GDP in 2010. However, during this weak upturn there will hardly be room or need for monetary policy stimulus as we assume that real interest rates will remain low in the medium term both in the euro area and in Norway.

Lower unemployment in the period to 2006 – followed by a rise

Seasonally adjusted national accounts figures show employment growth of a little less then 4000 persons, or 0.2 per cent, between the fourth quarter of last year and the first quarter of this year. All total for the period since the cyclical trough was reached in the third quarter of 2003, the number of employed has increased by about 10 000. This increase can be qualified as weak when taking into account that employment fell by close to 20 000 from the second quarter of 2002 – when the cyclical situation was approximately the same as in the first quarter of this year – to the cyclical trough in the third quarter of 2003, and that the working age population increased by 48 000 between 2002 and 2004 according to LFS figures.

The low rate of employment growth probably reflects the fall in sickness absence and the increase in overtime through 2004. For a given labour requirement, the need to hire new employees in the business sector has thus been reduced. Another reason may be that the number of temporary employees in Norway and the number of persons employed in eastern European enterprises have increased since EU enlargement in May last year. The employment figures in the national accounts include all persons that are in the employ of a Norwegian enterprise, whether the persons are residents or not and irrespective of the duration of the employment contract. Persons on temporary contracts in Norway and who are in the employ of a foreign enterprise are not included, and are registered as imported services.

LFS figures only include employees who are residents of Norway or who are assumed to reside in the country for a period of at least six months. Even though there is considerable uncertainty surrounding the figures, the difference between seasonally adjusted LFS figures, which show unchanged employment from the fourth quarter of 2004 to the first quarter of 2005, and the national accounts figures, which show growth of 0.2 per cent in the same period, can be attributed to an increase in the number of non-registered residents in the employ of Norwegian enterprises.

According to seasonally adjusted LFS figures, 111 000 were unemployed in the period February-April, or the same number as at the time of the cyclical trough in the period June-August 2003. The number of unemployed registered with the Directorate of Labour has edged down, however. From the end of June 2003 to end-May 2005, both the total number of unemployed and the sum of unemployed and persons participating in labour market measures fell by 9000. There is thus some deviation between LFS unemployment statistics and Directorate of Labour statistics in spite of a marked increase in the number of persons that have reported to the LFS that they use the Directorate of Labour as an important channel for seeking employment. The explanation for this seems to be related to the sharp growth in the number of occupationally disabled persons registered with the Directorate of Labour, partly because the Directorate has taken over the responsibility for rehabilitation from the National

Insurance service. Whereas the occupationally disabled are registered as unemployed in the LFS if they respond that they are without any employment, have sought employment the past four weeks and can start working in the course of two weeks, they are excluded from the Directorate's unemployment statistics.

Production per person-hour worked has shown strong growth and production per employee has exhibited even stronger growth so far in this cyclical upturn. Continued high production growth in the period ahead towards the cyclical peak expected in early 2006 is likely to result in even stronger employment figures. The number of employed is projected to rise by more than 40 000 between 2004 and 2006. This will reduce LFS unemployment from an average of 4.5 per cent in 2004 to 3.9 per cent in 2006. The onset of an international cyclical downturn in the latter half of 2005 and the appreciation of the krone through 2004 and the first half of 2005 will, however, contribute to reducing manufacturing employment in 2006 compared with the already historically low level recorded in 2004. Employment growth in this period will be concentrated in the private service sector, construction and building industry and the public sector.

The international downturn and lower petroleum investment will lead to an increase in unemployment in 2007 and 2008. Some employment growth in the public sector will restrain the rise in unemployment. Towards the end of 2008 and in 2009 – when petroleum revenue spending is assumed to increase in line with the fiscal rule – higher growth in public sector employment will contribute to reducing unemployment. Unemployment is projected at 3.7 per cent in 2009, compared with 4.2 per cent in 2007 and 4.4 per cent in 2008.

Continued low wage growth

Four-quarter growth in wages per normal person-year was 3.9 per cent in the first quarter of this year, or about the same as growth between 2002 and 2003 and between 2003 and 2004. This rate of growth must be considered as moderate and reflects weak business sector competitiveness and a weak labour market, as assessed by the social partners.

This year's interim wage settlement was completed without any conflicts, and for the first time since 1990, the Norwegian Confederation of Trade Unions and the Confederation of Norwegian Business and Industry reached agreement without resorting to state mediation. One reason is that interim negotiations primarily concern wages and not other labour issues.

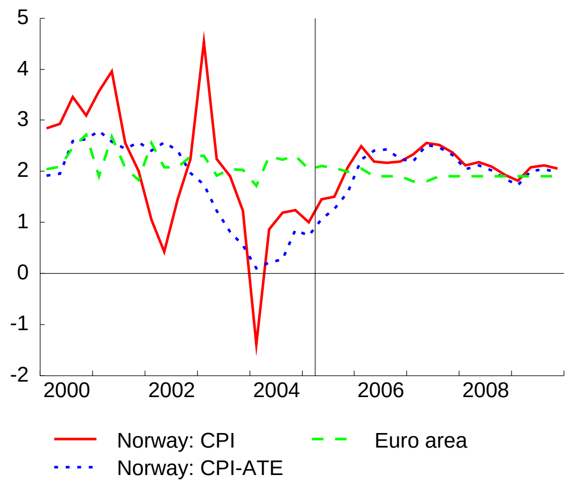
As part of a tripartite cooperation between the social partners and the government authorities, a mandatory occupational pension scheme will be introduced as from 1 January 2006. Studies show that it is the wage earners that bear the costs that accrue to employers when such labour market reforms are implemented, as a result of lower wage growth in the wake of the reforms. However, it is difficult to determine how rapidly the shift occurs. As a result of the introduction of the occupational pension scheme, we assume that wage growth will be somewhat lower already in 2006 than would otherwise have been the case, and that wage growth will also be somewhat more moderate in 2007 for the same reason.

Marked changes in actual average working hours for full-time employees have contributed to fluctuations in wage growth in recent years. While the introduction of additional vacation days in 2001 and 2002 led to an increase in hourly wages, record-low growth of 1.7 per cent in 2004 primarily reflects three more working days in 2004 compared with 2003. Since a reduction in long-term sickness absence does not imply an increase in the number of normal person-years, but nevertheless increases overall wage disbursements, the decline in sickness absence through 2004 led to higher growth in wages per normal person-year. Wages per normal person-hour should in theory remain unaffected. However, it is unclear whether the national accounts have fully captured the effect of the decline in sickness absence on overall wage disbursements in the private sector. In the event, wage growth was underestimated in 2004 in the preliminary national accounts figures. A clear decline in overtime in certain industries was also observed in 2003, which has influenced developments both in wages per normal person-year and wages per person-hour in 2003 and 2004.

Labour immigration from the new EU member states may have a dampening impact on wage growth in the years ahead. Some occupational groups are more exposed than others, but with the Norwegian system of centralized wage determination, this will probably affect most groups. If competition from this cheap source of labour becomes too intense, it may place pressure on the wage formation system itself. However, it is more likely that measures will be introduced to ease competitive pressures. We have assumed that labour immigration will have some effect on unemployment, and thereby have a dampening impact on wage growth in the projection period.

Wage growth is projected to be moderate throughout the projection period to end-2009 against the background of weak developments in business profitability, continued higher unemployment than what seems to be the level aimed at by employee organizations and low inflation. In 2005 and 2006, unemployment is expected to fall and inflation to edge up. In isolation, this will push up wage growth. The level of unemployment nevertheless implies moderate wage growth, and the contribution from a higher rise in consumer prices is limited. The decline in sickness absence and an increase in overtime through 2004 will also influ-

Consumer price indices
Percentage growth from the same quarter previous year



Sources: Norges Bank and Statistics Norway.

ence wage growth in 2005. We assume that the low level of long-term sickness absence will remain virtually unchanged in the period ahead, which pushes up wages per normal person-year in 2005. While growth in wages per normal person-year is estimated at 3.7 per cent between 2004 and 2005, growth in hourly wages is put at only 3.2 per cent.

Subsequently in 2006 and 2007, manufacturing profitability will show a clear deterioration, partly reflecting the international downturn, but also as a result of the occupational pension scheme. This will counter the effect of reduced unemployment and higher inflation in 2005 and 2006. Growth in wages per normal person-year is projected at 3.5 per cent in both 2006 and 2007. A positive cyclical turnaround in the international economy in 2008, which is expected to continue in 2009, will push up wage growth towards the end of the projection period. A higher level of unemployment in 2007 and 2008 will have a dampening impact on wage growth, however. In 2008 and 2009, wage growth is projected at 3.3 per cent and 3.5 per cent, respectively. With a rate of increase in prices of about 2 per cent, our wage projection of about 3.5 per cent for the entire projection period implies real wage growth of around 1.5 per cent, which is about the same as average productivity growth during the same period.

Rising inflation if the krone weakens ahead

As an annual average, the rise in the consumer price index (CPI) was record-low at 0.4 per cent last year. A moderate real tax increase was offset by a fall in energy prices. Underlying inflation, as measured by the CPI adjusted for tax changes and excluding energy products (CPI-ATE), increased by as little as 0.3 per cent, but towards the end of last year the year-on-year rise crept up to 1.0 per cent. In the first three months, it remained at 0.7 per cent but then increased to 1.1 per cent in May. Through the first five months, the underlying rate of increase in prices for services and fish products has shown a clear upward tendency, while prices for other domestically produced goods have shown a falling tendency when energy products are excluded.

Electricity prices are one factor that often has a pronounced impact on CPI inflation. Electricity prices rose by close to 6 per cent between April and May this year in contrast to normal movements, but edged down last year. In isolation, this pushed up the 12-month rise in the CPI by ¼ percentage point between April and May, when the rate of increase reached 1.6 per cent. 0.4 percentage point of the difference in the 12-month rise of 0.5 percentage point between the CPI and CPI-ATE is ascribable to real tax increases (primarily a one percentage point increase in VAT from the beginning of the year for all rates excluding VAT on food products, which was reduced by 1 percentage point) while 0.1 percentage point can be attributed to slightly higher energy prices compared with one year earlier.

Moderate wage growth is one factor behind the subdued rise in consumer prices in Norway. In 2004, growth in hourly wages was very low, but growth is set to edge up in the period ahead. Next year's introduction of a statutory occupational pension scheme will in isolation push up labour costs somewhat and thereby contribute to higher inflation.

An important factor behind the low rise in prices in recent years has been a steady decline in prices for imported consumer goods. The rate of decline in prices for such products decelerated somewhat in May this year compared with the previous month, and resulted in a small rise in the inflation rate. The almost continuous appreciation of the krone since February 2004, combined with low external price impulses, implies a low rate of increase in prices for imported consumer goods in the period ahead. However, future developments in the krone will be decisive in this context. Our projections are based on the assumption that the krone will depreciate during the projection period, particularly during the latter half of this year. This will push up inflation ahead. According to our calculations, inflation will move up to about 2.5 per cent in summer 2007. An international downturn and a slightly less pronounced depreciation of the krone will subsequently push down inflation again, with CPI-ATE inflation projected to move down and hover around 2.0 per cent in 2008 and 2009. We have not assumed any significant impulses from energy prices or tax changes in the period ahead, which implies that CPI inflation is projected to move broadly in line with CPI-ATE inflation.

If the krone does not depreciate as assumed in the baseline scenario, but for example remains steady at

NOK 8.00 against the euro, this will have a clear impact on our inflation projections. Under this exchange rate assumption, the import-weighted exchange rate as an annual average will appreciate by about 4 per cent this year, by a further 1 per cent next year and then remain approximately unchanged. Under the interest rate assumption in the baseline scenario, annual CPI-ATE inflation will remain at about 1.5 per cent throughout the projection period, with the exception of this year when inflation will move down to 1.0 per cent (see box for further details).

Continued balance-of-payments surplus

In 2004, Norway recorded a surplus of NOK 238 billion on the goods and services balance compared with NOK 212 billion in 2003. In 2004, the volume of total imports grew at a markedly faster pace, at 9.1 per cent, than growth in total export which was 0.9 per cent. However, prices for Norwegian export goods rose considerably faster than prices for imported goods. Export prices rose by as much as 13.1 per cent, while import prices increased by 5.4 per cent. Thanks to these terms-of trade gains, percentage growth in the value of exports was almost as high as growth in the value of imports. The reason why the surplus on the goods and services balance nevertheless increased was that the surplus on this balance was large at outset. The interest and transfers balance showed a deficit of close to NOK 8 billion in 2004, bringing the current account surplus to almost NOK 230 billion.

In the first quarter of 2005, exports continued to increase both in terms of volume and prices, while the volume of imports declined and the rise in prices decelerated. The interest and transfers balance showed a deficit of NOK 4 billion. This resulted in a current account surplus of as much as NOK 73 billion in the first quarter of this year, compared with NOK 65 billion in the previous quarter.

The current account surplus is expected to remain high through 2005, with the surplus for the year as a whole estimated at close to NOK 250 billion. Weaker growth in exports than in imports, combined with a lower rise in prices for Norwegian export goods in the next few years, will result in a small decline in the current account surplus. The situation will not shift in Norway's favour until 2008, primarily as a result of higher oil prices and industrial commodity prices which will move up in the early phase of the next international cyclical upturn. An increasingly favourable interest balance, particularly through the steady accumulation of capital in the Government Petroleum Fund, is also contributing to pushing up the current account surplus. At the end of the projection period, the surplus rises to more than NOK 300 billion.

The effects of various fiscal stances in 2008-2010

Since the introduction of the fiscal rule in spring 2001, fiscal policy has shown a sharp expansionary shift measured by the structural, non-oil deficit as a percentage of mainland trend GDP. By this measure, the deficit was 2.4 per cent and the government expects a deficit of 4.8 per cent in 2005 (see Revised National Budget). If the fiscal rule had been slavishly adhered to with petroleum revenue spending restricted to 4 per cent of the return on the Government Petroleum Fund at the beginning of the fiscal year, the deficit would only have been 3.0 per cent in 2005. In that case, fiscal policy would have been considerably tighter in 2005 than what is actually the case.

According to the Revised National Budget, fiscal policy will be mildly contractionary in the coming years, bringing fiscal policy back into line with the 4 per cent spending rule in the course of 2007. This is the assumption underlying our projections. However, according to the fiscal rule there is room for higher budget deficits in 2008 and 2009. At that point in time, the cyclical situation is likely to allow for an expansionary fiscal stance without the need for a tightening of monetary policy. In the baseline scenario, the budget deficit (as measured above) increases by an additional NOK 8 billion (at 2005 prices) in each of these years (and for calculation purposes also in 2010). This means that the budget deficit is NOK 24 billion higher in 2010 than in 2007. This is slightly higher than the estimate in the Revised National Budget and reflects slightly higher oil prices in our scenario and thus a slightly larger Government Petroleum Fund than the estimates in the Revised National Budget for these years. We have distributed this expansion equally between general government consumption and reduced personal taxes in our calculations.

Effects of balanced fiscal impulses (NOK 4 billion): higher general government consumption and higher personal taxes. Unchanged nominal interest rate. Percentage deviation from baseline scenario

	2008	2009	2010
Consumption in households etc.	-0.0	0.0	0.0
General government consumption	0.9	1.8	2.6
Total consumption	0.3	0.5	0.8
Household savings ratio	-0.1	-0.3	-0.4
GDP Mainland Norway	0.2	0.4	0.7
- Manufacturing	0.1	0.2	0.2
Unemployment (percentage points)	-0.2	-0.4	-0.6
Wages	0.3	0.8	1.3
CPI-ATE	0.1	0.3	0.6
Importweighted krone exchange rate	0.1	0.3	0.6
Money market rate	0.0	0.0	0.0

There is an "infinite" number of possible orientations of the fiscal policy expansion. We have confined our analysis to two stylized alternatives.

- Any budgetary weakening finances increased civilian general government consumption
- Any budgetary weakening finances higher personal tax reductions

Changes occur as from 2008 and we show the effects for the years 2008 to 2010. First, the results are shown based on a calculation where the entire margin of manoeuvre is used to increase general government consumption under the assumption (initially) that the budget balance and nominal interest rates remain unchanged.

A balanced budget change with greater weight on general government consumption and lower tax cuts increases the activity level in the economy, reduces unemployment, increases wage and price inflation and weakens the krone exchange rate (in 2010 the krone is 0.8 per cent weaker than in the baseline scenario). The krone depreciates because Norwegian prices rise, while the nominal interest rate remains unchanged. Price inflation rises gradually in relation to the baseline scenario and is 0.3 percentage point higher in the alternative scenario in 2010. The reason why the activity level is higher as a result of a balanced budget change of this type, and in particular why unemployment shows such a marked fall, is that service production in the public sector is more labour-intensive than average production in the Norwegian economy. Moreover, such a change implies that the supply of domestically produced public services rises, whereas in the event of tax reductions households will spread consumption among various goods and services, including import-intensive goods and services. In other words, if this spending is confined to civilian government consumption, the supply of certain labour-intensive services will increase, while in the alternative with tax cuts households will be able to choose their consumption of goods and services. This demand will involve a broad range of goods and services and sectors that use a different production technology from that of the public sector. In addition, households will save a share of the income deriving from tax reductions, which restrains the rise in demand and production within our time horizon.

The alternative where the entire budget weakening finances tax reductions yields the same figures as above but with the opposite sign. Calculations based on the KVARTS model show that with the same level of unemployment as in the baseline scenario, the effects are symmetrical for such small impulses as shown here. This is not particularly surprising taking into account that we are looking at a balanced budget change which only involves a budgetary re-allocation of 0.3 per cent of mainland GDP each year (i.e. almost 1 per cent in 2010).

Effects of balanced fiscal impulses (NOK 4 billion): higher general government consumption and higher personal taxes. Higher interest rates. Percentage deviation from baseline scenario

	2008	2009	2010
Consumption in households etc.	-0.5	-1.1	-1.6
General government consumption	0.9	1.8	2.6
Total consumption	-0.0	-0.1	0.0
Household savings ratio	-0.2	-0.0	0.3
GDP Mainland Norway	0.0	-0.1	-0.2
- Manufacturing	0.0	-0.4	-0.7
Unemployment (percentage points)	-0.2	-0.3	-0.4
Wages	0.2	0.5	0.8
CPI-ATE	0.1	0.1	0.1
Importweighted krone exchange rate	-0.1	-1.1	-1.4
Money market rate	1.0	1.0	1.0

In relation to our baseline scenario, an annual rise in inflation of two-three tenths will in isolation not require a monetary policy tightening through interest rate increases in order to reach the inflation target of 2.5 per cent in 2009 and 2010. However, our inflation projections may be inaccurate or Norges Bank may have a different perception of the situation when setting the interest rate level in autumn 2007 and knows what fiscal policy the government in power will pursue at that time. We will thus also analyze the effects of an increase in Norges Bank's key rate as from 2008 to counter all the inflationary impulses in the alternative in the table above. One might argue that Norges Bank is so forward-looking that it will raise the key rate earlier and not wait until January 2008, but let us assume that the central bank waits until the budget is finalized in December 2007. The impulses are thus the same as earlier, but now the interest rate is set so that CPI-ATE inflation is the same as in the baseline scenario. This also presupposes that Norges Bank applies the relationship between the key interest rate and inflation embodied in today's KVARTS model. This is also rather unlikely, but is assumed here.

With an interest rate reaction that entails an interest rate that is 1 percentage point higher in the projection period (i.e. the money market rate is 3.5 per cent and not 2.5 per cent as in the baseline scenario), CPI-ATE inflation will be approximately the same in the two scenarios (the minimal increase in inflation the first year has been disregarded in order to obtain a constant interest rate increase for presentational purposes). A higher interest rate results in a krone that is 1.4 per cent stronger than in the baseline scenario. Combined with higher cost inflation as a result of a tighter labour market, manufacturing production (and production for other exposed industries) is reduced even though total mainland GDP shows little change. Note that since higher public sector employment results in higher value added, value added in mainland industries declines in this scenario. We also see that aggregate consumption is constant as the increase in general government consumption is matched by a corresponding decline in household consumption. This is not only attributable to the tax increases in relation to the baseline scenario, but is primarily the result of higher interest rates that gradually lead to a rise in the saving ratio.

Again we see that a scenario with only tax reductions and the absence of any stimulus to public consumption has almost an identical impact on the figures as in the above, but with the opposite sign. This means that with a tax reduction nominal interest rates must be lowered by 1 percentage point for the krone to depreciate to an extent that the inflationary effects are eliminated.

On the whole, these calculations show that our assumption concerning the distribution of the budgetary expansion between tax reductions and expenditure growth as from 2008 has implications for the baseline scenario. Increased weight on higher public consumption will lead to somewhat higher inflation, but not to the extent that inflation will be higher than the inflation target in our baseline scenario. However, if inflation is projected to be close to the target in 2008 and 2009, interest rates will have to be adjusted depending on the fiscal stance during these years even with the same initial fiscal impulse.

National accounts: Final expenditure and gross domestic product. At fixed 2002 prices. Million kroner

	Unadjusted		Seasonally adjusted							
	2003	2004	03.2	03.3	03.4	04.1	04.2	04.3	04.4	05.1
Final consumption expenditure of househ. and NPISHs	700 911	731 886	174 405	176 603	177 678	181 107	181 171	182 835	185 452	185 017
Household final consumption expenditure	670 511	699 551	166 879	168 976	169 924	173 124	173 181	174 721	177 189	176 754
Goods	370 473	389 670	92 420	93 736	93 892	96 607	96 289	97 054	98 612	97 151
Services	289 095	296 947	71 933	72 480	73 245	73 474	73 835	74 390	75 004	75 822
Direct purchases abroad by resident households	29 451	33 041	7 130	7 454	7 554	8 017	8 155	8 206	8 708	8 893
Direct purchases by non-residents	-18 507	-20 107	-4 603	-4 693	-4 767	-4 974	-5 099	-4 929	-5 135	-5 111
Final consumption exp. of NPISHs	30 400	32 336	7 526	7 627	7 755	7 984	7 989	8 114	8 264	8 263
Final consumption exp. of general government	343 136	350 879	85 905	85 922	86 102	87 001	87 849	87 862	88 041	88 698
Final consumption exp. of central government	182 469	188 440	45 681	45 622	45 745	46 784	47 276	47 148	47 260	47 501
Central government, civilian	152 825	158 940	38 239	38 233	38 351	39 370	39 864	39 808	39 926	40 245
Central government, defence	29 644	29 500	7 442	7 389	7 394	7 414	7 412	7 340	7 333	7 256
Final consumption exp. of local government	160 667	162 439	40 223	40 301	40 358	40 217	40 573	40 715	40 781	41 198
Gross fixed capital formation	269 218	293 758	68 687	68 348	63 534	69 125	70 308	73 602	80 612	74 619
Extraction and transport via pipelines	62 411	70 070	16 226	16 586	15 399	16 533	16 902	17 466	19 170	17 540
Service activities incidential to extraction	-2 003	916	353	87	-3 028	39	65	74	738	168
Ocean transport	1 878	3 174	257	828	-592	473	95	693	1 913	1 402
Mainland Norway	206 931	219 598	51 851	50 846	51 755	52 079	53 246	55 370	58 792	55 508
Mainland Norway excluding general government	160 540	173 469	40 214	38 550	40 423	41 350	41 820	44 306	46 163	45 297
Industries	108 146	114 607	27 289	25 565	27 176	27 751	27 330	29 274	30 372	28 858
Manufacturing and mining	18 916	19 901	5 051	4 445	4 816	4 645	5 035	5 279	5 021	4 518
Production of other goods	22 214	22 974	5 485	5 758	5 235	5 460	5 532	5 544	6 471	5 192
Services	67 015	71 732	16 753	15 361	17 125	17 647	16 763	18 451	18 879	19 148
Dwellings (households)	52 394	58 862	12 925	12 985	13 247	13 599	14 490	15 032	15 792	16 438
General government	46 391	46 130	11 637	12 296	11 332	10 729	11 427	11 063	12 629	10 212
Changes in stocks and statistical discrepancies	3 365	17 355	-4 137	881	1 179	1 925	6 936	3 846	3 564	7 264
Gross capital formation	272 582	311 114	64 550	69 228	64 713	71 050	77 244	77 448	84 176	81 883
Final domestic use of goods and services	1 316 630	1 393 879	324 859	331 753	328 494	339 158	346 263	348 145	357 669	355 598
Final demand from Mainland Norway	1 250 978	1 302 364	312 161	313 371	315 535	320 187	322 266	326 067	332 285	329 224
Final demand from general government	389 527	397 009	97 542	98 219	97 434	97 729	99 276	98 926	100 669	98 910
Total exports	634 110	640 028	159 697	156 867	164 010	161 646	161 332	159 749	157 720	159 025
Traditional goods	192 944	198 825	48 488	48 934	49 414	48 500	47 928	50 582	51 816	51 175
Crude oil and natural gas	272 223	270 986	70 357	66 750	67 377	70 829	69 600	67 104	63 821	65 130
Ships and oil platforms	17 075	9 125	3 243	3 516	7 985	2 744	3 314	1 760	1 307	520
Services	151 868	161 092	37 609	37 667	39 234	39 572	40 491	40 303	40 777	42 200
Total use of goods and services	1 950 740	2 033 908	484 557	488 620	492 503	500 803	507 595	507 893	515 390	514 624
Total imports	425 921	464 722	105 914	105 308	108 033	111 717	114 308	117 729	120 995	118 110
Traditional goods	279 071	309 827	69 664	69 266	71 015	73 990	76 945	79 444	79 374	79 885
Crude oil and natural gas	1 796	1 723	376	326	340	170	500	586	491	711
Ships and oil platforms	12 255	12 620	2 817	3 061	2 588	3 144	2 497	3 047	3 932	1 351
Services	132 799	140 552	33 057	32 655	34 090	34 413	34 366	34 652	37 198	36 163
Gross domestic product	1 524 818	1 569 186	378 642	383 312	384 470	389 086	393 287	390 164	394 395	396 514
Mainland Norway (market prices)	1 221 253	1 264 361	303 748	306 664	308 504	310 666	313 590	316 622	321 099	323 851
Petroleum activities and ocean transport	303 565	304 825	74 895	76 648	75 966	78 420	79 697	73 543	73 296	72 663
Mainland Norway (basic prices)	1 069 674	1 106 220	266 110	268 455	270 728	272 090	274 660	277 582	280 740	284 222
Mainland Norway excluding general government	824 210	855 804	204 854	206 980	208 937	209 804	212 094	214 838	217 861	221 028
Manufacturing and mining	145 667	148 107	36 074	36 526	36 636	36 453	36 622	37 393	37 559	37 320
Production of other goods	111 257	117 269	27 525	28 004	28 214	28 678	29 110	29 485	29 857	31 347
Services	567 286	590 427	141 255	142 450	144 087	144 673	146 361	147 959	150 445	152 360
General government	245 464	250 416	61 256	61 475	61 791	62 286	62 567	62 744	62 879	63 195
Correction items	151 580	158 141	37 638	38 209	37 775	38 577	38 930	39 039	40 359	39 628

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. At fixed 2002 prices. Percentage change from the previous period

	Unadjusted		Seasonally adjusted							
	2003	2004	03.2	03.3	03.4	04.1	04.2	04.3	04.4	05.1
Final consumption expenditure of househ. and NPISHs	3.0	4.4	1.5	1.3	0.6	1.9	0.0	0.9	1.4	-0.2
Household final consumption expenditure	2.8	4.3	1.6	1.3	0.6	1.9	0.0	0.9	1.4	-0.2
Goods	3.5	5.2	2.6	1.4	0.2	2.9	-0.3	0.8	1.6	-1.5
Services	1.4	2.7	0.8	0.8	1.1	0.3	0.5	0.8	0.8	1.1
Direct purchases abroad by resident households	7.7	12.2	-2.2	4.5	1.3	6.1	1.7	0.6	6.1	2.1
Direct purchases by non-residents	1.3	8.6	4.3	2.0	1.6	4.3	2.5	-3.3	4.2	-0.5
Final consumption expenditure of NPISHs	7.1	6.4	0.2	1.3	1.7	3.0	0.1	1.6	1.8	0.0
Final consumption exp. of general government	1.4	2.3	0.7	0.0	0.2	1.0	1.0	0.0	0.2	0.7
Final consumption exp. of central government	1.0	3.3	0.5	-0.1	0.3	2.3	1.1	-0.3	0.2	0.5
Central government, civilian	1.6	4.0	0.6	0.0	0.3	2.7	1.3	-0.1	0.3	0.8
Central government, defence	-1.9	-0.5	0.3	-0.7	0.1	0.3	0.0	-1.0	-0.1	-1.1
Final consumption exp. of local government	1.8	1.1	1.0	0.2	0.1	-0.3	0.9	0.3	0.2	1.0
Gross fixed capital formation	-2.0	9.1	-0.1	-0.5	-7.0	8.8	1.7	4.7	9.5	-7.4
Extraction and transport via pipelines	16.9	12.3	14.3	2.2	-7.2	7.4	2.2	3.3	9.8	-8.5
Service activities incidential to extraction	..	..	-39.7	-75.3	..	-101.3	65.5	13.7	896.6	-77.2
Ocean transport	-50.7	69.0	-81.4	221.8	-171.4	-180.0	-79.9	629.7	176.1	-26.7
Mainland Norway	-2.2	6.1	-1.4	-1.9	1.8	0.6	2.2	4.0	6.2	-5.6
Mainland Norway excluding general government	-5.0	8.1	-2.7	-4.1	4.9	2.3	1.1	5.9	4.2	-1.9
Industries	-4.9	6.0	-2.7	-6.3	6.3	2.1	-1.5	7.1	3.7	-5.0
Manufacturing and mining	-16.6	5.2	7.6	-12.0	8.4	-3.6	8.4	4.8	-4.9	-10.0
Production of other goods	19.4	3.4	-3.1	5.0	-9.1	4.3	1.3	0.2	16.7	-19.8
Services	-7.5	7.0	-5.4	-8.3	11.5	3.1	-5.0	10.1	2.3	1.4
Dwellings (households)	-5.3	12.3	-2.5	0.5	2.0	2.7	6.5	3.7	5.1	4.1
General government	9.2	-0.6	3.4	5.7	-7.8	-5.3	6.5	-3.2	14.1	-19.1
Changes in stocks and statistical discrepancies	-81.1	415.8	-194.1	-121.3	33.9	63.3	260.3	-44.6	-7.3	103.8
Gross capital formation	-6.8	14.1	-11.7	7.2	-6.5	9.8	8.7	0.3	8.7	-2.7
Final domestic use of goods and services	0.4	5.9	-1.6	2.1	-1.0	3.2	2.1	0.5	2.7	-0.6
Final demand from Mainland Norway	1.6	4.1	0.8	0.4	0.7	1.5	0.6	1.2	1.9	-0.9
Final demand from general government	2.2	1.9	1.1	0.7	-0.8	0.3	1.6	-0.4	1.8	-1.7
Total exports	1.6	0.9	3.8	-1.8	4.6	-1.4	-0.2	-1.0	-1.3	0.8
Traditional goods	5.1	3.0	5.0	0.9	1.0	-1.8	-1.2	5.5	2.4	-1.2
Crude oil and natural gas	-0.6	-0.5	3.4	-5.1	0.9	5.1	-1.7	-3.6	-4.9	2.1
Ships and oil platforms	33.2	-46.6	39.1	8.4	127.1	-65.6	20.8	-46.9	-25.8	-60.2
Services	-1.5	6.1	0.6	0.2	4.2	0.9	2.3	-0.5	1.2	3.5
Total use of goods and services	0.8	4.3	0.1	0.8	0.8	1.7	1.4	0.1	1.5	-0.1
Total imports	2.2	9.1	-0.7	-0.6	2.6	3.4	2.3	3.0	2.8	-2.4
Traditional goods	4.3	11.0	0.8	-0.6	2.5	4.2	4.0	3.2	-0.1	0.6
Crude oil and natural gas	9.9	-4.1	-51.4	-13.3	4.2	-49.9	193.6	17.2	-16.2	44.8
Ships and oil platforms	-18.6	3.0	-25.7	8.7	-15.4	21.5	-20.6	22.0	29.1	-65.6
Services	0.1	5.8	0.2	-1.2	4.4	0.9	-0.1	0.8	7.3	-2.8
Gross domestic product	0.4	2.9	0.3	1.2	0.3	1.2	1.1	-0.8	1.1	0.5
Mainland Norway (market prices)	0.7	3.5	0.8	1.0	0.6	0.7	0.9	1.0	1.4	0.9
Petroleum activities and ocean transport	-1.0	0.4	-1.5	2.3	-0.9	3.2	1.6	-7.7	-0.3	-0.9
Mainland Norway (basic prices)	0.6	3.4	0.8	0.9	0.8	0.5	0.9	1.1	1.1	1.2
Mainland Norway excluding general government	0.8	3.8	0.9	1.0	0.9	0.4	1.1	1.3	1.4	1.5
Manufacturing and mining	-3.9	1.7	-0.7	1.3	0.3	-0.5	0.5	2.1	0.4	-0.6
Production of other goods	-3.5	5.4	0.4	1.7	0.7	1.6	1.5	1.3	1.3	5.0
Services	3.0	4.1	1.5	0.8	1.1	0.4	1.2	1.1	1.7	1.3
General government	-0.1	2.0	0.3	0.4	0.5	0.8	0.5	0.3	0.2	0.5
Correction items	1.6	4.3	0.7	1.5	-1.1	2.1	0.9	0.3	3.4	-1.8

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. Price indices. 2002=100

	Unadjusted		Seasonally adjusted							
	2003	2004	03.2	03.3	03.4	04.1	04.2	04.3	04.4	05.1
Final consumption exp. of households and NPISHs	102.6	103.3	102.1	102.3	102.5	102.8	103.4	103.5	103.9	103.4
Final consumption exp. of general government	103.8	105.8	103.3	103.9	104.3	104.5	105.4	106.4	107.2	107.0
Gross fixed capital formation	100.7	103.6	100.5	101.7	101.9	100.8	104.0	104.5	105.3	104.7
Mainland Norway	100.3	103.5	100.2	101.4	101.3	100.5	104.3	104.5	105.1	104.3
Final domestic use of goods and services	102.5	104.0	101.1	102.4	103.4	104.3	102.9	104.2	105.2	104.8
Final demand from Mainland Norway	102.5	104.0	102.1	102.6	102.8	102.9	104.1	104.4	105.0	104.5
Total exports	101.7	115.1	99.3	102.2	103.4	107.2	112.6	119.3	121.6	122.8
Traditional goods	97.8	105.5	97.6	97.6	99.9	104.8	103.6	106.2	107.4	108.6
Total use of goods and services	102.3	107.5	100.5	102.3	103.4	105.2	106.0	108.9	110.2	110.3
Total imports	101.7	107.3	99.7	103.4	104.6	106.7	106.1	107.6	108.4	108.8
Traditional goods	100.4	104.2	98.9	101.3	102.6	104.4	103.9	104.4	104.1	104.1
Gross domestic product	102.4	107.6	100.7	102.0	103.0	104.8	106.0	109.3	110.7	110.8
Mainland Norway (market prices)	102.0	103.3	102.3	101.9	102.1	102.3	103.4	104.2	104.2	103.2

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2003	2004	03.2	03.3	03.4	04.1	04.2	04.3	04.4	05.1
Final consumption exp. of households and NPISHs	2.6	0.7	-0.8	0.2	0.2	0.3	0.6	0.1	0.4	-0.5
Final consumption exp. of general government	3.8	2.0	-0.2	0.5	0.5	0.1	0.9	0.9	0.8	-0.2
Gross fixed capital formation	0.7	2.9	1.8	1.2	0.2	-1.0	3.1	0.6	0.8	-0.6
Mainland Norway	0.3	3.2	1.8	1.2	-0.1	-0.7	3.7	0.2	0.6	-0.8
Final domestic use of goods and services	2.5	1.4	-1.8	1.2	1.0	0.9	-1.3	1.2	1.0	-0.4
Final demand from Mainland Norway	2.5	1.5	-0.2	0.5	0.2	0.1	1.2	0.3	0.5	-0.4
Total exports	1.7	13.1	-2.9	2.9	1.2	3.7	5.0	6.0	1.9	1.0
Traditional goods	-2.2	7.9	1.4	0.0	2.4	5.0	-1.2	2.6	1.1	1.1
Total use of goods and services	2.3	5.1	-2.2	1.8	1.1	1.8	0.7	2.8	1.2	0.1
Total imports	1.7	5.4	1.0	3.7	1.2	2.0	-0.6	1.4	0.8	0.3
Traditional goods	0.4	3.8	0.1	2.4	1.3	1.8	-0.5	0.5	-0.3	0.0
Gross domestic product	2.4	5.0	-3.0	1.3	1.0	1.7	1.1	3.2	1.3	0.1
Mainland Norway (market prices)	2.0	1.3	0.6	-0.4	0.2	0.2	1.1	0.7	0.0	-0.9

Source: Statistics Norway.