TALL SOM FORTELLER

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Economic Survey

2022 / 2

Economic developments in Norway

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Economic developments in Norway

Almost the entire decline in economic activity during the pandemic was recouped in 2021. In December last year and January this year infection control measures in connection with the omicron variant of the coronavirus led to a fall in mainland GDP, but no more than 1.5 per cent for the two months combined. The reopening of society in late January and early February caused activity to pick up again, and in March mainland GDP was only slightly lower than what we regard as a trend level for the economy. The economic upturn is expected to continue at a more moderate pace going forward, checked by interest rate hikes and lower global growth.

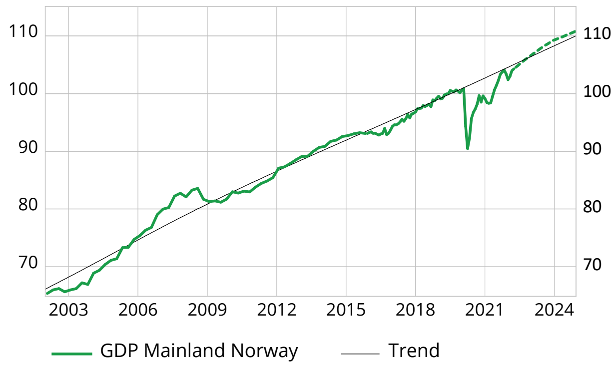
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Per cent

	2020	2021	Seasonally adjusted			
			21:2	21:3	21:4	22:1
Demand and output						
Consumption in households etc.	-6.6	4.9	2.5	6.1	2.8	-1.5
General government consumption	1.8	3.8	1.2	1.5	0.1	-1.4
Gross fixed investment	-5.6	-0.9	0.2	-1.2	3.3	0.0
Extraction and transport via pipelines	-4.1	-2.7	6.6	-4.8	-0.2	-5.5
Mainland Norway	-3.6	0.0	-0.4	-0.3	4.1	1.3
Final domestic demand from Mainland Norway[1]	-3.6	3.4	1.5	3.3	2.3	-0.9
Exports	-1.2	4.7	1.8	6.4	-2.5	-3.5
Traditional goods	-2.5	6.7	-1.0	1.0	-2.2	-2.9
Crude oil and natural gas	11.9	2.8	4.7	6.2	-3.4	-5.5
Imports	-11.9	2.3	5.1	5.7	1.2	0.2
Traditional goods	-2.5	5.4	6.2	2.1	-3.1	0.9
Gross domestic product	-0.7	3.9	0.8	3.9	0.0	-1.0
Mainland Norway	-2.3	4.1	0.9	2.8	1.4	-0.6
Labour market						
Total hours worked. Mainland Norway	-2.1	2.5	0.5	2.3	1.1	-1.0
Employed persons	-1.5	1.2	0.0	2.2	1.4	0.4
Labour force[2]	0.4	2.2	1.7	0.4	0.3	0.4
Unemployment rate. level[2]	4.6	4.4	5.0	4.0	3.5	3.1
Prices and wages						
Annual earings	3.1	3.5	..	..	..	..
Consumer price index (CPI)[3]	1.3	3.5	0.0	1.5	1.3	1.0
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	3.0	1.7	-0.1	0.5	0.5	0.9
Export prices. traditional goods	-3.4	13.1	4.9	6.7	8.8	10.5
Import prices. traditional goods	4.2	5.5	1.5	4.3	2.2	4.5
Balance of payment						
Current balance. bill. NOK[4]	38	620	106	153	257	341
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	0.4	0.1	0.0	0.0	0.3	0.5
Lending rate. credit loans[5]	0.6	0.5	2.0	2.0	2.1	2.3
Crude oil price NOK[6]	407	609	577	641	695	864
Importweighted krone exchange rate. 44 countries. 1995=100	114.9	108.8	107.4	110.6	107.7	107.1
NOK per euro	10.72	10.16	10.09	10.33	9.97	9.92

[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] Current account not adjusted for saving in pension funds.
[5] Period averages.
[6] Average spot price. Brent Blend.
Source: Statistics Norway and Norges Bank.

Figure 1. GDP Mainland Norway and estimated trend

Seasonally adjusted, index 2019 = 100

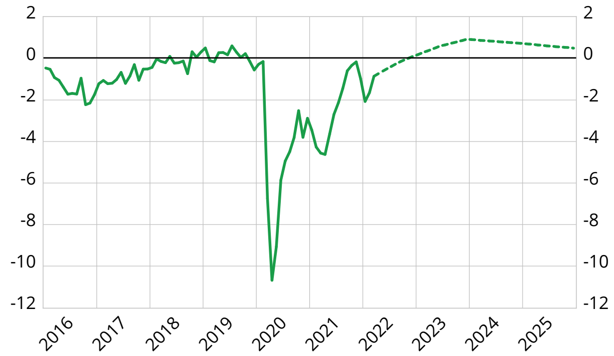


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

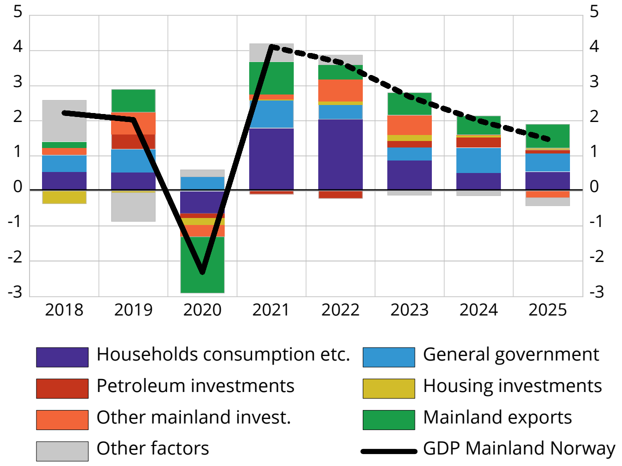
Deviation form estimated trend GDP in percent, monthly frequency



Source: Statistics Norway

Figure 3. Contributions to growth in GDP Mainland Norway, import adjusted

Change from previous year in percent



Source: Statistics Norway

The demand contributions are calculated by finding the change in each variable, extracting the direct and indirect import shares, and then dividing by the mainland GDP level for the previous period. The import shares used are documented in Box 3. All figures are seasonally adjusted and in constant prices.

The export variable is defined as total exports excluding exports of crude oil, gas and shipping.

Other factors are defined as changes in stock and statistical deviations.

Growth in public consumption and investment appears to be slightly lower than trend this year. In isolation, this is having a dampening effect on economic developments. Calculations in the Revised National Budget 2022 (RNB) using the NORA and KVARTS macroeconomic models show that the long-term effects of the support measures in 2020 and 2021 probably offset this, such that the overall effect of fiscal policy is still expansionary this year. According to the RNB, since the Final Budget Bill for 2022 extraordinary measures to the tune of about NOK 60 billion have been proposed and adopted. These are distributed between interim virus control measures, the electricity support package and strengthening of military and non-military preparedness. The structural non-oil deficit for 2022 is forecast in the RNB to be NOK 352 billion. This is equivalent to 2.9 per cent of the value of the Government Petroleum Fund Global (the petroleum fund) at the beginning of the year, and close to the 3 per cent stipulated in the fiscal rule. After the outbreak of war in Ukraine, the value of the petroleum fund fell, and at the beginning of June was around NOK 470 million less than at the beginning of the year. At the same time, forecast net cash flow from petroleum activities, which is placed in the petroleum fund, was revised up to over NOK 930 billion in 2022 as a consequence of persistently high oil and gas prices. We assume that spending of petroleum revenue will remain under 3 per cent in the years ahead.

During the pandemic, households shifted their consumption from services to goods. In the course of 2021, the consumption pattern largely reverted to services. However consumption of services dipped again in December and January as a result of the spread of the omicron variant and the infection control measures implemented. Consumption, especially of services, picked up markedly in February, after the reopening. Our projections indicate that households will choose a more normal combination of goods and services consumption in the course of 2022, and that Norwegian consumption abroad will pick up strongly. In all, household consumption is expected to grow by around 7.5 per cent this year. As consumption has already increased substantially, this implies more moderate growth for the remainder of the year, which must be viewed in light of the higher and accelerating inflation. Rising real interest rates and weak developments in real house prices will dampen consump-

Table 2. Growth in GDP Mainland Norway and contributions from demand components[1]. Percentage points. Annual rate

	QNA				Projection			
	2018	2019	2020	2021	2022	2023	2024	2025
GDP Mainland Norway	2.2	2.0	-2.3	4.1	3.7	2.7	2.0	1.5
with contributions from:								
Consumption by households and non-profit organisations	0.5	0.5	-0.6	1.8	2.0	0.9	0.5	0.6
General government consumption and investment	0.5	0.7	0.4	0.8	0.4	0.4	0.7	0.5
Petroleum investment	0.0	0.4	-0.1	-0.1	-0.2	0.2	0.3	0.1
Housing investment	-0.4	-0.1	-0.2	0.0	0.1	0.2	0.1	0.1
Other mainland investment	0.2	0.6	-0.3	0.1	0.6	0.6	0.0	-0.2
Exports from mainland Norway	0.2	0.7	-1.6	0.9	0.4	0.6	0.5	0.7
Other factors etc.	1.2	-0.8	0.2	0.5	0.3	-0.1	-0.1	-0.2

[1] See explanation under Figure 3.
Source: Statistics Norway.

tion growth in the years ahead, to around 2.5 per cent as an annual average from 2023 to 2025. The record-high saving ratio is expected to fall relatively rapidly this year, and then to edge up over the next few years as a result of higher real interest rates.

There is likely to be a moderate rise in house prices in the years ahead. In 2021, the annualised rise in house prices was as much as 10.5 per cent, but the rate slowed through the year. Statistics from Real Estate Norway show that house prices have risen further, by almost 5 per cent, through the first five months of 2022. The average time taken to sell a dwelling in May was 26 days, which is historically low. Inflation so far this year must be viewed against the background of more stringent requirements relating to survey reports in the Sale of Real Property Act from the beginning of 2022 and a subsequent low supply of dwellings. In May the number of dwellings for sale rose and in the slightly longer term the supply is expected to increase further as a consequence of high housing investment. An increased supply of dwellings in combination with higher interest rates will curb the rise in house prices, and real house prices are therefore likely to fall slightly in the years ahead.

Petroleum investment has fallen in the last two years, largely as a consequence of lower investment in field development. The oil companies reported plans indicate low investment activity again this year. The Storting package of tax measures, adopted in June 2020 to assist the industry in tackling the sharp fall in oil prices in the wake of the COVID-19 pandemic, offers favourable tax rules for all developments for which plans for development and operation (PDOs) are submitted before the end of 2022. PDOs for many projects are expected to be delivered this year, the majority of them just before the end of the year. This will increase investment in the following years and spur demand directed at mainland industries. In 2023 and 2024, investment is expected to increase by 7 and 10 per cent, thereby raising mainland GDP by 0.2 and 0.3 percentage point, respectively (see Table 2). Growth is expected to increase by 3 per cent in 2025, and the investment level will be about 5 per cent higher than in 2019.

After lying at a relatively low level through the pandemic, business investment has begun to pick up and grew by around 20 per cent in both 2021 Q4 and 2022 Q1. Manufacturing companies forecast a strong rise in investment this year and in 2023. Major investment projects are planned for the computer and electrical equipment and the basic metals industries in particular. A few, but large, individual projects are contributing to the high growth in investment in these industries. According to Norges Bank's regional network, increased investment is also expected in service industries. Overall, we expect investment to grow by almost 10 per cent this year, and thereafter to decline towards 2025.

The krone depreciated sharply in March 2020, from around NOK 10.0 per euro prior to the outbreak of COVID in Norway, to over NOK 12.0 in mid-March 2020. It then appreciated generally until mid-March 2022, to about NOK 9.8 per euro. The krone weakened again from mid-April, and at the beginning of June the rate was NOK 10.1 per euro. We assume an unchanged krone exchange rate in the near term. This implies a depreciation of 0.4 per cent from 2021 to 2022, measured by the import-weighted krone exchange rate. The krone is thus

Table 3. Main economic indicators 2021-2025. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Acco-unts 2021	Forecasts										
		2022			2023			2024			2025	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	4,9	7,5	6,0	9,1	3,1	3,4	4,2	1,9	1,7	..	2,2	1,4
General government consumption	3,8	1,2	1,7	0,7	1,3	-1,1	..	2,2	1,0	..	1,6	1,6
Gross fixed investment	-0,9	3,8	..	1,7	5,7	..	1,3	2,8	..	..	0,3	..
Extraction and transport via pipelines	-2,7	-7,0	-8,0	-7,2	7,0	8,0	0,1	10,0	15,0	..	3,0	3,0
Industries	2,2	9,9	4,9	6,2	8,4	5,6	2,1	0,1	4,3	..	-2,9	4,6
Housing	0,6	2,1	3,3	2,1	3,6	2,9	2,7	1,4	0,5	..	1,2	0,5
General government	-4,0	2,2	..	1,1	1,0	..	..	3,8	..	..	2,8	..
Demand from Mainland Norway[1]	3,4	5,3	4,2	5,5	3,1	2,1	2,7	1,9	1,6	..	1,4	1,8
Exports	4,7	2,5	..	4,9	3,4	..	5,0	2,4	..	..	1,6	..
Traditional goods[2]	6,7	-1,4	4,7	6,7	2,0	5,0	4,9	2,7	3,3	..	3,8	2,6
Crude oil and natural gas	2,8	3,2		1,8	4,1	..	6,5	2,2	..	..	-1,1	..
Imports	2,3	8,3	6,7	9,3	4,8	5,3	4,3	2,9	4,6	..	2,6	1,0
Gross domestic product	3,9	3,5	4,6	3,5	2,7	2,0	2,8	2,0	1,3	..	1,1	0,3
Mainland Norway	4,1	3,7	4,1	3,6	2,7	1,6	2,3	2,0	1,0	..	1,5	1,0
Labour market												
Employed persons	1,2	2,9	3,0	3,0	1,1	0,6	0,8	0,3	0,4	..	0,1	0,3
Unemployment rate (level)	4,4	3,0	3,6	3,3	3,2	..	3,2	3,3	..	..	3,4	..
Prices and wages												
Annual earnings	3,5	4,0	3,7	3,7	4,1	4,0	..	4,0	3,9	..	3,6	3,8
Consumer price index (CPI)	3,5	4,7	3,4	3,4	2,6	1,6	..	1,6	2,2	..	2,0	2,4
CPI-ATE[3]	1,7	3,1	2,5	2,5	2,7	2,4	..	2,1	2,5	..	2,2	2,4
Housing prices[4]	10,5	5,8	4,4	..	2,6	-0,8	..	1,1	0,9	..	0,7	3,3
Balance of payment												
Current balance (bill. NOK)[5]	620	1 356	..	1 086	1 080	..	..	823	..	..	665	..
Current account (per cent of GDP)	15,0	25,7	..	22,1	20,9	..	..	16,1	..	..	13,0	..
Memorandum items:												
Money market rate (level)	1,9	1,6	..	99,0	2,5	..	..	2,8	..	..	2,8	..
Crude oil price NOK (level)[6]	609	1 025	..	885	955	..	..	838	..	..	764	..
Import weighted krone exchange rate (44 countries)[7]	-5,3	0,4	-3,3	7,6	1,0	-1,0	..	0,0	-0,2	..	0,0	0,0

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

[2] Norges Bank forecasts exports of traditional goods and services from Mainland Norway. Ministry of Finance forecasts exports of goods exclusive of oil and natural gas.

[3] CPI adjusted for tax changes and excluding energy products (CPI-ATE).

[4] Norges Bank forecasts the housing price index published by Eiendom Norge.

[5] Current account not adjusted for saving in pension funds.

[6] Average spot price. Brent Blend.

[7] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.

Source: Statistics Norway (SN). Ministry of Finance. Meld.St.2. (2021–2022) (MoF). Norges Bank. Monetary Policy Report 1/2022 (NB).

2.3 per cent weaker than in our previous projection, published in March.

Inflation is high and accelerating. Last year the rise in the consumer price index (CPI) was as much as 3.5 per cent as a consequence of higher energy prices. Further increases in energy prices as a result of the war in Ukraine are generating strong inflationary impulses this year too. The bottlenecks in the production of goods and services that pervade the global economy are having the same effect. Inflation this year is projected to be 4.7 per cent, 1.4 percentage points higher than the projection in our previous economic report. The change in the inflation projection is mainly due to the depreciation of the krone and to the forward market for electricity and oil indicating higher prices than previously assumed. The global rise in prices for goods other than energy products has also increased more than expected. In the years ahead inflation is expected to decline. As a result of slightly higher productivity growth and somewhat lower electricity and oil prices, CPI inflation will be reduced to just under 3 per cent in 2023 and to close to the inflation target of 2 per cent in 2024 and 2025.

Norges Bank raised the key policy rate by 0.25 percentage point in September last year, after well over a year with a record low policy rate of 0 per cent. At the monetary policy meetings in December 2021 and March this year, the policy rate was raised further, and is currently 0.75 per cent. This level is still considerably lower than what Norges Bank describes as a normal level of around 2 per cent. The cyclical upturn, a tight labour market and high and rising inflation point to the interest rate being raised relatively rapidly in the time ahead. We assume that the policy rate will be raised by 0.5 percentage point at the monetary policy meeting in June, and by 0.25 percentage point in September and December. The interest rate is then expected to be raised further, to 2.5 per cent, in 2023, and then to remain unchanged. Given these developments, an ordinary mortgage rate will increase from around 2 per cent in 2021 to around 4 per cent in 2025.

Employment increased strongly through 2021. In Q1 this year, employment was 1.8 per cent higher than in 2019 Q4, i.e. at the start of the COVID pandemic. So far this year, growth has been particularly strong in construction. Unemployment measured by the Labour Force Survey (LFS) fell by around 2 percentage points in one year, and the average for February to April was 2.9 percent. A level as low has this has not been recorded since 2008 and the period prior to the financial crisis. Much of the recent decline in unemployment has been among persons under 25 years of age. According to figures from the Norwegian Labour and Welfare Organisation (NAV), seasonally adjusted registered unemployment has continued to fall, and was 1.7 per cent in May. This is close to the record-low level of 1.6 per cent in April and May 2008. According to our projections, LFS unemployment will be around 3.0 per cent as an annual average in 2022. The increase in inward labour migration is expected to increase going forward, and this will help to dampen pressures in the labour market. We forecast that unemployment will increase to just under 3.5 per cent in 2023 and 2024.

The strong labour market pressures will probably lead to wage growth increasing more than previously estimated this year. After overtime mediation, the Federation of Norwegian Industries (a member of the Confederation of Norwegian Enterprise - NHO) and Fellesforbundet (a member of the Norwegian Confederation of Trade Unions - LO) reached agreement on 1 April on a norm for annual wage growth in overall manufacturing under NHO of 3.7 per cent in 2022. At the end of May agreement was reached on a wage norm of slightly over 3.8 per cent in most parts of the local government sector. The parties in the central government sector agreed on a norm of 3.8 per cent. The low unemployment and large number of vacancy announcements will probably lead to overall wage growth this year being somewhat higher than these norms. We forecast annual wage growth of 4 per cent in 2022. As the inflation projection has also been revised upward, this nonetheless implies a fall in real wages this year. Real wages are expected to increase in the years ahead. Low unemployment combined with solid profitability in several manufacturing segments, partly as a consequence of high export prices for fish and metals, creates scope for higher wage growth in the wage leader sector, which constitutes a norm for the other negotiation areas. Annual wage growth is expected to remain at around 4 per cent in 2023 and 2024, which will mean growth in real wages averaging a bare 2 per cent over these two years.

The upturn in the Norwegian economy is likely to continue going forward, but will gradually be curbed by capacity constraints, so that a number of activities will have trouble in meeting growth in demand. Activity in the Norwegian economy is currently only slightly under what we regard as a trend level. At the same time, unemployment is low in a historical perspective. There is normally strong correlation between unemployment and the extent to which economic activity, measured as mainland GDP, deviates from trend. The reason these two indicators are currently pointing in slightly different directions is that fewer than the normal hours per employed person were worked during the pandemic. This also applied to Q2 this year, when the highest level of sickness absence was measured since the swine influenza in autumn 2009. In addition, the number of foreign commuters has not returned to the level prior to the pandemic, and they are not included in the unemployment figures. We

Box 1. What will the interest rate hikes mean for the Norwegian economy?

Norges Bank has gradually raised the key policy rate since September 2021, from zero to 0.75 per cent. In connection with the March monetary policy meeting, Norges Bank signalled that the policy rate is to go up further to about 2.5 per cent by the end of 2023. We have assumed from these signals that the annual average money market rate will be close to 3 per cent in both 2024 and 2025. In this box we look more closely at what the interest rate hikes will mean for the Norwegian economy.

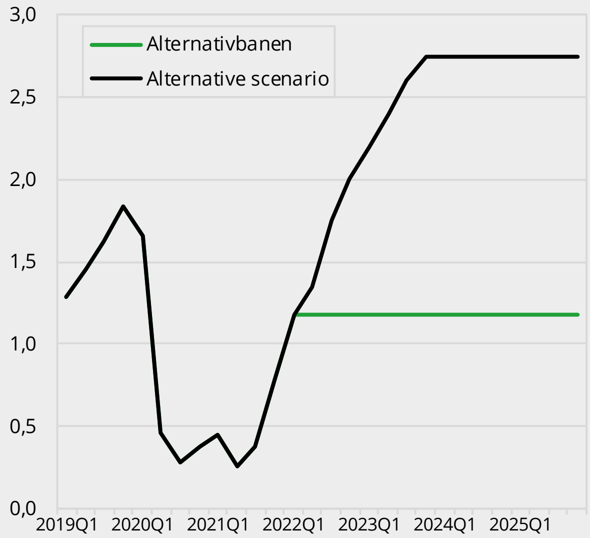
We use the KVARTS macroeconomic model to illustrate the significance of the rate increases. The projection scenario is compared with an alternative scenario in which the money market rate is kept at the level in 2022 Q1 of just over 1 per cent until the end of 2025. In order to isolate the effects on the Norwegian economy of interest rate increases, we assume that fiscal policy and global economic developments, including interest rates, are the same as in the projection scenario. The effects on the Norwegian economy for the period 2022– 2025 are measured as percentage difference (unless otherwise indicated) between the alternative scenario and the projection scenario.

All in all, the level of mainland GDP will be reduced by 0.5 per cent in 2023, by just over 1 per cent in 2024, and by just over 1.5 per cent in 2025, as a consequence of the interest rate increases. A higher interest rate level will affect the real economy through factors such as lower household demand. According to our model, the effect of the interest rate on household consumption takes place through three channels: real disposable income, real wealth and real after-tax interest; see Boug et al. (2021a).

When interest rates increase, household consumption will be pushed down by the fall in real disposable income through increased net interest expenses and reduced wage income because of a slacker labour market. As a result of the interest rate hikes, the level of the household interest burden, measured as after-tax interest expenses as a share of disposable income, will be about 2 percentage points higher in both 2024 and 2025. At the same time, consumption will be curbed by a pronounced fall in real house prices, and hence also in real wealth. In nominal terms, the house price level will be around 9.5 per cent lower in 2025, while the real fall in house prices will be just over 8 per cent.[1] Consumption will additionally be constrained by a higher real after-tax interest rate. Overall, the interest rate increases will lead to a reduction in the level of household consumption of about 1.5 per cent towards the end of the projection period.

[1] The effect of the interest rate hikes on house prices is heightened in the model by a mutual interdependence between house prices and household borrowing; see Anundsen and Jansen (2013) and Boug et al. (2021b).

Money market rate in the projection scenario and the



Source: Statistics Norway.

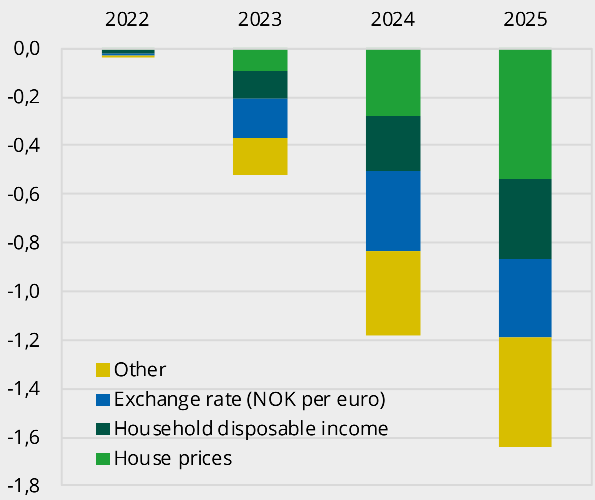
Main macroeconomic aggregates 2022– 2025
Percentage deviation from the alternative scenario unless otherwise indicated

	2022	2023	2024	2025
Mainland GDP	0.0	-0.5	-1.2	-1.6
Consumption by households etc.	0.0	-0.3	-1.0	-1.5
Mainland gross investment	-0.1	-1.2	-3.1	-4.7
Business investment	-0.1	-2.2	-5.3	-7.2
Housing investment	0.0	-0.4	-2.0	-4.8
Exports, traditional goods	-0.2	-1.0	-1.8	-2.3
Imports, traditional goods	0.0	-0.5	-1.4	-2.1
Unemployment[1]	0.0	0.1	0.2	0.4
Number employed	0.0	-0.2	-0.5	-0.9
Participation rate[1]	0.0	-0.1	-0.2	-0.4
Annual wages	0.0	-0.2	-0.7	-1.1
Consumer price index (CPI)	-0.2	-0.7	-0.9	-1.0
House prices	-0.4	-2.8	-6.1	-9.3
Household real disposable income	0.1	-0.4	-1.1	-1.5
Interest burden1	0.2	1.3	2.0	2.1
Exchange rate (NOK per euro)[2]	-1.9	-5.6	-6.4	-6.1
Assumptions				
Money market rates (3-month)[1]	0.4	1.3	1.6	1.6

[1] The deviation is given in percentage points.
[2] A negative sign means appreciation.
Source: Statistics Norway

The higher interest rate level will also affect mainland investment demand. An appreciably lower house price level as a consequence of the interest rate increases will make residential construction less profitable. The level of housing investment could thus fall by as much as 5 per cent in 2025. As a higher interest rate level will make capital goods more expensive, the level of business investment will fall by 2 per cent in 2023 already, and by as much as 7 per cent in 2025.

Contribution to effects on mainland GDP



Source: Statistics Norway.

The contributions from house prices, household disposable income and the exchange rate are calculated by allowing the level of these variables to be the same in the alternative scenario as in the projection scenario. First, the level of house prices in the alternative scenario is set equal to the level in the projection scenario. Then the level of household disposable income in the projection scenario is entered in the alternative scenario. Finally, the level of the exchange rate in the projection scenario is entered in the alternative scenario. "Other" is calculated as a residual.

The interest rate hikes will also affect the Norwegian economy through a strengthening of the krone in relation to the euro. The appreciation of the krone will imply a weakening of manufacturing competitiveness in relation to other countries, and push down the level of traditional goods exports by around 2 per cent in both 2024 and 2025. Although the appreciation of the krone will at the same time make imported goods cheaper, and hence CPI inflation lower, the fall in household consumption as a consequence of the interest rate increases will mean that the level of imports will be depressed by almost as much as the level of exports in the same period.

Our calculations show that the effects through house prices, household disposable income and the exchange rate combined will account for over 70 per cent of the overall effects on mainland GDP in the years 2023–2025. The fall in house prices alone will contribute about 20 per cent in 2023, 25 per cent in 2024 and almost 35 per cent in 2025. The effects on the housing market of the interest rate increases will accordingly play an ever more important part in developments in activity in the Norwegian economy. Households' fall in income as a consequence of the rate hikes will contribute around 20 per cent of the overall effects on mainland GDP, while the appreciation of the krone will contribute about 25 per cent.

The interest rate hikes will thus dampen activity in the Norwegian economy quite significantly in the next few years. Activity will be particularly inhibited through the interest rate channels of the housing market, household demand and the foreign exchange market. Without interest rate hikes, inflation would probably remain higher than the inflation target, unemployment would be lower and the Norwegian economy would enter an even clearer expansion in the course of next year than our projections in this report indicate.

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forecast that mainland GDP will increase by 3.7 per cent this year. Mainland economic growth is then expected to slow to just under 2 per cent in 2025.

The economy is currently characterised by high prices, for oil and gas among others. GDP in current prices has risen by as much as 37 per cent in a year. Norway will probably have a record trade surplus of over NOK 1 000 billion in 2022, but this expected to be more than halved during the projection period.

The magnitude and duration of the ongoing turbulence in the world market, particularly the war in Ukraine, will play a major part in economic developments going forward. In addition there is still great uncertainty as to whether new and more dangerous variants of the coronavirus will arise. We have assumed that some sanctions and a desire for less trade with Russia will be continued in the longer term, even if acts of war cease. It is assumed that the bottlenecks in the global economy are temporary, however, and that prices for energy products and other commodities will fall. We have also assumed that no further shutdowns of the Norwegian economy will be needed in the time ahead. Given these assumptions, the Norwegian economy will move into an expansion in the course of the year. However, interest rate hikes and lower global growth mean that the expansion will be moderate. Without the forthcoming interest rate hikes, inflation would probably remain higher than the inflation target, and the Norwegian economy would enter an even clearer expansion than our projections indicate (see Box).

Stimulus packages and stabilising fiscal policy

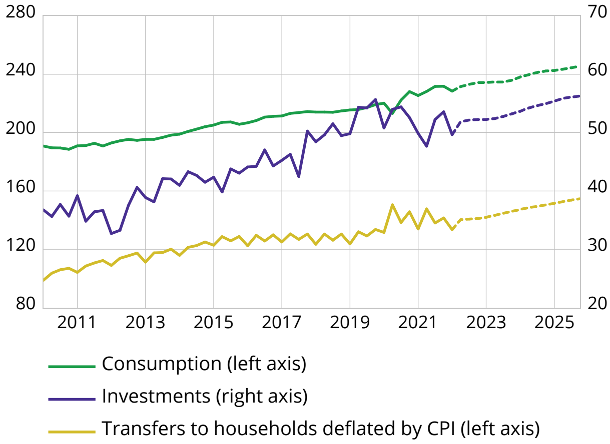
A high level of COVID infection and no deliveries of fighter aircraft characterised general government activity in 2022 Q1. Central government consumption fell by 3.4 per cent in Q1, following a rise of 0.9 per cent the previous quarter. The decline was mainly due to a fall in the consumption groups health services, social benefits and welfare and educational services. Lower consumption of health services should be viewed in light of the high COVID infection level, high sickness absence in the health trusts and patients who cancelled appointments. Local government consumption rose by 0.5 per cent in 2022 Q1, after falling 0.8 per cent in 2021 Q4. General government investment fell by as much as 7.3 per cent in Q1 this year, after growth of 2.6 per cent in the previous quarter. Almost the entire decline can be attributed to reduced defence investment because no fighter aircraft were delivered. Local government investment pushed up general government investment.

The structural non-oil deficit for 2022 is projected in the Final Budget Bill to be NOK 322.4 billion, which was identical to the estimate in the National Budget. Measures associated with the outbreak of the omicron variant of COVID, the high electricity prices and the war in Ukraine have increased the forecast deficit. Since the Final Budget Bill 2022, extraordinary measures for approximately NOK 60 billion have been proposed and adopted according to the Revised National Budget: NOK 24.7 billion for temporary COVID-related measures, NOK 20.5 billion for electricity support measures and NOK 14.4 billion to strengthen civil and military preparedness. To prevent fiscal policy from increasing the pressures in the economy, the Government has at the same time applied measures that have led to budget cuts of NOK 17.5 billion. The framework grant to the local government sector has been reduced by NOK 11.5 billion as a result of transient high and unexpected tax revenues, cost coverage has been increased by NOK 4 billion by altering priorities within the development aid framework, and other expenses have been reduced by about NOK 2 billion. The Government proposes increasing the wealth tax rate for non-personal tax payers from 0.15 to 0.25 per cent, which will increase revenues by about NOK 0.2 billion in 2022. No welfare cuts or other major tax increases have been made. According to the Revised National Budget, the overall effect will be a structural non-oil deficit for 2022 of NOK 352.2 billion.

The Government also proposes that value-added tax exemption for electric cars be replaced by a subsidy scheme from 2023. The change entails introducing taxes on purchases of electric cars that cost more than NOK 500 000. However, increasing taxes on purchases of electric cars with effect from 2023 may result in loss of tax revenues in 2022 already, as a consequence of substitution from taxable fossil-fuel cars to tax-free electric cars. Subsequent higher sales of taxable fossil-fuel cars in 2023 will then increase tax revenues.

It is estimated in the Revised National Budget that the deficit in 2022 will be equivalent to 2.9 per cent of the petroleum fund, which is within the limit defined by the fiscal rule. However, recent years' growth in the fund's value implies increased use of petroleum revenue, measured in NOK. Spending of petroleum revenue in 2022 is projected to account for 10.3 per cent of trend mainland GDP, which is clearly higher than prior to the pandemic, when spending amounted to 7.3 per cent. Projections in the Revised National Budget show moreover that fiscal policy in 2020 and 2021 will continue to stimulate economic activity in 2022. The high electricity prices which, like taxes on electricity, generate revenue for the public purse, will curb economic activity. Expectations that the high prices for energy and intermediate inputs are temporary will make it more profitable to defer investment. Forecast net cash flow from petroleum activities, which is placed in the petroleum fund, has been revised up to over NOK 930 billion in 2022 as a consequence of persistently high oil and gas prices. However, the value of the petroleum fund, which at the beginning of 2022 was NOK 12 340 billion, had fallen to about NOK 11 900 billion at the beginning of June. In our projections for 2023–2025 we assume that petroleum revenue, measured as the structural non-oil budget deficit as a percentage of the value of the petroleum fund, will remain at slightly below 3 per cent, given normal developments in the value of the fund. Major changes in stock exchange prices,

Figure 4. General government
Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

the krone exchange rate and invested capital may affect the percentage used, however.

We forecast a percentage increase in general government consumption and gross investment of 1.2 and 2.2 per cent, respectively, in 2022, identical with the figures in our previous projections. The increases are projected in the Revised National Budget to be approximately 0.7 and 1.1 per cent. The growth projections for the period 2023–2025 are extrapolations of previous projections, which included stable deliveries of fighter aircraft. However, public sector investment growth has increased somewhat compared with our previous forecasts as a result of higher expected military defence investment. Public transfers, which in the last report were expected to increase in real terms by 1.3 per cent in 2022, are now expected to increase by 0.3 per cent. This difference is attributable to a lower level of benefits in Q1 combined with a sharper rise in prices. Pension payments will increase gradually in the projection period. Increased investment in energy production and green restructuring may result in a more expansionary fiscal policy, but the effect will depend on the funding and design of the measures.

The war in Ukraine and the risk of a new COVID wave create uncertainty for fiscal policy. We assume in our forecasts that prices for oil and electricity will fall in pace with forward prices for these products. A prolonged war combined with extensive sanctions against Russia could result in persistently high world market prices for oil, metals, wheat and some other agricultural products. Prices for gas and electricity supplied to Europe will probably also remain high in such a scenario. Tax and dividend revenue to the state from oil and gas production, which is channelled into the petroleum fund, and from electricity and metals production, which reduces the budget deficit, will then be very high. On the other hand, a prolonged war increases the probability of a sharp fall in prices on global stock exchanges. Such a price fall would inflict heavy losses on the Norwegian state by reducing the value of the petroleum fund. Expenses associated with acceptance of refugees are additional.

Possible double interest rate hike in June

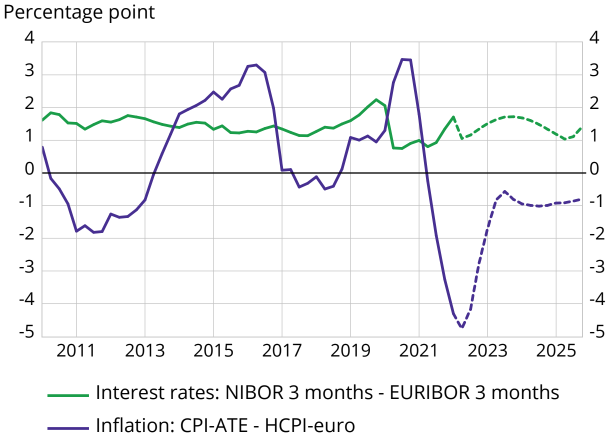
After well over a year with a historically low key policy rate of 0 per cent, Norges Bank raised the rate by 0.25 percentage point in September 2021. The rate hikes continued at the December and March monetary policy meetings, so the key rate is now 0.75 per cent.

Money market rates shadow the key rate. The three-month money market rate was down to 0.2 per cent in summer 2021. By the end of the year it had risen to 1.0 per cent, and it continued to increase in 2022. By the end of May 2022 it was 1.2 per cent, after reaching 1.4 per cent earlier in the year. The fixed income market has priced in a rise in the money market rate to 2.3 per cent in December this year and further up to about 3 per cent by the end of 2023.

Deposit and lending rates have also increased from record-low levels in Q2 and Q3 last year. The average interest rate on loans secured on dwellings was 2.4 per cent at the end of Q1 this year, an increase of 0.2 percentage point on the end of the previous quarter and 0.4 percentage point higher than at the end of 2021 Q2 and Q3. At the end of last year the average deposit rate was 0.6 per cent, which was 0.3 percentage point higher than at the end of 2021 Q2.

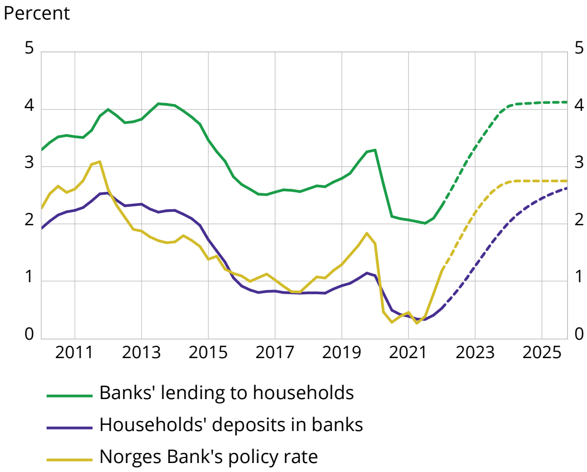
The interest rate hikes since summer 2021 are probably the first of a series of increases that will come in the next few years. Norges Bank normally takes a cautious approach to raising the interest rate. At the March monetary policy meeting, Norges Bank signalled interest rate hikes every quarter until the end of 2023, bringing the key policy rate up to about 2.5 per cent. Inflationary pressures have increased since, and LFS unemployment has

Figure 5. Interest rate and inflation differential between NOK and euro



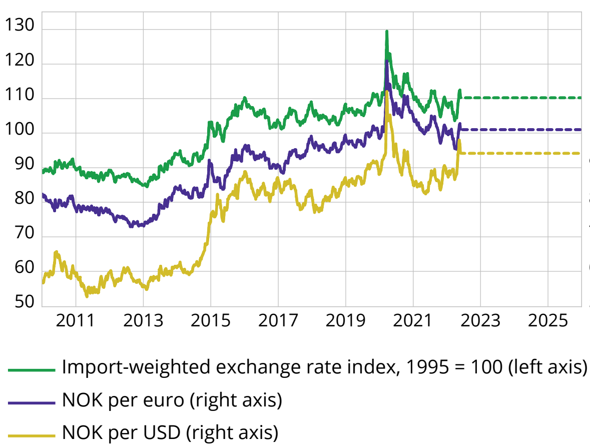
Source: Norges Bank and Statistics Norway

Figure 6. Norwegian interest rates



Source: Norges Bank and Statistics Norway

Figure 7. Exchange rates



Source: Norges Bank

fallen to a very low level. We have revised up our projection for CPI inflation this year by 1.4 percentage points, and reduced the unemployment projection by 0.5 percentage point. Both the high inflation and the low unemployment point to a faster rise in interest rates. The risk of a wage-price spiral, with prices and wages driving one another up, also points to a more rapid increase in the policy rate. We therefore expect a double interest rate increase from Norges Bank already now in June. Even after this rate increase, the policy rate will be lower than prior to the COVID crisis and lower than what Norges Bank calls a normal interest rate level of around 2 per cent. We assume that Norges Bank will continue to raise the interest rate going forward. According to our projections, the key rate will reach 2.5 per cent in the course of next year, and then be kept unchanged the following years. The money market rate will then be around 2.8 per cent in 2024 and 2025. The lending rate, the average interest rate on loans secured on dwellings, is projected to be about 4 per cent in 2024 and 2025.

As in previous projections, we assume unchanged exchange rates going forward. At the beginning of June the euro was worth NOK 10.1 and the US dollar cost NOK 9.4. If these and other exchange rates remain unchanged in the near term, the annualised value of the krone will about the same this year as in 2021, measured in terms of the import-weighted krone exchange rate. If the krone remains at its current weak value, next year it will also depreciate by about an annualised 1 per cent.

Saving ratio back at a more normal level

Growth in real disposable income for households and non-profit organisations combined is estimated in the non-financial sector accounts to be 5.4 per cent in 2021, compared with 3.2 per cent in our previous economic report. Much of the change in the growth projection is due to an upward revision of share dividend payments last year amounting to around NOK 65 billion on an annual basis. This upward revision relates to new information showing that share dividend payments were record-high, at around NOK 100 billion, towards the end of last year, probably because of the increased tax on dividends from 2022. If share dividend payments are excluded, growth in real disposable income was only 0.7 per cent, approximately 1.5 percentage points lower than our previous projection. The downward revision of the growth projection is largely of a technical nature and attributable to the fact that the non-financial sector accounts do not correct for increased taxes associated with dividend payments last year.[1]

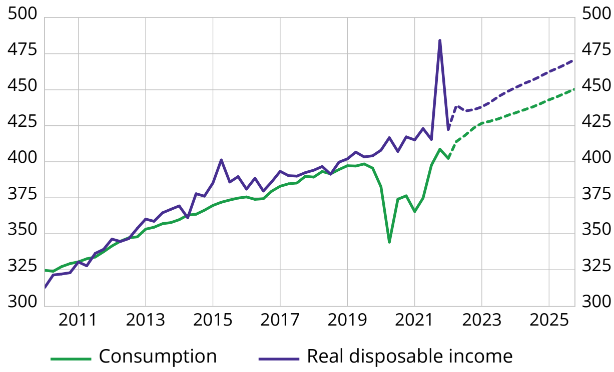
Households experienced major changes in the composition of their income and expenses during the COVID pandemic, with infection control measures, periodic business closures and very low interest rates. Wage income, which is the most important source of household income, picked up appreciably last year due to increased employment. However, growth in public transfers was far more modest than the previous year because some of the workers who were furloughed and unemployed in the first year of the pandemic returned to work. Net interest expenses, on the other hand, boosted household disposable income substantially last year, as in 2020, because of persistently low lending rates. The household interest burden, measured as interest expenses after tax as a share of disposable income, fell further, from 4.6 per cent in 2020 to 3.8 per cent last year.

Preliminary figures from the non-financial sector accounts show that real disposable income fell by around 13 per cent in Q1 this year, while real disposable income adjusted for share dividend payments increased by around 6 per cent. These growth projections are largely based on higher wage income as a result of employment growth, increased net interest expenses as a consequence of higher lending rates and normalisation of share dividend payments and hence also of tax on income.

The household consumption pattern also changed significantly during the pandemic. When infection control measures placed stringent restrictions on consumption of services, households adapted by increasing their consumption of goods. Whereas goods consumption remained at a historically high level throughout 2021, according to the monthly national accounts, consumption of services did not revert to the level prior to the outbreak of the pandemic until September last year. On an annual basis, overall consumption grew by 4.9 per cent in 2021, but was still about 2 per cent lower than the level in 2019.

Figure 8. Income and consumption in households

Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

Total consumption in January this year reflected the infection control measures introduced in mid-December last year in connection with the spread of the omicron variant. Overall consumption therefore fell in January and in December last year. Despite the rebound in February and March, as the infection control measures were lifted, overall consumption fell by 1.5 per cent in Q1 this year according to the quarterly national accounts (QNA). Goods consumption fell by 2.4 per cent, pushed down by car purchases in particular, after record sales of new passenger cars last year, according to the Norwegian Road Federation. The record sales in 2021 can be attributed to substantial saving by households through the pandemic. Car purchases fell sharply in the first two months of 2022 as a result of a shortage of microchips and bottlenecks in supply chains. In the first quarter this year, goods consumption excluding car purchases was only 0.3 per cent lower than in Q4 last year. Consumption of services dipped 0.3 per cent in Q1 as a consequence of a decline in consumption of passenger transport and accommodation and food service activities.

As overall income increased more than consumption last year, the saving ratio, measured as saving as a share of disposable income, rose from an already high level of just over 14 per cent in 2020 to almost 15 per cent in 2021. Such a high annual saving ratio has not previously been recorded in the non-financial sector accounts. The saving ratio excluding share dividend payments fell from around 10 per cent to around 7 per cent in the

[1] This is due to the fact that the figures for tax on wage income and share dividends disbursed to households are combined in a tax item from the Norwegian Tax Administration, and are therefore difficult to distinguish from one another in the non-financial sector accounts.

same period. By way of comparison, the average annual saving ratios including and excluding dividend payments were 6.7 per cent and 2.9 per cent, respectively in the 10-year period 2010–2019.

According to preliminary figures from the non-financial sector accounts, the saving ratio fell from 18.9 per cent in 2021 Q4 to 8.2 per cent in 2022 Q1, while the saving ratio excluding share dividend payments increased from well under zero per cent to 5 per cent in the same period. However, these substantial changes in the saving ratio through two quarters must be viewed in light of the extraordinary changes in share dividend payments, which are probably due to the higher tax on dividend introduced this year.

We now forecast that growth in real disposable income adjusted for share dividend payments will be around 4 per cent this year. This is an upward revision of about 2 percentage points compared with our previous report, and is largely attributable to the forecast downward revision of growth in real income last year in the non-financial sector accounts. Given our assumptions, average annual growth in real disposable income in the years 2023–2025 will be just over 2.5 per cent. Both wage income and public transfers will pick up in real terms in pace with substantially lower expected inflation in the years ahead and will contribute substantially to real disposable income. However, net interest expenses will curb growth in real income in 2023 and 2024 when the mortgage rates faced by households increase in pace with a rising key policy rate. In 2024 and 2025 the level of the household interest burden will rise to close to 7 per cent, which is over 1 percentage point higher than the average for the 10-year period 2010–2019.

We foresee overall consumption growth of around 7.5 per cent as an annual average this year. Underlying this growth projection, which is consistent with the previously published projection, are assumptions that there will be no new lockdowns and that households' pandemic-induced pent-up demand has not been exhausted. The total consumption level in 2022 could then be more than 5.5 per cent higher than the level in 2019. Because of the ongoing war in Ukraine, however, there is great uncertainty surrounding our consumption projections. We forecast that overall consumption will increase further by an annualised average of close to 2.5 per cent in the last three years of the projection period. Developments in these years will be driven by growth in real disposable income but curbed by higher real after-tax interest rates and weak developments in real house prices.

According to our projections for income and consumption developments, the saving ratio will fall to around 8.5 per cent as an annual average this year, and be somewhat higher in both 2024 and 2025, spurred by higher real after-tax interest rates. The saving ratio adjusted for share dividend payments will fall to around 3 per cent this year and rise to about 4 per cent in 2025. These last projections imply that the saving ratio as an annual average in the projection period will revert to a more normal level close to the annual average for the 10-year period 2010–2019.

Prospects of slower growth in the housing market

According to Statistics Norway's house price index, house prices increased by an annualised 10.5 per cent in 2021 and continued to rise by as much as 2.4 per cent in Q1 this year. The strong first-quarter rise must be viewed bearing in mind that at the beginning of the year more stringent requirements for survey reports were introduced in the Sale of Real Property Act. This has created bottlenecks in the housing market, resulting in significantly fewer dwellings being put on the market in Q1 compared with the same period last year and the pre-pandemic years.

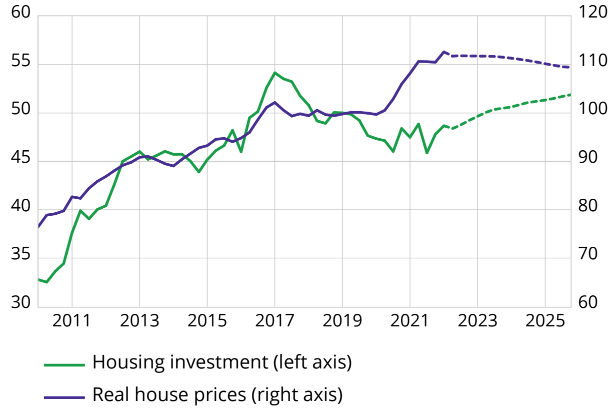
Real Estate Norway publishes monthly statistics over dwellings sold. The May statistics showed that despite growth in the number of new dwellings on the market, the housing market supply side remains weak. The number of dwellings sold has increased considerably since January, however, and the level in May this year was higher than the historically high level in May 2021. Conversely, the number of unsold dwellings and the turnaround time have been at historically low levels so far this year. Relatively high housing demand combined with few dwellings on the market creates pressure on prices. This may have contributed to the substantial rise in house prices in recent months, with a rise of 0.8 per cent in March, 0.4 per cent in April and 0.7 per cent in May, according to Real Estate Norway.

According to national accounts figures, housing investment rose by 1.9 per cent in Q1 this year after rising by a whole 4.3 per cent in 2021 Q4. At the same time, sales of new dwellings so far this year (up to and including April) have been 13 per cent lower than in the same period in 2021, according to the Norwegian Homebuilders' Association. Housing starts have been at the same level as last year, however. Developments in sales figures may be attributable to the rise in prices for building products and households' lower expectations concerning their own financial situation. According to our projections, housing investment going forward will be at a lower level than assumed in our previous economic report. We now project annualised growth in housing investment of around 2 per cent this year, a downward revision of just 0.5 percentage point compared with our last projection. However, the higher building costs are likely to be temporary, prompting deferral of some investment until next year. We foresee growth in housing investment of just over 3.5 per cent in 2023, falling to 1 per cent towards the end of the projection period, partly as a result of higher interest rates.

In our KVARTS macroeconomic model there is a reciprocal effect between house prices and the housing supply. Positive growth in housing investment will lead to higher growth in the supply of dwellings, and hence to lower house prices in the years ahead. Moreover, the expected interest rate increases will have a dampening effect on the housing market and the Norwegian economy in general; see Box. A slowing rise in house prices is reflected in household borrowing, which increases in pace with house prices in KVARTS. Our projections indicate that annual debt growth will decrease from over 5 per cent in 2022 to around 3 per cent in 2025.

A number of uncertainty factors may affect the housing market going forward. The ongoing pandemic, which is still an important factor, for example in China, and the war in Ukraine are causing increased energy prices and high costs for materials. The war is also increasing global uncertainty and creating international turbulence. This may detract from willingness to invest and weaken households' financial situation, which may push down prices. However, higher building costs, bottlenecks in the production of new dwellings and a weak housing market supply side may create further pressure on prices in the housing market in the near term.

Figure 9. Housing market
Seasonally adjusted. Left axis: billion 2019 NOK, quarter
Right axis: index, 2019 = 100



Source: Statistics Norway

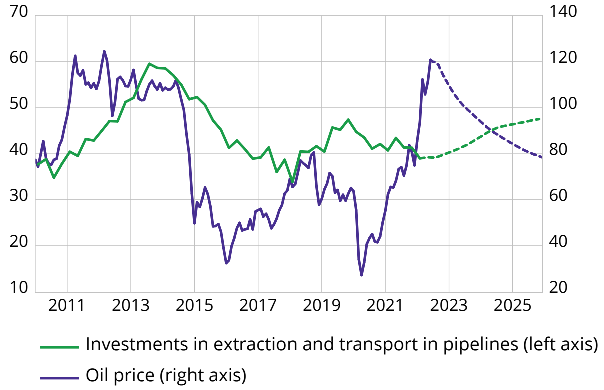
We forecast that house prices will rise by 5.8 per cent this year. This projection implies that house prices will increase by 1 per cent through the remainder of the year. As a consequence of an expected higher interest rate path, we have revised down our projections for house price developments from next year onward. We assume that the annualised rise in house prices will fall from 2.6 per cent in 2023 to about 1 per cent in the years 2024 and 2025. In this scenario, real house prices will fall in each of the years in the period 2023–2025.

This year's fall in petroleum investment will reverse into solid growth

Petroleum investment fell by 5.5 per cent in 2022 Q1 compared with the previous quarter, and was 4.3 per cent lower than in Q1 last year. While investment prices rose by only 1.2 per cent in 2021, the rise in 2022 Q1 was 3.6 per cent compared with the same quarter last year. There is reason to believe that the sluggish rise in prices last year was largely attributable to the appreciation of the Norwegian krone, and that the escalating rise in prices so far this year is due to the depreciation of the krone. As petroleum companies pay for much of their capital goods in USD, prices measured in NOK are reduced when the value of the krone increases, and vice versa.

Statistics Norway surveys the petroleum companies' investment plans for the current year and the following year through the quarterly survey of intended investment in oil and gas, manufactur-

Figure 10. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2019 NOK, quarter
Right axis: USD per barrel



Source: Statistics Norway

ing, mining and power supply (KIS). The nominal projection for 2022 in the last survey is approximately NOK 167 billion. This is 4.8 per cent higher than the projection in the last survey, but nonetheless 8 per cent lower than the projection for 2021 published at the same time last year. A new development project is included in the last survey. However, it is the categories field development, fields in operation and shutdowns and removal that contribute to the indicated decline. Several development projects were completed last year, while others are approaching completion and their investment peaks therefore occurred earlier. The category production drilling is driving the indicated decline within fields in operation. The interim tax rules adopted by the Storting in June 2020 were designed to apply until the end of 2021 for all types of investment apart from shutdowns and removal. As the fiscal impetus for this type of investment was phased out as of 1 January 2022, the operators had strong incentives to complete as much of this type of investment as possible before the end of 2021. The high level of investment in fields in operation last year and the indicated decline for this category may be partly attributable to this phasing out. The decline has been especially pronounced in the subcategory production drilling.

Development projects are not included in the investment survey until a plan for development and operation (PDO) is submitted to the authorities. The aforementioned tax package also offers favourable taxation for all developments for which PDOs are submitted before the end of 2022. PDOs for a very large number projects are therefore expected to be submitted towards the end of the year. Investment this year in projects with PDOs that are only submitted in Q4 will only be modest. It will be higher for those with PDOs submitted earlier. In addition to Halten East, for which a PDO was delivered at the end of May, PDOs are expected in the course of the next few months for developments such as Brasse, Trine and Trell. Overall, we forecast that development investment viewed in isolation will increase by about NOK 6 billion this year over and above the investment already included in the survey.

Our projections for petroleum investment are linked to our projections for movements in the oil price, which are based on futures prices. The energy crisis in Europe this autumn and the ongoing war in Ukraine have resulted in a marked increase in both gas and oil prices. We anticipate that this may encourage operators to expand their drilling programmes for fields in operation in excess of their current budgets. However, operators of several fields have been authorised to minimise their maintenance shutdowns this year in order to increase gas production so that more Norwegian gas can be supplied to Europe. Investment in upgrading also usually takes place in connection with these maintenance shutdowns. Fewer, shorter maintenance shutdowns could therefore reduce investment in goods and services in fields in operation this year. As a result, we forecast that the volume of petroleum investment will fall by 7 per cent this year, a slightly steeper fall than projected in our previous report.

The investment intentions survey for 2023 estimates investment at about NOK 131 billion, which is roughly in line with the projection in the previous survey. The projection indicates a nominal fall of about 8.5 per cent in 2023 compared with the corresponding projection published for 2022. It is the categories fields in operation, shutdown and removal, and exploration and concept studies that will push down investment compared with 2022. The field development projections point the opposite way, to a slight upturn in investment in 2023. The many developments that will be launched this year will entail significant investment in 2023, which will substantially raise development investment compared with that now included in the survey.

The last time there was a strong increase in the level of activity on the Norwegian continental shelf for a period of years was 2011–2014. There was then strong investment growth in field development, fields in operation and exploration alike. This resulted in a strong rise in the costs of factor inputs in the industry. Operators are now planning to carry out a larger percentage of development investment in Norway than they did then, which in isolation will further increase demand targeting the Norwegian supplier industry. We assume that operators in the industry have the experiences of previous decades in mind, and that they will attempt to prevent the same happening again by curbing the level of activity in exploration, and particularly in fields in operation, through the coming years with a development boom. On the basis of this assumption, there is a larger upside than downside risk in our investment projections for the next few years in fields in operation and exploration.

We forecast that fixed investment will increase by 7 per cent in 2023, 2 percentage points less than in our previous report. The downward revision is partly a consequence of changes in our projections for the investment profiles of some of the developments, such that development investment is somewhat lower in 2023 and somewhat higher in 2024. We have also made some reductions in our projections for investment in fields in operation next year.

The many developments coming this year are likely to generate very high investment in field development in both 2024 and 2025. Small development projects tend to have highest investment in the second year of development, while the highest investment in larger projects typically takes place in the third year or later. As the great majority of scheduled projects are coming towards the end of 2022, 2023 can be regarded as their first development year. According to our calculations, investment in field development will therefore be markedly higher in 2024 than in 2023, and slightly higher than assumed in our previous economic report. Most of the upcoming developments are small or medium-sized, and investment in these will probably peak in 2024. Some projects are large, and investment will probably be higher in 2025. This means that development investment is likely to level off more in 2025. We accordingly forecast volume growth of 10 per cent in 2024. The investment level in 2024 will thus be about 1 per cent higher than the forecast in the previous report.

We have increased our projection for field development and somewhat reduced the projection for fields in operation and exploration. We have increased our projection for growth in volume in 2025 from zero in the last report to 3 per cent now. The changes are a consequence of altered projections for the investment profiles of some developments and the bringing forward of the start-up of other developments projects. Given this scenario, investment in 2025 will be approximately 5 per cent higher than in 2019.

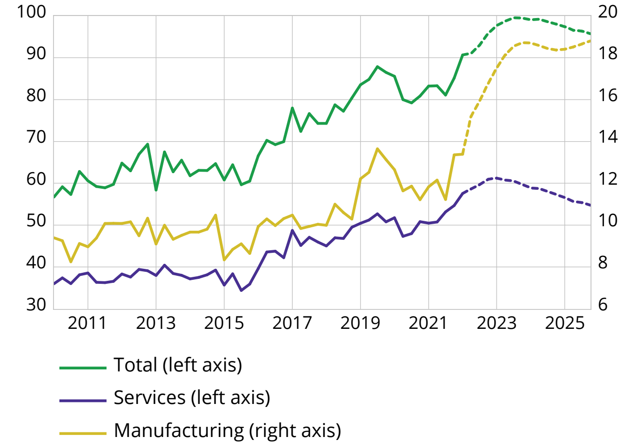
In Q1 this year, oil and gas extraction was 0.4 per cent lower than in the same period last year. Liquid production fell by 6.7 per cent, while gas production increased by 6.2 per cent compared with the same quarter in 2021. The Norwegian Petroleum Directorate (NPD) now forecasts that production will increase by 3.9 per cent this year. NPD has increased its growth estimate for this year’s gas production in February–May from 1.7 per cent to as much as 7.8 per cent. The increased growth forecast is attributable to the Ministry of Petroleum and Energy authorising companies to increase their gas production to make it possible to increase supplies of Norwegian gas to Europe. Conversely, NPD has revised down it’s growth forecast for liquid production from 3.5 per cent in February to only 0.1 per cent in May. Petroleum production in 2023 and 2024 is expected to increase by 3.4 per cent and 2 per cent, respectively, before gradually falling in the second half of this decade.

Sharp rise in manufacturing investment

According to interim national accounts figures, business investment rose by 6.5 per cent in 2022 Q1. Growth was driven by high investment in the categories ‘Other goods production’, which increased by 15.3 per cent, and ‘Other services’ (unrelated to the petroleum industry) which are projected to grow by 5.3 per cent. Investment in ‘Other services’ had already passed the pre-pandemic level by the beginning of Q1.

Statistics Norway surveys businesses’ investment intentions for the current year and coming year in manufacturing, mining and power supply. The last figures published in May 2022 show that manufacturing investment in 2022 is forecast to be 38.2 per cent higher than the corresponding projections for 2021 published at the same time last year. The changes in the investment projections are largely

Figure 11. Investments Mainland Norway
Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

due to new investment projects in basic metals, the computer and electrical equipment industry and to some extent oil refineries. Mining investment has also seen a slight upturn, with projected growth in 2022 of 2.6 per cent compared with the corresponding projection for 2021 published at the same time last year.

Investment in power supply is expected to fall by 22.1 per cent this year compared with the projection for 2021 published at the same time last year. The fall must be viewed in light of the fact that several windpower projects were completed in 2021 while no new ones have been started.

Investment in mainland activities is increasingly associated with a climate-related transition to renewable energy. Several large projects that can be related to "green restructuring" are included in businesses' investment forecasts in Statistics Norway's survey. These include battery factories, carbon capture and storage facilities and hydrogen plants. Total investment of well over NOK 10 billion was reported for this type of project in the last investment intentions survey. Most of these investment projects are long-term, and will thus help to maintain business investment at a high level in the longer term.

According to the March report of Norges Bank's regional network, businesses expect substantial investment growth in the coming year, although the estimates have been reduced since the previous survey in December. Stable developments are expected in investment in wholesale and retail trade, while the pace of investment in service industries is expected to increase.

However, developments in investment depend on the ongoing pandemic and the war in Ukraine. High energy prices coupled with high prices for commodities generally may put a stop to the planned investment of several businesses.

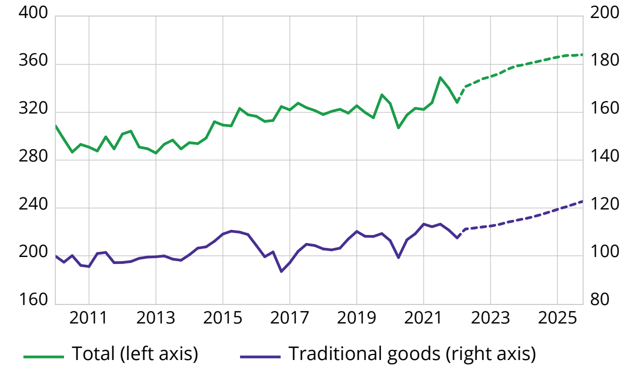
We now forecast growth in business investment for the current year at 9.9 per cent, which is a good deal higher than the 7.2 per cent forecast in the previous report. The reason for the upward revision is the strong growth in forecast investment in manufacturing, and the fact that businesses in service industries continue to foresee an increasing pace of investment. Growth in 2023 is projected to be about 8 per cent, a clear upward revision from the previous report, where the forecast was about 5 per cent. The upwardly revised projection is due to manufacturing businesses announcing investment growth next year as well. Investment is assumed by businesses to remain at a historically high level throughout the projection period. Towards the end of the period, growth flattens out in response to Norges Bank's expected interest rate hikes.

Record high export value in Q1 this year

Following the decline through the first half of 2020, the value of total exports has risen in each of the last seven quarters. Growth was persistently high through 2021, and the value in Q1 this year was almost twice as high as in the same quarter last year. Virtually the whole increase in value since mid-2020 is attributable to sharp growth in prices for Norwegian export goods, particularly natural gas and crude oil, but also for important mainland exports such as electricity, refined petroleum products, basic metals and basic chemicals, and chemical and mineral products. A global rise in prices for these product groups also caused the overall import value to increase substantially in the course of the last seven quarters, but far less than the value of total exports. Measured in terms of volume, there was low growth in imports and even lower growth in exports through 2021. Thus it was largely terms of trade gains that boosted the trade balance each quarter, from a deficit of NOK 26 billion in 2020 Q2 to a record high surplus of NOK 303 billion in 2022 Q1.

Figure 12. Exports

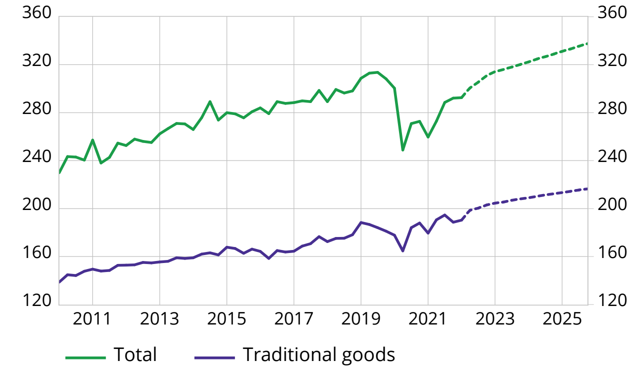
Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

Figure 13. Imports

Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

After falling in the first half of 2020 and recovering in the second half, the volume of mainland exports has shown little growth. Traditional goods exports rebounded rapidly to the pre-pandemic level but have developed weakly and – adjusted for seasonal fluctuations – declined somewhat in the last two quarters. In particular, growth in the volume of exports of engineering products, basic chemicals, chemical and mineral products and primary industry products has been negative. Service exports are not yet back at the pre-pandemic level. Very strong growth in foreigners' consumption in Norway, which is counted as exports, contributed to marked growth in overall service exports in the second half of last year, while reduced financial and business services contributed to a small decline in overall service exports in Q1 this year. After peaking in 2021 Q3, both oil and gas exports have fallen in the last two quarters. The enormous rise in prices has not led to more exports because in the short term the volume of exports is limited by production capacity.

Seasonally adjusted imports of goods and services have shown similar developments to mainland exports in the last two years. After falling in the first half of 2020, goods imports have picked up to a slightly higher level than prior to the pandemic. Service exports fell more, and are still far below their pre-pandemic level, despite strong growth through the second half of 2021. Imports of goods and services both increased slightly in Q1 this year. Imports of large manufacturing product groups such as engineering products, basic chemicals, chemical and mineral products, basic metals and refined petroleum products pushed up overall goods imports. Increased imports of information services pushed up overall service imports considerably. The high rise in prices for goods imports through 2021 continued in Q1 this year, while prices for service imports fell back somewhat after high growth the previous three quarters.

Because of the international turbulence, we expect lower export market growth through the 2022–2025 projection period than assumed in our previous report. This, coupled with a high rise in prices this year for goods exports in particular – both including and excluding oil and gas – implies lower growth in exports in 2022 than foreseen previously. From 2023 we expect minor changes in mainland exports and some price reduction. A reduction towards more normal oil and gas prices will not have a major effect on export volumes, as they are substantially restricted by current production capacity for the next few years. Import prices are expected to continue moving in the same direction as export prices, but to rise less this year and fall less subsequently. This means a terms of trade gain this year and a terms of trade loss thereafter. Coupled with high prices for oil and gas this year and a subsequent fall in prices, this will generate a record-large trade surplus of over NOK 1 000 billion this year, but the surplus is forecast to be more than halved for the next three years. A large income and current transfers surplus this year is expected to increase through the projection period, however. Added to the trade surplus, it will contribute to a record current account surplus this year. It will then ease the decline due to the large reduction in the trade surplus. The current account surplus as a share of GDP is projected to reach as much as 25 per cent this year, and then to be halved by 2025. Such large absolute surpluses and surpluses as a share of GDP have not previously been measured in the national accounts.

Output rebounded after the fall in December

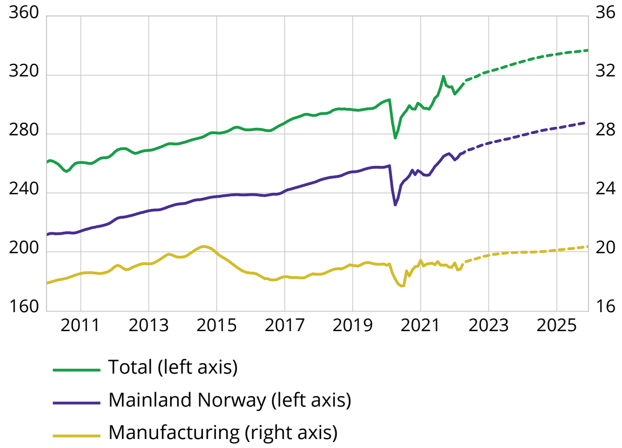
In November 2021, mainland GDP had rebounded to a level close to the estimated trend, but renewed COVID measures once again restricted activity in parts of the business sector in December 2021 and parts of 2022 Q1. Absenteeism was also high at the beginning of this year, as the omicron virus spread rapidly once society reopened. Mainland GDP dipped in December and January, but increased in the following two months. In March, monthly mainland activity was once again roughly back at the level in November 2021. Overall, mainland GDP was reduced by 0.6 per cent in 2022 Q1.

The COVID situation affected output in private and public services in particular in early 2022. Activity fell in December and January in industries such as transport, accommodation and food services, and culture, entertainment and other services. These industries have also previously been particularly hard hit by infection control measures. Activity in wholesale and retail trade has remained at a high level throughout the pandemic, as households' purchasing pattern shifted away from services and consumption abroad. However, activity in the industry fell around the beginning of the year. A high rate of staff absences and large number of COVID-related hospitalisations hampered the normal activities of the health enterprises. This pushed down mainland GDP considerably in early 2022.

The economic downturn in December and January was far more subdued than in previous periods with high infection rates and stringent infection control measures, which reflected the relative mildness of the disease and the short duration of the restrictions. Considerable parts of the economy went through Q1 unscathed and several industries grew, including construction, information and communications and professional, scientific and technical services. The amount of assignments in many industries has increased with the opening of society, and capacity utilisation is high. However the tight labour market has made filling vacancies challenging.

Activity in the service industries that were hardest hit by the pandemic is still lower than before the pandemic, but is assumed to continue growing in the time ahead. At the same time, foreign tourists and foreign commuters have not returned to the same extent as prior to the pandemic, which may further depress growth. Households' purchases abroad remain lower than before the pandemic, but if they pick up, value added in Norwegian retail trade may fall further.

Figure 14. Gross domestic product
Seasonally adjusted, billion 2019 NOK, month



Source: Statistics Norway

Nonetheless, some changes brought about by the pandemic will probably not be fully reversed. For example, people's travel and online shopping habits have changed in the past two years, and this may represent a permanent demand change.

In addition to the COVID situation, there have long been challenges associated with global market developments. The second half of 2021 was characterised by high shipping rates, tight energy markets and a shortage of commodities which are reflected in a high rise in prices for some goods and services. The sharp rise in prices for energy products has had a particular impact on the Norwegian economy. The value of Norwegian petroleum production and overall GDP has grown historically high as a result. However, developments in the volume of production in the extraction industry have been more subdued. The value of overall GDP grew strongly in March from an already very high level. The value of natural gas and crude oil made a particular contribution to boosting overall GDP, but several other products that Norway produces and exports have contributed, including electricity, basic metals and fish. At the same time, inflation has made the intermediate goods used in production in many industries expensive, for example in manufacturing, where energy products are an important factor input.

We expect further growth in the Norwegian economy in the time ahead. In isolation, growth will be curbed somewhat more by the ongoing war in Ukraine compared with the previous forecast. Annual mainland GDP growth in 2022 is nonetheless projected to be 3.7 per cent, which is 0.1 percentage point higher than in our previous forecast. In the following years, output growth is expected to decline somewhat. Further growth is conditional on the coronavirus being kept under control, so that the normalisation of society can continue. We have assumed that the high prices will not be permanent, but more costly intermediate goods over a long period may impact activity in some areas of the business sector. If inflation feeds through into value chains, resulting in higher sales prices for finished goods, this could curb household demand.

Continued increase in employment and falling unemployment

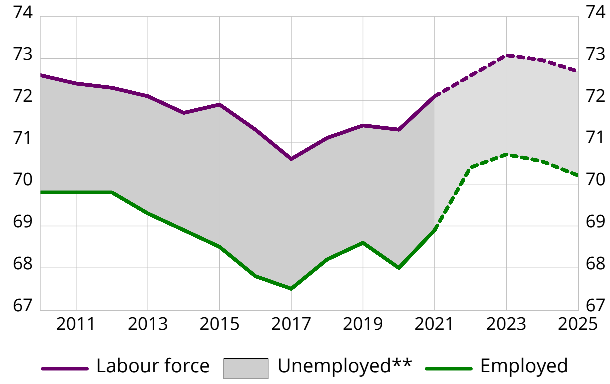
The measures implemented to manage the COVID pandemic led to a marked fall in employment and a strong increase in both unemployment and numbers furloughed through 2020. According to the Labour Force Survey (LFS), employment was 1.1 per cent lower in 2021 Q1 than in 2020 Q1 and unemployment was 5.0 per cent, a rise of 1.4 percentage points. Among those regarded as employed were many furloughed persons who were fully unemployed, according to NAV, and in February 2021 accounted for 1.3 per cent of the labour force.

The downturn in the economy was less pronounced than expected nonetheless, largely thanks to an expansionary monetary and fiscal policy which provided a strong impetus to the economy. According to the LFS, break- and seasonally adjusted[2] unemployment has now risen each month since February 2021. In 2022 Q1 the non-adjusted employment level was 4.7 per cent higher than in 2021 Q1, and 3.6 per cent higher than in 2020 Q1. Moreover, fully unemployed furloughed persons accounted for only 0.3 per cent of the labour force in February 2022.

According to the LFS, break- and seasonally adjusted unemployment has fallen each month since May 2021. The unemployed in March, calculated as the average from February to April, accounted for 2.9 per cent of the labour force, which is the lowest level since 2008. Unemployment in the age group 15–24 had then fallen from 11.8 per cent in March 2021 to 7.2 per cent in March 2022. In 2022 Q1 the non-adjusted unemployment level was 3.1 per cent, which was 1.7 percentage points lower than in 2021 Q1, and 0.3 percentage point lower than in 2020 Q1.

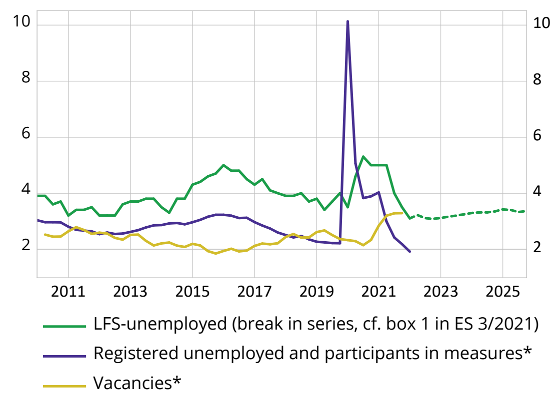
The increase in employment and decline in unemployment is consistent with an unusually strong increase in the labour force, especially from 2021 Q1. In 2022 Q1 the labour force reached the highest level ever, 3.2 per cent higher than in 2020 Q1 and 2.9 per cent higher than in 2021 Q1. The break- and seasonally adjusted participation rate (labour force as a share of the population) was 71.9 per cent in March 2022, the highest level observed since the beginning of 2010.

Figure 15. Labour market status
Percent of population in working age, LFS*



* LFS data series adjusted back in time for break from 2021
** Unemployment is measured as share of population in working age
Source: Statistics Norway

Figure 16. Unemployed and number of vacancies
Percent of labour force and of the sum of occupied and vacant positions, seasonally adjusted and smoothed



*Breaks in the statistics make the numbers incomparable before and after January 2013
Source: The Norwegian Labour and Welfare Administration and Statistics Norway

[2] There are breaks in the series because the Labour Force Survey was restructured with effect from 2021 Q1.

The seasonally adjusted registered unemployment figures published by NAV have also fallen to a historically low level. In May 2022 the level was 1.7 per cent, the lowest observed since 2008, just before the financial crisis. By way of comparison, seasonally adjusted unemployment was 3.6 per cent in May 2021 and 10.2 per cent in March 2020, immediately after the COVID pandemic hit the Norwegian economy.

Demand for labour has remained at a high level since the beginning of 2021. According to NAV, the supply of new jobs in the 3-month period March to May 2022 was 20 per cent higher than in the same period in 2021. The supply of vacancies in Q1 was 3.3 per cent, the highest level registered since 2010, according to Statistics Norway.

The national accounts also show an increase in employment, which has now reached a higher level than before the COVID outbreak. In 2022 Q1, seasonally adjusted employment increased by 4.0 per cent on the same quarter the previous year, to a level 2.0 per cent higher than in 2020 Q1. Employment has not recovered equally in all industries, however. In some industries particularly hard hit by the infection control measures it is still lower than before the pandemic. These industries were also affected by the infection control measures introduced at the beginning of December 2021. Employment in accommodation and food service activities was 7.8 per cent lower in 2022 Q1 than in 2020 Q1. In Q1, employment in transport was 4.1 per cent lower, and in administrative and support services 0.9 per cent lower than in the same quarter two years previously. However, employment in culture, entertainment and other services is now higher than in 2020 Q1.

The number of workers, including non-residents but excluding the self-employed, increased by 2.8 per cent from March 2020 to March 2022, in other words somewhat more than the seasonally adjusted employment in the QNA. The number of inward migrant workers increased by 9.3 per cent in the period, while the number of foreign commuters (non-resident workers) fell by 8.1 per cent. The increase among other residents was 1.9 per cent. The number of foreign commuters had nonetheless rebounded to some extent compared with March 2021, with an increase of 19.6 per cent. The number in March 2022 was somewhat higher than in March 2018 and we expect a further increase through 2022. Growth in the number of foreign commuters going forward may be restrained by an improvement in the labour markets in their countries of residence.

Whereas seasonally adjusted employment increased by 0.4 per cent from 2021 Q4 to 2022 Q1, the number of seasonally adjusted hours worked decreased by 1.1 per cent.[3] The fall in hours worked can be attributed to the sharp increase in COVID cases in January and February this year. Before December 2021, a 7-day average of new COVID cases number more than 1 450 had not been observed. Just before Christmas the number rose to over 5 000, and in the period 25 January–18 February the 7-day average was over 18 000. Since sick employees are regarded as employed, this wave of illness had the strongest effect on hours worked. In 2022 Q1 hours worked are therefore at approximately the level prior to the COVID pandemic. Seasonally adjusted hours worked in 2022 Q1 were 0.8 per cent higher than hours worked in 2020 Q1, but 0.5 per cent lower than in 2019 Q4. The COVID wave that began in December 2021 waned quickly and on 11 April the 7-day average fell to below a thousand new cases. We therefore expect hours worked to rebound and show a normal development through the remainder of 2022.

We assume that the labour market will remain tight through 2022, despite uncertainty due to high inflation and the international situation. From 2021 to 2022 we forecast growth in hours worked of 2.5 per cent and employment growth of 2.9 per cent. As a result of international developments and higher interest rates, developments will be weaker in 2023. The projected low growth in hours worked will be partly attributable to there being 2 fewer working days. In both 2024 and 2025, annual growth in hours worked of just over 0.5 per cent is expected. Employment is expected to rise by 1.1 per cent in 2023 and to remain at roughly that level up to 2025. We foresee average LFS unemployment of 3.0 per cent in 2022 followed by a slight increase in the period up to 2025. The labour force will grow by 1.3 per cent in 2022 and to just over 1 per cent in 2023. The level of the labour force is expected to be virtually unchanged from 2023 to 2025.

[3] However there is some uncertainty associated with the figures for hours worked in the QNA for 2022 Q1.

High wage growth, but no growth in real wages

After overtime mediation, the Federation of Norwegian Industries (a member of the Confederation of Norwegian Enterprise - NHO) and Fellesforbundet (a member of the Norwegian Confederation of Trade Unions - LO) reached agreement on 1 April on a norm of 3.7 per cent for annual wage growth in 2022 in overall manufacturing under NHO. This includes carry-over into 2022 of 0.9 percentage point for manufacturing workers and 1.2 percentage points for clerical employees in manufacturing. The centrally negotiated pay increases are calculated to contribute 1.3 percentage points, while the majority of clerical workers in manufacturing will only receive locally (not centrally) negotiated pay increases. The remainder of the parties' projected annual wage growth in manufacturing is wage drift, defined as the sum of all factors that influence annual wages other than the contributions from carry-over and pay increases, including the outcome of local wage negotiations. At the end of May, agreement was also reached on a wage norm of slightly more than 3.8 per cent in most parts of the local government sector, while the parties in the central government sector agreed on a norm of 3.8 per cent.

According to the national accounts figures, there was high growth in disbursed wages in 2022 Q1, with a seasonally adjusted increase of 1.3 per cent. This is equivalent to growth of 8.0 per cent in 2022 Q1 relative to 2021 Q1. Final seasonally adjusted monthly figures for job numbers show growth of 0.6 per cent from February to March 22, with about a third of the increase taking place in accommodation and food service activities. Preliminary seasonally adjusted figures for April 2022 indicate that growth in the number of jobs is continuing, particularly in accommodation and food service activities.[4] If the share of workers in these low-pay industries increases, it may curb the high rate of growth in wages disbursed in the current year.

At the same time, the labour market is characterised by ever lower unemployment and a large number of vacancy postings and this labour market tightness may lead to employers bidding up wages in order to recruit new employees or retain existing ones. In 2022 Q1 unemployment was at a low level (see previous section), while the percentage of vacancies in the same quarter was 3.3 per cent, well over the median of 2.3 per cent for the period 2010–2021.[5] If the mismatch between supply of and demand for labour persists, it could push up wage drift at local level, and hence wage growth in the economy as a whole, in excess of the proposed norm from the wage leader settlement.

With a tight labour market and the lifting of restrictions on travel into Norway, the number of jobs held by foreign commuters also increased in Q1.[6] The construction industry accounted for 17 per cent of this increase, while administrative and support service activities (including mediation and temporary labour services) accounted for about 33 per cent. These two industries have a generally lower-than-average wage level, and an increase in the number of foreign commuters in these industries may therefore place a certain constraint on wage growth in the near term.

Our annual wage growth projection for 2022 is therefore being revised up to 4.0 per cent, from 3.6 per cent in the previous economic report. The projection is shrouded in uncertainty as to the tightness of the labour market, the possibility of further wage drift, and whether more foreign commuters will return. Despite the upward revision of the annual wage growth projection, the revised projection of 4.7 per cent for consumer price inflation this year indicates that real wages will fall in 2022. In 2023 and 2024 we project annual wage growth of around 4 per cent, and hence average growth in real wages of a bare 2 per cent for those two years.

Inflation projections for 2022 revised significantly upward

Due to an increased rise in global prices for commodities, metals and shipping, and a strong rise in energy prices, underlying inflation picked up towards the end of last year. The annual rise in the consumer price index adjusted for taxes and

[4] See Horgen, E. and Bakke, S. (2022): Laveste ledighet på 14 år [Lowest unemployment in 14 years]: https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/arbeidskraftundersokelsen/artikler/laveste-ledighet-pa-14-ar.

[5] See Gading, R. (2022): Over 100 000 ledige stillinger [More than 100 000 vacancies]: https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/ledige-stillingar/artikler/over-100-000-ledige-stillingar.

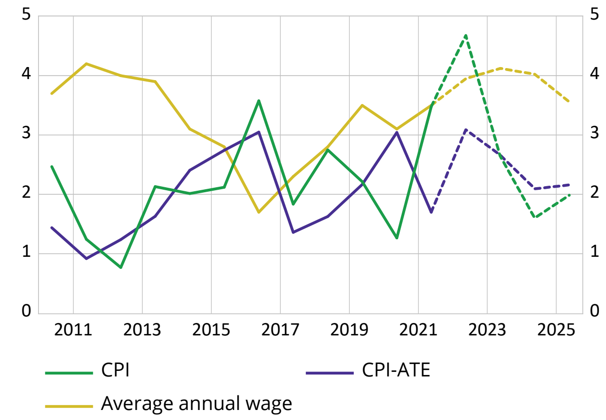
[6] See Bakke, S. and Røv, V. (2022): Flere pendler til Norge for å jobbe [More commuters to Norway to work]: https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/antall-arbeidsforhold-og-lonn/artikler/flere-pendler-til-norge-for-a-jobbe.

excluding energy products (CPI-ATE) increased from 0.9 per cent in October 2021 to 1.8 per cent in December before falling to 1.3 per cent in January 2022. The 12-month rise in the CPI-ATE increased to 2.1 per cent in February and March 2022 before climbing to 2.6 per cent in April. There was a high rise in prices for air travel and hotel and restaurant services in April. The whole of Easter was in April this year, and may have contributed to the pronounced rise in prices for these consumer groups. Through the year, the annual rise in the consumer price index (CPI) has been appreciably higher than the rise in the CPI-ATE. The difference in the rate of increase of the CPI and the CPI-ATE is mainly due to high energy prices, to which both electricity and fuel prices have contributed. The rates of increase in the CPI-ATE and in the consumer price index excluding energy products (CPI-AE) have been almost identical. The average rise in the CPI was 4.2 per cent and in the CPI-ATE 2.0 per cent for the period January–April compared with the same period in 2021. The difference between the CPI-ATE and the CPI thus averaged 2.2 percentage points for this period. The year-on-year rise in the CPI in April was as much as 5.4 per cent, a full 2.8 percentage points higher than CPI-ATE inflation. The difference between CPI inflation and CPI-ATE inflation is expected to gradually lessen in the second half of the year, mainly because of the electricity support package that is being disbursed to households and reducing electricity prices. In our calculations, we have assumed that the 12-month rise in the CPI-ATE is somewhat higher than CPI inflation in December, which means that, in isolation, energy prices at the end of the year will reduce CPI inflation. The electricity support package was introduced in December 2021, when the government initially covered 55 per cent of the spot price in excess of 70 øre/kWh. The rate has subsequently been increased, and will be 90 per cent in 2022 Q4. This explains the effect in December.

In our March economic report, CPI and CPI-ATE inflation were projected to be 3.3 and 2.1 per cent, respectively, for 2022. Since the last report, all leading indicators that determine inflation developments in the KVARTS model have been revised on the basis of new, updated data. This applies to the import-weighted krone exchange rate, global consumer prices and import prices for processed goods, the crude oil price, electricity prices and wage projections. Following revision of all these key variables we have increased the inflation projection for this year; see Figure 18.

Figure 17. Consumer price indices and annual wage

Change from previous year in percent



Source: Statistics Norway

We now forecast that CPI and CPI-ATE inflation will be 4.7 and 3.1 per cent, respectively, for 2022. Energy prices are forecast to add 1.5 percentage points to CPI inflation. Some per unit taxes have been adjusted by 1.3 per cent for inflation in line with what was presented in the National Budget for 2022. Given high CPI inflation, these per unit taxes, in isolation, will dampen inflation. In particular the reversal of the low VAT rate from 1 October 2021, the reintroduction of the air passenger tax from 1 July 2022, and an increased tax on tobacco products will contribute to higher inflation. The net effect of the increase in taxes on goods other than energy products is now forecast to add 0.1 percentage point to the CPI, bringing the overall difference between the CPI and the CPI-ATE to 1.6 percentage points.

Since the outbreak of war in Ukraine, there has been a strong focus on developments in food prices. The situation in Ukraine affects both access to and prices for a number of commodities and factor inputs, and higher food prices globally have been expected also to lead to a stronger rise in prices for food products in Norway. The 12-month rise in prices for the consumer group food and alcoholic beverages in the CPI-ATE, adjusted for tax changes, was very low and largely negative in the period from July 2021 up to January 2022. After a pronounced 4.5 per cent rise in prices from January to February, the annual rise for this consumer group has been positive, with a rising trend. The

12-month rise in April was 2.2 per cent, and it is expected to rise further in the months to come. The largest changes in food prices normally take place at two main times, 1 February and 1 July, after new target prices have been set in the agricultural negotiations. The Government has reached agreement on a new agricultural agreement with the farmers' unions. The agreement entails an overall increase of NOK 10.9 billion in potential earnings for 2022 and 2023. At the same time, it means that farmers receive full cost coverage in 2022 and 2023. NOK 1.5 billion of the income settlement is assumed to be covered through higher target prices. NOK 1.2 billion of this amount will come in 2022, and the rest in 2023. New target prices have been agreed for products like grain, milk and potatoes. Prices for meat and eggs, among other things, are set outside the agricultural settlement by the market regulator, Nortura, which has announced substantial increases in prices for meat and eggs from 1 July. According to the Norwegian Institute of Bioeconomy Research (NIBIO), Norwegian self-sufficiency in food is less than 50 per cent. The import share of product groups such as fruit and vegetables is high, and a weak Norwegian krone adds to prices measured in NOK. In view of the increased prices for food raw materials both in Norway and globally, we have assumed also in this economic report that food prices will rise a good deal in the course of the year. The food industry reports that the rise in prices for raw materials, packaging and transport and energy costs has resulted in higher production costs and has issued advance warning of price increases.

The Government proposes a restructuring of support for the purchase of electric cars from 2023. Today's VAT exemption will be discontinued and replaced by a subsidy scheme. The change entails introducing taxes on purchases of electric cars that cost more than NOK 500 000. If the proposal is adopted by the Storting, there will be an increase in prices for expensive electric cars from the beginning of 2023. In the wake of the COVID pandemic and the conflict in Ukraine, some sectors of the automotive industry are struggling with production challenges in the form of shortages of components such as semi-conductors. The problem has been particularly pronounced in Europe and the US, and there is now a long lead time for some car models. According to the CPI, the year-on-year rise in car prices was 2.9 per cent in April, and growth has increased somewhat through 2022. Given an increase in basic metal prices and transport and energy costs, we assume that the rise in car prices will continue to increase in the second half of 2022. In the short term, a limited supply and a long waiting period for some popular makes of car may accelerate the rise in prices.

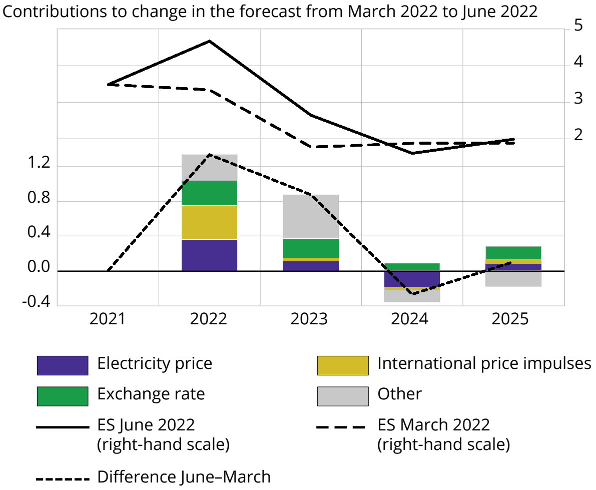
Air travel contributed to pushing up CPI inflation in April, with a 12-month change of 40 per cent. This rise in prices must be viewed keeping Easter in mind, and the fact that prices were not observed, but estimated, for foreign travel in the same period in 2021. Desire to travel is picking up again after lockdown, and the passenger base for foreign travel is beginning to approach the level in 2019. There is reason to expect high prices for air travel, particularly international, going forward. The shortage of airline personnel following lockdown points the same way. Adding to this tendency are shortages of security personnel at central European airports, leading to long queues and the cancellation of flights this summer. High fuel costs and the reintroduction of passenger tax from 1 July are adding to airlines' costs.

Observed and imputed rents have a weight of over 20 per cent in the CPI. They increased slightly through the second half of 2021 and gradually rose further through the first four months of this year. The 12-month rise in rents increased from 1.6 per cent in January to 2.1 per cent in April, pushing CPI-ATE inflation up above the inflation target. A strong rise in prices for building products this past year has increased prices for new dwellings, and also substantially increases the costs of refurbishing the existing housing stock. These factors, coupled with the rise in house prices in recent months and higher nominal interest rates, will contribute to maintaining the rise in rents going forward.

The overall picture in the electricity market is the same as in our previous report. High prices for gas, coal and carbon emissions continue to be reflected in European electricity prices. The situation in Ukraine creates great uncertainty concerning developments in future fuel and power prices. This has driven up prices for electricity futures contracts in Europe, and had repercussions for the Nordic power market and the power market in Southern Norway. Internal bottlenecks in the transmission network are still contributing to price differences

Figure 18. New and old projections for inflation measured by the CPI

Contributions to change in the forecast from March 2022 to June 2022



Source: Statistics Norway

between the southern price areas in Norway and the other price areas in the Nordic countries. Electricity prices in Northern and Central Norway are still far lower than in the south of the country, and this situation appears likely to persist. According to the Norwegian Water Resources and Energy Directorate (NVE), the power situation in Southern Norway is difficult at present, with low reservoir levels even for this time of the year. According to NVE, low reservoir levels, high fuel prices, high global electricity prices and a turbulent and unclear situation are fuelling an unpredictable situation in the power market, also for next winter.

Households' average electricity price including grid charges is now projected to increase by 10 per cent this year, whereas in our previous report we forecast a virtually zero rise. This revision is largely due to new assessments of the annual rise in grid charges including electricity consumption charge. Prices for futures contracts for delivery of electricity in the autumn and winter in the Nordic market have been revised up significantly since March. This has led to a sharp upward revision of area prices for Southern Norway since the last report. However, the Storting adopted an enhanced electricity support scheme in April, whereby the government covers 90 per cent of households' costs in excess of a spot price of 70 øre/kWh in Q4, compared with 80 per cent earlier this year. As previously, the support is differentiated according to spot price areas. With a higher support rate, higher spot prices will have less consequences for our price forecasts for households. Costs will increase for the business sector, however, leading to higher per unit costs for the production of goods and services which, in isolation, will mean higher consumer prices in the longer term. Statnett, the system operator of the Norwegian power system, abolished the transmission grid tariff on general consumption from 1 April, and it was expected that this would check the rise of grid charges. However the grid companies incur extensive costs associated with loss of power from the transmission network which must be covered by spot prices. In anticipation of high future spot prices, several key operators have put up their prices recently. A new power-based grid model that is being introduced on 1 July with a transition period of two years may be of importance for overall average grid charges in the short term. However, the introduction of power-based tariffs will not increase the grid companies' future overall annual tariff income because the income caps are set by NVE. In the previous report we assumed that the reduced electricity tax of 8.91 øre/kWh in Q1 would be maintained through the year, in line with the electricity support scheme. This tax was set at 15.41 øre/kWh from and including April, as proposed for 2022 in the national budget. This plays a major part in the revision of earlier projections.

The Government proposed changing the taxation of economic rent on long power agreements, which will eliminate power producers' tax risk, enabling them to offer favourable fixed-price agreements with a long duration to both private customers and the business sector. The proposal is scheduled for consideration by the Storting in the autumn 2022 session and for introduction on 1 January 2023. The Storting Standing Committee on Energy and the Environment has submitted its recommendation after considering the Government's supplementary report on energy. The opposition agrees with the Government that a state electricity company should be considered that would offer cheaper power and a dual price system for electricity. The forward price for Nordic power for delivery in 2023 has risen by about 65 per cent since mid-March, and was priced at about EUR 82/MWh at the beginning of June. Forward area prices in Southern Norway have now exceeded the 70 øre/kWh threshold for electricity support for the whole of next year and 2024 Q1. Given all the uncertainty prevailing in the forward power market, we are making the preliminary assumption that electricity support to households in the form of a 90 per cent deduction on spot prices over 70 øre/kWh will be extended for the whole of next year and up to and including 2024 Q1. The electricity support scheme may be discontinued if the price of electricity falls sharply or new schemes make support superfluous. Prices for annual contracts for Nordic power will fall in the years ahead and at the beginning of June annual contracts for 2025 were priced at about EUR 44/MWh. In our calculations, household electricity prices including grid charges will fall in the course of the projection period.

Fuel prices largely shadow the movements of the oil price, and are surging this year, with a projected average price rise of about 30 per cent. In the years ahead, prices at the pump will gradually fall, according to our projections for the oil price and the USD/NOK exchange rate. There is great uncertainty regarding cost developments going forward because of the war in Ukraine. In the longer term, we assume that the global cost picture will normalise, and that import price inflation will gradually fall back to more normal levels of around 2 per cent. The special tax rates have been adjusted for inflation for the years 2023– 2025 and are expected to have a neutral effect on CPI inflation. The exception is VAT on electric cars, which contributes to some increased net VAT on overall car purchases after the basic deduction of NOK 500 000, and the reintroduction of the air passenger tax from 1 July this year, which will also have an impact in 2023. An expected carry-over in the CPI-ATE at the end of the year will contribute to relatively high underlying inflation into 2023. Average CPI-ATE inflation is projected to be 2.7 per cent in 2023, and is expected to come down as an annual average towards Norges Bank's inflation target of 2 per cent from 2024 and 2025. Next year, somewhat higher taxes will be offset by a small decline in energy prices which will contribute to making CPI inflation slightly less than CPI-ATE inflation, measured as an annual average. An expected fall in energy prices will lead to CPI inflation being somewhat lower than CPI-ATE inflation in 2024 and 2025.

Table 4. National accounts: Final expenditure and gross domestic product. At constant 2019 prices. NOK million

	Unadjusted		Seasonally adjusted							
	2020	2021	20:2	20:3	20:4	21:1	21:2	21:3	21:4	22:1
Final consumption expenditure of households and NPISHs	1 475 350	1 547 250	344 092	373 921	376 286	365 427	374 707	397 497	408 654	402 386
Household final consumption expenditure	1 399 898	1 466 263	326 989	355 520	357 694	347 915	356 146	375 637	385 893	380 483
Goods	724 943	766 948	177 324	188 234	191 465	189 470	193 615	194 883	193 309	188 605
Services	663 908	689 961	150 499	166 476	168 418	159 996	163 508	177 546	186 237	185 622
Direct purchases abroad by resident households	27 918	25 377	685	3 815	2 115	1 474	1 426	7 786	14 683	14 821
Direct purchases by non-residents	-16 871	-16 024	-1 520	-3 005	-4 305	-3 026	-2 404	-4 578	-8 335	-8 565
Final consumption expenditure of NPISHs	75 452	80 987	17 103	18 401	18 592	17 512	18 562	21 860	22 761	21 903
Final consumption expenditure of general government	883 555	916 794	213 111	222 252	228 057	225 394	228 193	231 604	231 720	228 398
Final consumption expenditure of central government	437 404	450 669	105 011	110 751	113 041	110 215	111 927	113 780	114 789	110 830
Central government, civilian	384 686	396 673	91 945	97 484	99 572	96 808	98 435	100 290	101 180	97 202
Central government, defence	52 718	53 996	13 065	13 267	13 469	13 407	13 492	13 490	13 609	13 629
Final consumption expenditure of local government	446 151	466 126	108 101	111 501	115 016	115 179	116 266	117 825	116 931	117 567
Gross fixed capital formation	903 710	895 338	224 996	222 321	225 433	222 973	223 392	220 708	228 054	227 953
Extraction and transport via pipelines	171 482	166 781	43 529	41 072	42 100	40 724	43 432	41 351	41 271	38 988
Ocean transport	5 625	2 233	347	1 618	1 524	1 675	137	148	273	-23
Mainland Norway	726 603	726 324	181 120	179 631	181 808	180 573	179 824	179 209	186 511	188 989
Industries	325 798	332 867	79 982	79 216	80 849	83 211	83 307	81 106	85 141	90 659
Service activities incidential to extraction	2 708	2 557	758	623	463	582	614	675	683	759
Other services	197 898	209 010	47 322	47 964	50 823	50 469	50 731	53 143	54 675	57 572
Manufacturing and mining	47 435	48 608	11 637	11 861	11 219	11 831	12 148	11 227	13 355	13 390
Production of other goods	77 757	72 692	20 265	18 768	18 345	20 329	19 815	16 061	16 428	18 938
Dwellings (households)	188 904	190 023	47 140	46 022	48 386	47 495	48 851	45 873	47 787	48 674
General government	211 901	203 434	53 998	54 392	52 573	49 867	47 665	52 230	53 583	49 655
Acquisitions less disposals of valuables	158	267	8	42	24	0	41	105	122	103
Changes in stocks and statistical discrepancies	90 245	95 466	10 811	23 926	14 567	18 301	20 036	26 676	20 514	33 536
Gross capital formation	994 113	991 071	235 815	246 289	240 023	241 273	243 469	247 489	248 689	261 592
Final domestic use of goods and services	3 353 017	3 455 115	793 019	842 461	844 366	832 095	846 370	876 591	889 063	892 375
Final demand from Mainland Norway	3 085 508	3 190 368	738 323	775 803	786 151	771 395	782 724	808 311	826 885	819 772
Final demand from general government	1 095 456	1 120 229	267 109	276 644	280 630	275 262	275 858	283 835	285 303	278 053
Total exports	1 276 402	1 336 505	306 992	317 666	323 305	322 285	327 953	348 868	340 110	328 232
Traditional goods	422 840	451 171	99 265	106 674	109 196	113 237	112 143	113 238	110 720	107 467
Crude oil and natural gas	518 501	533 037	130 164	129 847	131 656	126 402	132 404	140 562	135 834	128 415
Ships, oil platforms and planes	8 333	13 335	1 690	2 183	1 126	1 573	3 082	7 704	975	674
Services	326 728	338 963	75 872	78 963	81 326	81 073	80 323	87 365	92 581	91 676
Total use of goods and services	4 629 419	4 791 621	1 100 010	1 160 127	1 167 671	1 154 380	1 174 323	1 225 459	1 229 174	1 220 607
Total imports	1 091 492	1 116 389	248 854	270 822	272 694	259 653	272 864	288 450	292 033	292 526
Traditional goods	717 639	756 633	164 624	184 084	187 961	179 449	190 622	194 544	188 590	190 348
Crude oil and natural gas	22 214	19 194	4 996	4 710	5 518	4 414	8 152	2 892	3 602	2 423
Ships, oil platforms and planes	32 766	29 735	8 865	8 581	5 335	6 100	5 616	10 088	7 931	6 543
Services	318 872	310 828	70 370	73 447	73 880	69 690	68 474	80 925	91 911	93 212
Gross domestic product (market prices)	3 537 927	3 675 232	851 156	889 305	894 977	894 727	901 459	937 009	937 141	928 081
Gross domestic product Mainland Norway (market prices)	2 992 002	3 115 051	713 516	749 050	763 070	758 387	765 284	786 869	797 582	792 809
Petroleum activities and ocean transport	545 925	560 181	137 640	140 255	131 907	136 340	136 174	150 140	139 559	135 272
Mainland Norway (basic prices)	2 601 672	2 704 871	620 611	650 059	662 427	659 412	664 399	682 928	691 988	690 111
Mainland Norway excluding general government	1 929 791	2 006 756	459 187	480 539	489 831	488 802	491 835	506 123	513 840	514 852
Manufacturing and mining	220 897	227 479	53 644	54 742	56 754	57 603	57 539	57 515	57 001	56 815
Production of other goods	361 249	370 815	88 243	90 438	91 557	92 543	91 603	93 345	92 165	93 892
Services incl. dwellings (households)	1 347 645	1 408 463	317 300	335 358	341 520	338 657	342 692	355 263	364 675	364 144
General government	671 881	698 115	161 424	169 520	172 596	170 610	172 565	176 805	178 148	175 260
Taxes and subsidies products	390 330	410 180	92 905	98 991	100 643	98 975	100 885	103 942	105 594	102 697

Source: Statistics Norway.

Table 5. National accounts: Final expenditure and gross domestic product. At constant 2019 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2020	2021	20:2	20:3	20:4	21:1	21:2	21:3	21:4	22:1
Final consumption expenditure of households and NPISHs	-6.6	4.9	-10.0	8.7	0.6	-2.9	2.5	6.1	2.8	-1.5
Household final consumption expenditure	-6.3	4.7	-9.6	8.7	0.6	-2.7	2.4	5.5	2.7	-1.4
Goods	6.5	5.8	4.2	6.2	1.7	-1.0	2.2	0.7	-0.8	-2.4
Services	-10.3	3.9	-15.2	10.6	1.2	-5.0	2.2	8.6	4.9	-0.3
Direct purchases abroad by resident households	-77.6	-9.1	-97.3	456.8	-44.6	-30.3	-3.3	446.0	88.6	0.9
Direct purchases by non-residents	-67.5	-5.0	-86.7	97.7	43.3	-29.7	-20.6	90.4	82.1	2.8
Final consumption expenditure of NPISHs	-11.7	7.3	-18.1	7.6	1.0	-5.8	6.0	17.8	4.1	-3.8
Final consumption expenditure of general government	1.8	3.8	-3.2	4.3	2.6	-1.2	1.2	1.5	0.0	-1.4
Final consumption expenditure of central government	3.2	3.0	-3.4	5.5	2.1	-2.5	1.6	1.7	0.9	-3.4
Central government, civilian	3.0	3.1	-4.0	6.0	2.1	-2.8	1.7	1.9	0.9	-3.9
Central government, defence	4.6	2.4	1.1	1.5	1.5	-0.5	0.6	0.0	0.9	0.1
Final consumption expenditure of local govern-ment	0.6	4.5	-3.0	3.1	3.2	0.1	0.9	1.3	-0.8	0.5
Gross fixed capital formation	-5.6	-0.9	-2.4	-1.2	1.4	-1.1	0.2	-1.2	3.3	0
Extraction and transport via pipelines	-4.1	-2.7	-2.7	-5.6	2.5	-3.3	6.6	-4.8	-0.2	-5.5
Ocean transport	-77.5	-60.3	-83.8	366.9	-5.8	9.9	-91.8	8.2	84.0	
Mainland Norway	-3.6	0.0	-1.4	-0.8	1.2	-0.7	-0.4	-0.3	4.1	1.3
Industries	-5.0	2.2	-6.5	-1.0	2.1	2.9	0.1	-2.6	5.0	6.5
Service activities incidential to extraction	-35.1	-5.6	-11.6	-17.8	-25.8	25.7	5.5	10.0	1.3	11
Other services	-3.5	5.6	-8.6	1.4	6.0	-0.7	0.5	4.8	2.9	5.3
Manufacturing and mining	-8.0	2.5	-8.0	1.9	-5.4	5.5	2.7	-7.6	18.9	0.3
Production of other goods	-5.3	-6.5	0.0	-7.4	-2.3	10.8	-2.5	-18.9	2.3	15.3
Dwellings (households)	-4.0	0.6	-0.4	-2.4	5.1	-1.8	2.9	-6.1	4.2	1.9
General government	-1.1	-4.0	6.3	0.7	-3.3	-5.1	-4.4	9.6	2.6	-7.3
Acquisitions less disposals of valuables	-61.0	69.3	-90.2	397.2	-43.0	..	..	155.3	15.4	-15.6
Changes in stocks and statistical discrepancies	-14.7	5.8	-66.8	121.3	-39.1	25.6	9.5	33.1	-23.1	63.5
Gross capital formation	-6.6	-0.3	-10.4	4.4	-2.5	0.5	0.9	1.7	0.5	5.2
Final domestic use of goods and services	-4.5	3.0	-8.4	6.2	0.2	-1.5	1.7	3.6	1.4	0.4
Final demand from Mainland Norway	-3.6	3.4	-6.1	5.1	1.3	-1.9	1.5	3.3	2.3	-0.9
Final demand from general government	1.3	2.3	-1.4	3.6	1.4	-1.9	0.2	2.9	0.5	-2.5
Total exports	-1.2	4.7	-6.2	3.5	1.8	-0.3	1.8	6.4	-2.5	-3.5
Traditional goods	-2.5	6.7	-6.7	7.5	2.4	3.7	-1.0	1.0	-2.2	-2.9
Crude oil and natural gas	11.9	2.8	5.4	-0.2	1.4	-4.0	4.7	6.2	-3.4	-5.5
Ships, oil platforms and planes	-32.8	60.0	-49.3	29.1	-48.4	39.7	95.9	149.9	-87.3	-30.9
Services	-14.7	3.7	-19.4	4.1	3.0	-0.3	-0.9	8.8	6.0	-1
Total use of goods and services	-3.6	3.5	-7.8	5.5	0.7	-1.1	1.7	4.4	0.3	-0.7
Total imports	-11.9	2.3	-17.2	8.8	0.7	-4.8	5.1	5.7	1.2	0.2
Traditional goods	-2.5	5.4	-7.4	11.8	2.1	-4.5	6.2	2.1	-3.1	0.9
Crude oil and natural gas	-8.9	-13.6	-28.1	-5.7	17.2	-20.0	84.7	-64.5	24.5	-32.7
Ships, oil platforms and planes	-8.4	-9.3	-11.2	-3.2	-37.8	14.3	-7.9	79.6	-21.4	-17.5
Services	-28.0	-2.5	-33.4	4.4	0.6	-5.7	-1.7	18.2	13.6	1.4
Gross domestic product (market prices)	-0.7	3.9	-4.7	4.5	0.6	0.0	0.8	3.9	0.0	-1
[Gross domestic product Mainland Norway (market prices)	-2.3	4.1	-5.9	5.0	1.9	-0.6	0.9	2.8	1.4	-0.6
Petroleum activities and ocean transport	9.1	2.6	2.1	1.9	-6.0	3.4	-0.1	10.3	-7.0	-3.1
Mainland Norway (basic prices)	-2.4	4.0	-6.2	4.7	1.9	-0.5	0.8	2.8	1.3	-0.3
Mainland Norway excluding general government	-3.0	4.0	-6.9	4.6	1.9	-0.2	0.6	2.9	1.5	0.2
Manufacturing and mining	-2.5	3.0	-5.6	2.0	3.7	1.5	-0.1	0.0	-0.9	-0.3
Production of other goods	0.5	2.6	-1.4	2.5	1.2	1.1	-1.0	1.9	-1.3	1.9
Services incl. dwellings (households)	-4.0	4.5	-8.5	5.7	1.8	-0.8	1.2	3.7	2.6	-0.1
General government	-0.5	3.9	-4.1	5.0	1.8	-1.2	1.1	2.5	0.8	-1.6
Taxes and subsidies products	-2.1	5.1	-3.9	6.5	1.7	-1.7	1.9	3.0	1.6	-2.7

Source: Statistics Norway.

Table 6. National accounts: Final expenditure and gross domestic product. Price indices. 2019=100

	Unadjusted		Seasonally adjusted							
	2020	2021	20:2	20:3	20:4	21:1	21:2	21:3	21:4	22:1
Final consumption expenditure of households and NPISHs	101.7	104.4	101.3	101.9	102.0	103.3	103.5	104.8	105.8	106.3
Final consumption expenditure of general government	102.5	105.6	104.6	102.3	101.3	104.7	105.0	104.8	107.8	110.4
Gross fixed capital formation	103.1	107.3	103.9	103.3	103.6	104.3	106.4	108.6	109.7	109.9
Mainland Norway	102.5	107.3	103.1	103.0	102.6	104.1	106.4	108.9	109.8	110.0
Final domestic use of goods and services	102.6	105.2	102.2	102.1	103.7	103.6	105.4	107.3	104.0	105.7
Final demand from Mainland Norway	102.1	105.4	102.7	102.3	102.0	103.9	104.6	105.7	107.3	108.3
Total exports	86.2	128.8	80.1	86.0	86.8	100.9	110.4	132.0	169.2	192.6
Traditional goods	96.6	109.2	96.9	93.6	95.2	99.7	104.6	111.6	121.4	134.2
Total use of goods and services	98.0	111.8	96.0	97.7	99.0	102.8	106.8	114.3	122.0	129.1
Total imports	103.4	108.8	104.4	103.1	104.0	104.6	106.4	110.6	113.2	116.4
Traditional goods	104.2	109.9	105.9	104.6	104.2	105.8	107.4	112.0	114.5	119.6
Gross domestic product (market prices)	96.4	112.7	93.5	96.1	97.5	102.3	106.9	115.5	124.8	133.1
Gross domestic product Mainland Norway (market prices)	101.7	104.9	102.2	101.5	101.4	103.0	104.3	104.9	107.0	108.9

Source: Statistics Norway.

Table 7. National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2020	2021	20:2	20:3	20:4	21:1	21:2	21:3	21:4	22:1
Final consumption expenditure of households and NPISHs	1.7	2.7	0.2	0.7	0.1	1.2	0.2	1.2	0.9	0.5
Final consumption expenditure of general government	2.5	3.1	2.7	-2.2	-1.0	3.4	0.3	-0.3	2.9	2.4
Gross fixed capital formation	3.1	4.0	2.3	-0.6	0.3	0.7	2.0	2	1.1	0.2
Mainland Norway	2.5	4.7	2.0	-0.1	-0.4	1.4	2.2	2.3	0.9	0.2
Final domestic use of goods and services	2.6	2.6	0.3	0.0	1.5	-0.1	1.8	1.8	-3.1	1.7
Final demand from Mainland Norway	2.1	3.3	1.3	-0.4	-0.3	1.9	0.7	1	1.5	0.9
Total exports	-13.8	49.5	-12.7	7.4	0.9	16.3	9.3	19.6	28.2	13.8
Traditional goods	-3.4	13.1	-4.3	-3.4	1.8	4.7	4.9	6.7	8.8	10.6
Total use of goods and services	-2.0	14.0	-3.1	1.8	1.3	3.9	3.8	7.1	6.7	5.8
Total imports	3.4	5.2	2.3	-1.3	0.9	0.5	1.7	3.9	2.4	2.9
Traditional goods	4.2	5.5	3.7	-1.2	-0.4	1.6	1.5	4.3	2.2	4.5
Gross domestic product (market prices)	-3.6	16.9	-4.6	2.7	1.5	5.0	4.5	8	8	6.6
Gross domestic product Mainland Norway (market prices)	1.7	3.1	0.4	-0.7	-0.1	1.6	1.3	0.6	2	1.8

Source: Statistics Norway.

Table 8. Main economic indicators 2013-2025. Accounts and forecasts. Percentage change from previous year unless otherwise noted

										Forecasts			
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Demand and output													
Consumption in households etc.	2.8	2.1	2.7	1.1	2.2	1.6	1.1	-6.6	4.9	7.5	3.1	1.9	2.2
General government consumption	1.0	2.7	2.4	2.3	1.9	0.5	1.3	1.8	3.8	1.2	1.3	2.2	1.6
Gross fixed investment	6.3	-0.3	-4.0	3.9	2.6	2.2	9.5	-5.6	-0.9	3.8	5.7	2.8	0.3
Extraction and transport via pipelines	19.0	-1.8	-12.2	-16.0	-5.4	0.7	14.3	-4.1	-2.7	-7.0	7.0	10.0	3.0
Mainland Norway	2.9	0.4	-0.2	9.0	6.8	1.5	6.3	-3.6	0.0	5.7	5.2	1.4	-0.4
Industries	-3.2	-0.7	-2.8	12.6	9.2	3.1	10.3	-5.0	2.2	9.9	8.4	0.1	-2.9
Housing	5.3	-1.4	3.2	6.6	7.3	-6.5	-1.1	-4.0	0.6	2.1	3.6	1.4	1.2
General government	11.8	4.5	0.2	6.4	2.6	8.1	7.5	-1.1	-4.0	2.2	1.0	3.8	2.8
Demand from Mainland Norway[1]	2.3	1.9	2.0	3.1	3.1	1.3	2.3	-3.6	3.4	5.3	3.1	1.9	1.4
Exports	-1.8	3.4	4.3	1.1	1.7	-1.2	1.1	-1.2	4.7	2.5	3.4	2.4	1.6
Traditional goods	1.3	3.1	6.9	-8.6	1.7	1.5	4.9	-2.5	6.7	-1.4	2.0	2.7	3.8
Crude oil and natural gas	-5.5	2.7	2.1	4.9	5.1	-5.0	-3.7	11.9	2.8	3.2	4.1	2.2	-1.1
Imports	5.0	2.0	1.9	2.7	1.9	1.4	5.1	-11.9	2.3	8.3	4.8	2.9	2.6
Traditional goods	1.8	1.9	2.8	-0.2	3.8	2.9	5.6	-2.5	5.4	5.0	3.7	2.4	1.9
Gross domestic product	1.0	2.0	2.0	1.1	2.3	1.1	0.7	-0.7	3.9	3.5	2.7	2.0	1.1
Mainland Norway	2.3	2.2	1.4	0.9	2.0	2.2	2.0	-2.3	4.1	3.7	2.7	2.0	1.5
Manufacturing	3.3	2.8	-4.6	-4.2	0.0	1.7	2.0	-2.5	3.0	2.4	2.5	0.5	1.1
Labour market													
Total hours worked. Mainland Norway	0.4	1.4	0.6	0.6	0.5	1.6	1.5	-2.1	2.5	2.5	1.0	0.8	0.5
Employed persons	1.1	1.0	0.4	0.3	1.1	1.6	1.6	-1.5	1.2	2.9	1.1	0.3	0.1
Labor force	1.2	0.7	1.5	0.2	-0.2	1.4	1.0	0.4	2.2	1.3	1.1	0.3	0.1
Participation rate (level)	72.1	71.7	71.9	71.3	70.6	71.1	71.4	71.3	72.1	72.6	73.1	73.0	72.7
Unemployment rate (level)	3.9	3.8	4.7	4.9	4.4	4.0	3.9	4.7	4.4	3.0	3.2	3.3	3.4
Prices and wages													
Wages per standard man-year	3.9	3.1	2.8	1.7	2.3	2.8	3.5	3.1	3.5	4.0	4.1	4.0	3.6
Consumer price index (CPI)	2.1	2.0	2.1	3.6	1.8	2.7	2.2	1.3	3.5	4.7	2.6	1.6	2.0
CPI-ATE[2]	1.6	2.4	2.7	3.0	1.4	1.6	2.2	3.0	1.7	3.1	2.7	2.1	2.2
Export prices. traditional goods	2.7	3.4	2.0	4.0	5.2	6.2	0.7	-3.4	13.1	24.2	-4.0	-2.7	-0.2
Import prices. traditional goods	1.4	4.3	4.6	1.7	3.5	4.6	2.5	4.2	5.5	10.5	0.4	0.4	1.1
Housing prices	4.0	2.7	6.1	7.0	5.0	1.4	2.5	4.3	10.5	5.8	2.6	1.1	0.7
Income. interest rates and excange rate													
Household real income	4.0	2.3	5.4	-1.6	2.0	1.0	2.1	2.0	5.4	0.2	1.8	2.8	2.4
Household saving ratio (level)	7.2	7.7	9.8	6.9	6.6	5.9	7.0	14.2	15.1	8.3	7.9	8.9	9.1
Norges Bank's policy rate (level)	1.8	1.7	1.3	1.1	0.9	1.1	1.6	0.7	0.5	1.6	2.5	2.8	2.8
Lending rate. credit loans(level)[3]	4.0	3.9	3.2	2.6	2.6	2.7	3.0	2.6	2.1	2.7	3.6	4.1	4.1
Real after-tax lending rate. banks (level)	0.7	0.8	0.1	-1.6	0.1	-0.7	0.2	0.7	-1.8	-2.5	0.2	1.6	1.2
Importweighted krone exchange rate (44 countries)[4]	2.2	5.3	10.5	1.8	-0.8	0.1	2.9	6.7	-5.3	0.4	1.0	0.0	0.0
NOK per euro (level)	7.81	8.35	8.95	9.29	9.33	9.60	9.85	10.72	10.16	10.03	10.10	10.10	10.10
Current account													
Current balance (bill. NOK)[5]	317	341	250	138	180	283	103	38	620	1356	1080	823	665
Current account (per cent of GDP)	10.3	10.8	8.0	4.5	5.5	8.0	2.9	1.1	15.0	25.7	20.9	16.1	13.0
International indicators													
Exports markets indicator	1.8	4.8	5.4	3.8	5.6	4.1	3.1	-8.4	9.3	6.6	3.7	4.1	4.8
Consumer price index. euro-area	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	7.0	2.0	2.0	2.0
Money market rate. euro(level)	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.5	0.8	1.2	1.8
Crude oil price US dollar (level)[6]	109	100	53	45	55	72	64	43	71	111	101	89	81
Crude oil price NOK (level)[6]	639	627	431	379	452	583	564	407	609	1025	955	838	764

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.

[2] CPI adjusted for tax changes and excluding energy products.

[3] Yearly average. Credit lines, secured on dwellings.

[4] Increasing index implies depreciation.

[5] Current account not adjusted for saving in pension funds.

[6] Average spot price Brent Blend.

Source: Statistics Norway. The cut-off date for information was 8 June 2022.