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Economic developments in Norway

Contents

Box

Table

Questions about economic trends in Norway:
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Economic developments in Norway

Growth in the Norwegian economy, which was constrained through 2023 and 2024 by high inflation and subsequent interest rate increases, has picked up so far this year. Although still appreciably higher than the target of 2 per cent, inflation has been falling in recent years and is substantially lower than the peak in October 2022. The unemployment rate has continued to rise, and is now over 4 per cent, and hence higher than the average for the 2010s.

Greater global uncertainty and worsened economic outlooks among our trading partners will place a damper on domestic growth going forward, particularly in 2026. We still expect domestic factors such as higher real wage growth, lower interest rates and higher public demand to boost activity in the Norwegian economy and thereby prevent unemployment increasing further.

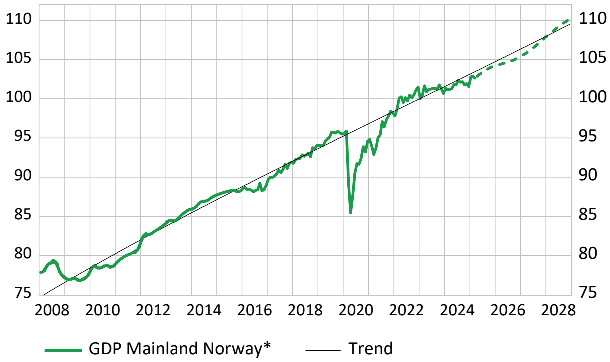
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Per cent

	2023	2024	Seasonally adjusted			
			24:2	24:3	24:4	25:1
Demand and output						
Consumption in households etc.	-1.2	1.4	2.5	0.1	-0.3	1.5
General government consumption	3.4	2.4	0.4	0.7	0.5	0.4
Gross fixed investment	-1.5	-1.4	2.2	2.4	2.0	-5.8
Extraction and transport via pipelines	10.2	9.8	8.2	0.5	7.0	-10.0
Mainland Norway	-2.6	-4.6	0.4	2.0	-0.4	-2.5
Final domestic demand from Mainland Norway[1]	-0.3	0.3	1.5	0.7	-0.1	0.3
Exports	0.4	5.2	5.2	-3.2	-0.3	-1.9
Traditional goods	5.3	2.1	3.3	-1.2	3.3	0.3
Crude oil and natural gas	-1.8	6.7	7.3	-6.3	-1.7	-3.1
Imports	-1.5	4.3	3.0	3.6	-0.1	-2.1
Traditional goods	-6.2	3.8	3.9	1.5	-2.0	-0.0
Gross domestic product	0.1	2.1	1.9	-1.6	-0.9	-0.1
Mainland Norway	0.7	0.6	0.4	0.6	-0.4	1.0
Labour market						
Total hours worked, Mainland Norway	0.6	0.3	-0.3	-0.0	0.0	0.4
Employed persons	1.3	0.5	-0.0	0.1	0.1	0.4
Labour force[2]	1.3	0.9	0.6	0.2	0.0	0.0
Unemployment rate, level[2]	3.6	4.0	4.1	4.0	4.0	4.0
Prices and wages						
Annual earnings	5.2	5.6	..	..	..	..
Consumer price index (CPI)[3]	5.5	3.1	0.4	0.3	0.8	1.3
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	6.2	3.7	0.8	0.6	0.7	1.0
Export prices, traditional goods	0.0	-1.5	-0.9	0.7	1.3	1.4
Import prices, traditional goods	5.5	0.7	2.2	-1.3	2.1	1.4
Balance of payment						
Current balance, bill. NOK[4]	887	868	219	204	204	286
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	3.5	4.5	4.5	4.5	4.5	4.5
Lending rate, credit loans[5]	1.3	1.5	6.1	6.0	6.0	6.0
Crude oil price NOK[6]	867	856	911	843	813	828
Import-weighted krone exchange rate, 44 countries, 1995 = 100	119.4	120.3	119.7	121.1	121.8	121.4
NOK per euro	11.42	11.63	11.57	11.76	11.76	11.65

[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 2022 = 100

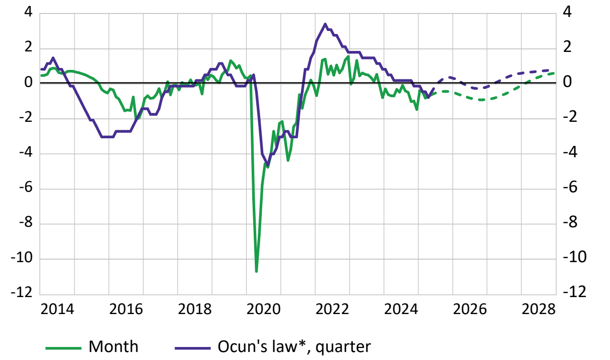


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021.

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

Deviation form estimated trend GDP in percent, monthly and quarterly frequency

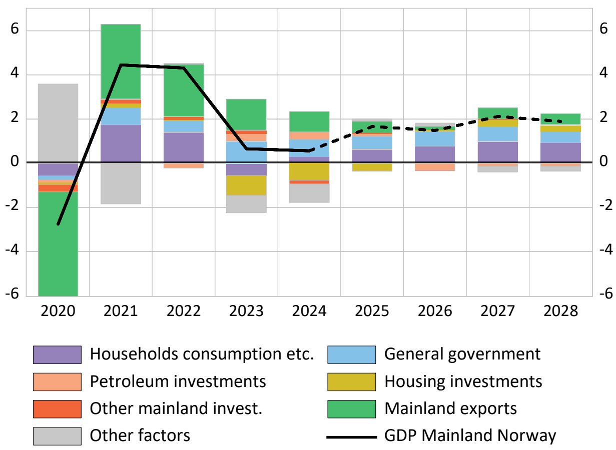


* The series «Okun's law» is based on a correspondence between the rate of unemployment and the output gap, cf. box 2.1 i Economic surveys 4/2022. The rate of unemployment is measured relative to the historical average 2010-2020.

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. All figures are in constant prices.

Mainland exports are defined as total exports excluding exports of crude oil, natural gas and shipping.

Other factors include changes in stocks and statistical errors and omissions.

The krone exchange rate responds immediately to news. It has been volatile in recent months, which we attribute to the constant changes in economic policy and negotiating manoeuvres by the Trump administration. The Norwegian krone has appreciated by 2.5 per cent, measured by the import-weighted exchange rate, since our previous report. We assume that the exchange rate will remain at its mid-June level in the years ahead. Fluctuations in the krone have an important effect on inflation, causing changes in prices for imported goods and services and changes in competitiveness, which affect the wage level.

The appreciation in recent months has been far from sufficient to bring inflation down to the target. Inflation measured as the consumer price index (CPI) was historically high in 2022 and 2023, but fell back considerably in 2024. The annual rise in the CPI ended at 3.1 per cent in 2024, 2.4 percentage points down on the previous year. The 12-month rise in the CPI was 3.0 per cent in May. Although inflation has fallen since the peak in 2022, we expect it to remain above the target in the years ahead. This is partly because of the persistent knock-on effects of the weakening of the krone since 2023, which have contributed to a considerable rise in nominal wage growth. The rise in house prices in recent months has been somewhat lower than expected, but sluggish adaptation in this service category, which has a weight of around 20 per cent in the CPI, is contributing to keeping inflation higher than the target. According to our projections, inflation measured by the CPI will fall from an annual average of 2.8 per cent this year to around 2.5 per cent in 2028.

Our forecast of above-target inflation in the next few years even as the key policy rate is cut is supported by Norges Bank's own projections in its March Monetary Policy Report. Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent, and to ensure financial stability. However, the central bank also takes into account that a higher interest rate impacts activity in the Norwegian economy. Since December 2023 the key policy rate has been 4.5 per cent, the highest since December 2008. Norges Bank's March Monetary Policy Report presents an interest rate path implying two rate cuts in 2025. Higher unemployment, slightly lower underlying inflation, along with lower global demand and interest rates point to lower

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

	QNA				Projection			
	2021	2022	2023	2024	2025	2026	2027	2028
GDP Mainland Norway	4.5	4.3	0.7	0.6	1.7	1.5	2.1	1.9
with contributions from:								
Consumption by households and non-profit organisations	1.7	1.4	-0.6	0.3	0.6	0.8	1.0	0.9
General government consumption and investment	0.8	0.5	1.0	0.8	0.6	0.7	0.7	0.5
Petroleum investment	0.0	-0.2	0.3	0.3	0.1	-0.3	-0.1	-0.1
Housing investment	0.2	0.0	-0.9	-0.8	-0.4	0.1	0.3	0.3
Other mainland investment	0.2	0.2	0.2	-0.2	0.1	0.0	0.0	0.0
Exports from mainland Norway[1]	3.4	2.3	1.4	0.9	0.5	0.1	0.5	0.5
Other factors etc.[1]	-1.8	0.0	-0.8	-0.8	0.1	0.1	-0.3	-0.2

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

interest rates in Norway, while a continued high level of activity in the mainland economy points the opposite way. On balance, and as in our March report, we forecast a total of two interest rate cuts this year, and cuts totalling a further 0.75 percentage point in the course of 2026. The key rate will then come down to 3.25 per cent by the end of 2026, and we assume that it will remain at this level through 2027 and 2028.

Public investment and consumption account for approximately a third of the mainland economy, and these demand components grew appreciably more than trend growth in the economy through 2023 and 2024. Fiscal policy also influences economic activity through transfers to households and businesses. The Government's revised budget bill for 2025 implies an increase in the structural non-oil budget deficit from around NOK 490 billion to NOK 540 billion. The increase is due in its entirety to a NOK 50 billion boost to the Nansen programme. This year the use of capital from the Government Pension Fund Global (the petroleum fund) is expected to amount to 2.7 per cent of the value of the fund at the beginning of the year, slightly less than the expected real return of 3 per cent which forms the basis for the fiscal rule. Spending is expected to remain lower than 3 per cent further out in the projection period, despite the increased investment in defence and the fall in the market value of the petroleum fund since the start of the year. The fiscal rule nonetheless allows scope for growth in public consumption and investment of just over 2 per cent in the upcoming years. This is higher than trend growth in the Norwegian economy of around 1.5 per cent. We therefore expect fiscal policy to have an expansionary effect on economic activity throughout the projection period.

Household consumption, which accounts for about half of mainland GDP, picked up somewhat in 2024 after weak developments through 2023. Overall consumption was virtually unchanged over these two years, but in 2024 it increased by about 1.5 per cent. Consumption showed a definite upswing in the first part of 2025. There was a broad-based increase in goods consumption, particularly in car purchases prior to the change in tax rules in April, while growth of service consumption was more moderate. Given growth in both real disposable income and real wealth, consumption growth will pick up and lie between 2 and 3 per cent in the years up to 2028. Income growth is driven by lower interest rates and higher wage income. Our projections indicate that the saving ratio excluding share dividends will be between 3 and 4.5 per cent in the projection period, and hence somewhat higher than the average level for the years 2010–2019.

On average, business investment has accounted for around 10 per cent of mainland GDP since 1990. Because of wide fluctuations, however, it normally has a stronger influence on economic developments than this share might indicate in itself. The share has been appreciably higher than 10 per cent since 2019, but recently business investment has again approached this historic average. Going forward, we expect the volume of business investment to remain virtually unchanged. Our projection has been revised up since our previous report due to an increase in businesses' reported investment plans, which so far do not appear to have been impacted by the ongoing global trade conflict. Manufacturing businesses report appreciably increased investment. Whereas the industry group refined petroleum products and chemicals and pharmaceuticals manufacturing is contributing substantially to the increase in investment in 2025,

Table 3. Main economic indicators 2024–2028. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Acco-unts 2024	Forecasts										
		2025			2026			2027			2028	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	1.4	2.4	2.2	2.1	2.5	2.5	2.4	3.0	1.9	..	2.7	1.6
General government consumption	2.4	2.1	2.4	3.1	2.1	2.1	1.2	1.9	1.9	..	1.3	1.5
Gross fixed investment	-1.4	-0.8	..	0.2	-0.6	..	1.3	1.9	..	..	1.8	..
Extraction and transport via pipelines	9.8	3.0	4.0	1.0	-8.0	-8.0	-8.0	-4.0	-4.0	..	-4.0	-4.0
Industries	-2.9	1.0	1.7	2.5	-0.6	2.8	2.9	0.5	2.4	..	0.4	2.5
Housing	-19.1	-11.1	-11.4	-6.5	3.0	8.4	12.0	10.3	10.6	..	9.8	8.2
General government	3.9	0.8	..	0.1	2.2	..	0.5	4.1	..	..	3.5	..
Demand from Mainland Norway[1]	0.3	1.5	1.7	1.9	2.1	2.6	2.4	2.8	2.3	..	2.4	1.9
Exports	5.2	-1.0	..	2.5	1.0	..	1.1	0.4	..	..	-1.5	..
Traditional goods[2]	2.1	2.2	3.2	-3.3	1.6	1.4	0.4	2.8	1.9	..	2.4	2.4
Crude oil and natural gas	6.7	-2.4	..	-1.1	0.6	..	1.1	-1.4	..	..	-4.6	..
Imports	4.3	2.5	2.2	2.6	1.5	3.1	1.7	3.1	3.1	..	2.7	2.8
Gross domestic product	2.1	-0.2	2.3	0.0	1.3	0.0	1.2	1.1	0.0	..	-0.1	-0.3
Mainland Norway	0.6	1.7	1.2	1.8	1.5	1.2	1.6	2.1	1.4	..	1.9	1.4
Labour market												
Employed persons	0.5	0.6	0.8	0.7	0.4	0.5	0.7	0.3	0.7	..	0.7	0.7
Unemployment rate (level)	4.0	4.1	..	4.1	4.1	..	4.1	4.0	..	..	3.9	..
Prices and wages												
Annual earnings	5.6	4.4	4.5	4.4	4.0	4.0	4.0	3.8	3.6	..	3.5	3.3
Consumer price index (CPI)	3.1	2.8	3.0	2.8	2.5	2.7	2.6	2.5	2.5	..	2.4	2.1
CPI-ATE[3]	3.7	3.0	3.4	3.0	2.8	2.9	2.6	2.5	2.3	..	2.4	2.1
Housing prices[4]	2.7	5.5	6.2	..	4.1	8.5	..	3.7	6.5	..	3.1	..
Balance of payment												
Current balance (bill. NOK)[5]	868	754	..	904	708	..	..	618	..	..	496	..
Current account (per cent of GDP)	16.7	13.8	..	16.6	12.7	..	..	10.8	..	..	8.5	..
Memorandum items:												
Money market rate (level)	4.7	4.4	..	4.5	3.8	..	3.8	3.5	..	..	3.5	..
Crude oil price NOK (level)[6]	80	68	..	70	65	..	67	66	..	..	66	..
Import-weighted krone exchange rate (44 countries)[7]	0.8	-1.2	-1.5	0.1	-1.0	-0.8	-0.3	0.0	0.0	..	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.
Source: Statistics Norway (SN). Ministry of Finance. Nasjonalbudsjettet 2025 (MoF). Norges Bank. Pengepolitisk rapport 1/2025 (NB).

the food, beverages and tobacco products group is expected to contribute to a rise in investment next year. Pronounced growth in investment in power supply is announced for the near term, while Norges Bank's regional network reports almost unchanged investment in services.

Preliminary national accounts figures show that housing investment fell by close to 20 per cent in both 2023 and 2024. Such a pronounced fall has not been seen since the housing crisis in the 1990s. Housing investment accounts for about a fifth of overall mainland investment, and the significant downswing has pushed down activity in the Norwegian economy as a whole. Sales of new dwellings, a leading indicator of housing investment, have picked up appreciably since 2024, but the upswing from the beginning of 2025 has come to a halt recently, according to the Norwegian Homebuilder Association. Although many housing start permits were registered in Q1 this year, we still expect that the turnaround in housing investment will only come towards the end of the year. This turnaround must be viewed in light of the expected interest rate cuts and the expectation that house prices will rise in real terms in the years ahead. The most recent figures published by Real Estate Norway do show that house prices have levelled off since February, but given a clear rise in real disposable income and reduction in interest rates, house prices are expected to pick up in the course of the year. We expect an average annualised rise in house prices of between 5 and 6 per cent this year, and that the price rise will then slow gradually to between 3 and 4 per cent towards the end of the projection period.

Moderate growth in petroleum investment this year appears to be followed by a marked decline in the next years. Petroleum investment increased by around 10 per cent in both 2023 and 2024. Although investment fell appreciably in Q1 this year, we still expect a moderate increase in investment this year too. The increase is attributable to the expected very high level of investment activity in fields in operation in the next few quarters. Although some new investment projects are planned for the years ahead, including the Wisting project, these will not be sufficient to compensate for the development projects that were launched in 2022 and 2023, and which will gradually be completed. Petroleum investment is accordingly expected to decline in the years ahead. Although almost half of the deliveries of capital goods to the petroleum sector are imported, the deliveries also generate considerable demand directed at mainland Norway. According to our projections, the expected fall in petroleum investment will push down growth in the mainland economy by between 0.1 and 0.3 percentage point annually from 2026 to 2028.

On 31 March, the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Business and Industry (NHO) reached agreement on an estimated norm of 4.4 per cent for annual wage growth in manufacturing in 2025. Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to wage earners, is estimated to be around 72 per cent for manufacturing in 2024. This is considerably lower than the average of roughly 80 per cent for the period 2010–2024. The low labour share indicates that wage growth will remain buoyant in the years ahead, although it is expected to decline somewhat from last year's high level. Nominal annual wage growth is expected to fall from 5.6 per cent last year to 4.4 per cent this year and further to around 3.5 per cent in 2028. Given our inflation projections, this means that real wage growth will decline a little, from 1.6 per cent this year to just over 1 per cent in 2028.

Unemployment measured by the Labour Force Survey (LFS) has risen from a low level of 3.2 per cent in 2022 to just over 4.0 per cent so far in 2025. The most recently published figures showed a rise in both the trend figure and the seasonally adjusted unemployment rate to 4.3 per cent in April. The number registered as unemployed with the Norwegian Labour and Welfare Organisation (NAV) has risen, and in May those registered as fully unemployed accounted for 2.1 per cent of the labour force. Unemployment has increased, but there are several signs that the situation is stabilising. Employment picked up markedly in Q1, also in construction, which has long been characterised by workforce reductions. Moreover, the number of vacancies remains at a high level. Increasing demand going forward is likely to curb further growth in unemployment. We expect that unemployment as an annual average will be 4.1 per cent this year before edging down to around 4 per cent in 2028.

Since the publication of our last report, the outlook for the economic activities of many of our trading partners has deteriorated. Higher international trade barriers and greater uncertainty are also placing a damper on the growth outlook for the Norwegian economy, particularly next year. The decline in petroleum investment from 2026 is also translating into lower mainland activity. Other domestic factors will help to maintain growth, however. Continued sound profitability in the wage leader segment is buoying up wage and income growth, thereby stimulating household consumption. Consumption will also gradually be boosted by a lower key policy rate. At the same time, the fiscal space provides a basis for continued growth in public consumption, investment and transfers. Residential construction is likely to reverse into an upswing towards the end of this year. We accordingly expect the rise in unemployment to come to a halt and that after a slight pause in 2026, the Norwegian economy will revert to a near cyclically neutral situation from 2027 onwards.

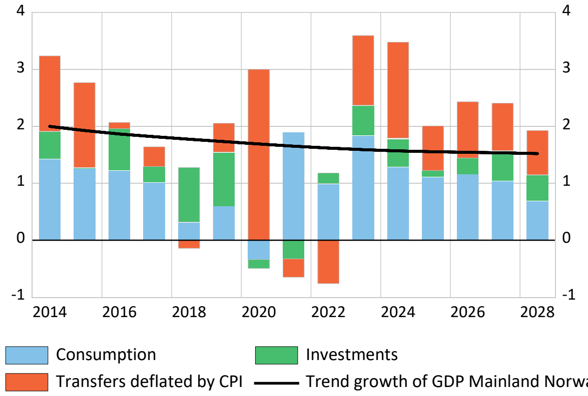
Expansionary fiscal policy with investment in defence

Public consumption grew steadily in 2024 and has continued to do so in 2025. General government spending grew by 0.4 per cent in 2025 Q1. Central government consumption edged up 0.2 per cent, while defence consumption rose by 0.4 per cent. Local government consumption increased by 0.6 per cent, while gross general government investment fell back by 9.3 per cent in 2025 Q1. The level of general government investment is nonetheless still high in a historical perspective, and large changes in individual quarters are not unusual.

In the National Budget 2025 (NB25), spending of petroleum revenue in 2025, measured in terms of the structural, non-oil budget deficit, is forecast to be NOK 460.1 billion. The Government additionally proposed an extra NOK 5 billion to municipal and county councils in 2025, and through the settlement with the Socialist Left party (SV), spending of petroleum revenue was increased by about NOK 7 billion. There was also agreement in the Storting to increase support to Ukraine by NOK 85 billion. The Government's proposed revised budget for 2025 entails increasing petroleum fund withdrawals, measured in terms of the structural non-oil budget deficit, from NOK 492.3 billion in the Final Budget Bill to NOK 542.4 billion in the Revised National Budget 2025 (RNB25). The increase of NOK 50 billion is to go in its entirety to strengthening the Nansen Support Programme for Ukraine. The projection for structural direct and indirect taxes has been revised up by NOK 6.5 billion, while other income has been reduced somewhat. Increased transfers to municipalities to meet higher pension costs and the introduction of a fixed price for electricity (the Norway Price) – is pushing up costs, while a cut in the projection for reception of refugees is pushing them down. The Government also proposes in RNB25 that the tax on electricity be reduced by 4.4 øre per kWh from 1 July, and that the Enova tax be abolished from 1 January 2026. These measures replace the proposed reduction in value-added tax on grid charges. Excluding the increased NOK 50 billion in support for Ukraine, fund withdrawals as a share of trend mainland GDP remain unchanged from 11.7 per cent in the Final Budget Bill. The budget for 2025 and the stimulus from budgets of previous years are expected to have an expansionary effect on the economy in 2025. This expansionary fiscal policy must be viewed bearing in mind the strengthening of the defence forces.

Figure 4. Contributions to growth in government expenditure

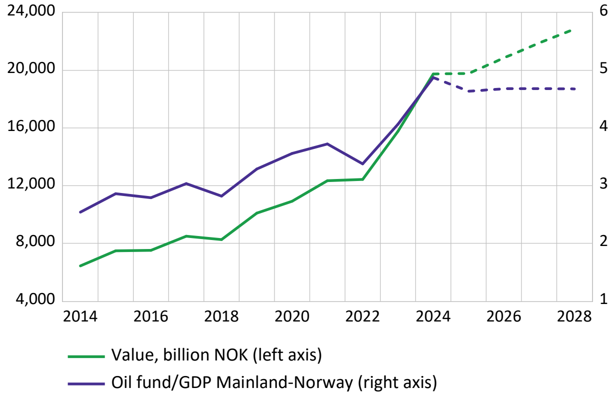
Change from previous year in percent



Source: Statistics Norway

Figure 5. The Norwegian Oil Fund / Government Pension Fund Global

Value, measured in billion NOK and in terms of GDP Mainland-Norway, year



Source: NBIM and Statistics Norway

The proposals in NB25 for the use of petroleum fund capital involved withdrawing the equivalent of about 2.5 per cent of the value of the fund at the start of 2025. The proposals in RNB25 imply withdrawals equivalent to 2.7 per cent from the fund. This is unchanged from the Final Budget Bill, despite the increased support for Ukraine. The explanation is that the value of the fund at the beginning of the year was higher than assumed in the Final Budget Bill. The value was around NOK 19 700 billion at the beginning of 2025, while in mid-June it was about NOK 19 000 billion. Geopolitical uncertainty, possible tax reforms in the US that impact foreign capital owners and the possibility of further fluctuations in financial and currency markets create a risk of changes in course, which implies a gradual adjustment of the use of petroleum revenue. We assume nonetheless that the real return on the fund will be 3 per cent, and

Box 1. How have movements in the exchange rate affected the interest rate differential between Norway and Sweden?

In recent years the global economy has borne the marks of the pandemic, war and increased trade turbulence. As small, open economies with large export sectors, both Norway and Sweden are very dependent on developments among their trading partners. Global fluctuations have had substantial impacts on the exchange rates and monetary policy of these countries. The high inflation resulted in sharp interest rate hikes by both Norges Bank and Sveriges Riksbank in 2022–2023, at the same time as increased global uncertainty served to weaken both the Norwegian and the Swedish krone against their trading partners' currencies. However the Norwegian krone has also depreciated against the Swedish krona, and whereas the Riksbank began to cut its policy rate in 2024, Norges Bank has chosen to keep its key policy rate high.

In this analysis we use the KVARTS macroeconomic model to illustrate how the Norwegian interest rate would have developed if the Norwegian krone (NOK) had followed the same path as the Swedish krona (SEK) since 2020; see Figure 1.[1] We consider how the exchange rate differential has influenced the interest rate differential between Norway and Sweden, and assess the significance of NOK for developments in inflation, wage growth and unemployment.

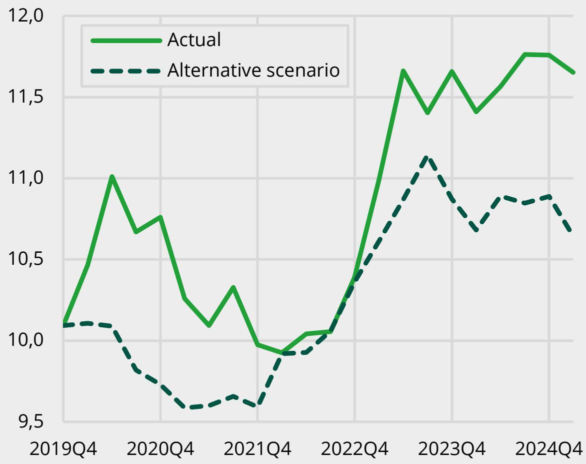
When the krone appreciates, consumer price inflation is affected directly through prices for imported consumer goods falling in terms of NOK. At the same time, imported intermediate goods become cheaper for businesses, which curbs inflation further. On the other hand, a stronger krone reduces export prices in NOK, reduces exporters' profitability and increases the labour share in the wage leader segment, which in turn curbs wage growth. As wage growth falls less than inflation – because the exchange rate effect is reflected faster in prices than in wages – real wages increase, and private consumption increases somewhat. However, consumption growth is not sufficient to compensate for the fall in exports and investment, with the result that GDP is reduced. Lower wage growth combined with weaker activity increases unemployment. This, coupled with lower inflation, gives the central bank grounds for reducing the key policy rate.

Figure 2 shows actual developments in the money market rate in Norway compared with an alternative interest rate scenario where NOK follows the same path as SEK. A stronger krone would have contributed to a lower interest rate path in Norway throughout the period. Our projections show that in such a scenario the money market rate would have been below zero in the pandemic year 2021. In 2025 Q1 the money market rate would have been 0.8 percentage point lower, at 3.7 per cent.

In 2025 Q1 inflation, measured as the 12-month change in the CPI for Norway and the CPIF for Sweden – the central banks' preferred measures of inflation – was 2.8 per cent in Norway and 2.5 per cent in Sweden (Figure 3). On average, Norway has had the higher inflation since 2020. At the same time, Sweden

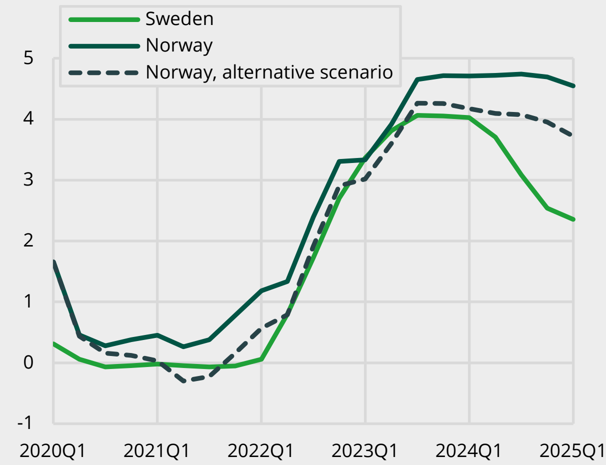
[1] Fiscal policy is kept unchanged in the projections and monetary policy follows a Taylor rule; see Boug et al. (2023) for a more detailed description of KVARTS.

Figure 1. Krone exchange rate (NOK per euro). Actual path and alternative scenario. Developments in the alternative scenario follow SEK per euro from 2020 Q1



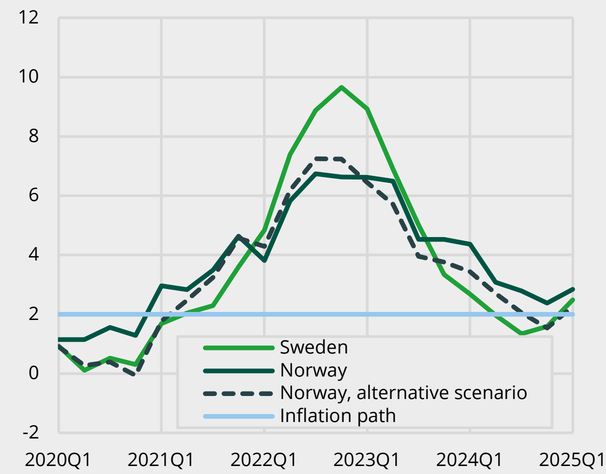
Sources: Statistics Norway, Norges Bank

Figure 2. Money market rates Norway and Sweden



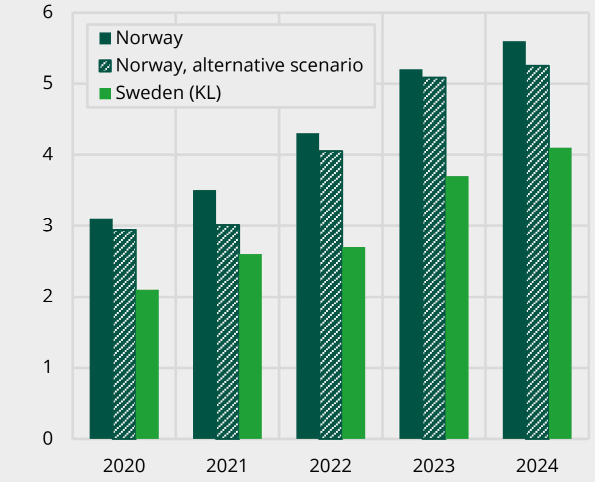
Sources: Statistics Norway, Norges Bank, Sveriges Riksbank

Figure 3. Inflation measured by the 12-month change in the CPI in Norway and the CPIF in Sweden



Sources: Statistics Norway, Statistics Sweden

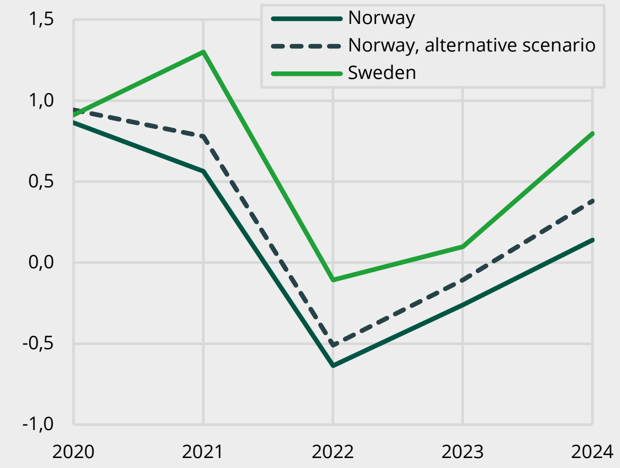
Figure 4. Annual wage growth. Measured as percentage change in accrued annual wages in Norway and hourly wage from the Short-Term Wage and Salary Statistics in Sweden



Sources: Statistics Norway, Swedish National Mediation Office

Figure 5. Unemployment rate. Measured as deviation from the average unemployment rate in the period 2010–2019 for Norway and Sweden

Percentage of the labour force, 15-74 years, LFS



Sources: Statistics Norway, Statistics Sweden

reached a higher inflation peak in 2022, followed by a more rapid decline in inflation.[2]

The broken line in Figure 3 shows inflation in Norway if NOK had followed the path of SEK. This estimated inflation is closest to Swedish inflation at the start and end of the period, when the relative differences between NOK and SEK were greatest. In the period 2021–2022, the exchange rates followed very similar paths. At the same time, Sweden had stronger domestic demand and higher capacity utilisation than Norway, partly because of differences in their handling of the pandemic. This, combined with the fact that electricity support schemes in Sweden were introduced later than in Norway led to inflation spreading faster and on a broader basis in the Swedish economy. In Norway, meanwhile, higher oil and gas income contributed to a more permanent increase in demand, which can lead to more persistent inflationary pressures. Differences in exchange rates can therefore explain only a small part of the inflation gap that developed between the countries in 2022–2023.

As in Norway, wage settlements in the Swedish manufacturing sector are normative for the rest of the economy. Given manufacturing's strong export orientation, the krone exchange rate affects manufacturing profitability, and hence also wage growth in other industries.[3] According to Sweden's Short-Term Wage and Salary Statistics, (Konjunkturlönestatistiken - KL) nominal wage growth in Sweden has risen gradually since 2020 (light green columns in Figure 4).[4] However the growth has been slower than in Norway (dark green columns), and this, coupled with the high inflation in Sweden in 2022 and 2023, led to a considerable fall in growth in real wages. Our estimated wage growth, assuming that NOK has developed in pace with SEK, shows that the exchange rate differential explains only a small part of the wage growth gap between Norway and Sweden (see shaded columns). The difference in wage growth must also be considered bearing in mind structural differences in wage formation between the countries, associated amongst other things with the duration of the collective wages agreements and the different compositions of the respective manufacturing sectors.[5] [6]

Figure 5 shows developments in LFS unemployment in Norway, measured as departure from the average for the period 2010–2019, compared with a corresponding measure of LFS unemployment in Sweden. In 2020 unemployment in both Sweden and Norway was 1 percentage point higher than the historic average. Since 2020, the Swedish labour market has developed more weakly than that of Norway, in that unemployment in Sweden has mainly been higher than the historic average. The projected effect of the exchange rate differential on the Norwegian economy is illustrated with a broken line. Although a weaker krone helps to explain the relatively low unemployment in Norway, developments in Sweden must also be viewed in the light of specific factors that have impacted the Swedish labour market, including weak cyclical fluctuations in manufacturing.

[2] Living costs are measured differently in the national inflation indices. The Norwegian CPI uses rental prices to measure costs, while the Swedish CPI puts together various living costs, with the interest on mortgages forming an important component. The difference between the Swedish CPI and CPIF is that the latter keeps mortgage rates fixed.

[3] Exports of traditional goods as a share of value added in goods-producing industries are almost 50 per cent larger in Sweden than in Norway.

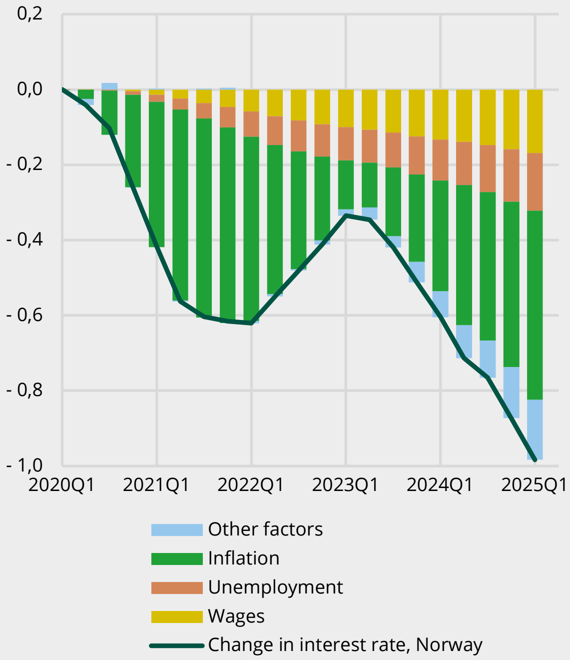
[4] According to statistics from the Swedish National Accounts, the increase in wage growth in Sweden began in 2022. However these statistics are influenced by composition effects, which had a strong impact in 2020, when layoffs and job cuts among low-paid workers contributed to an artificial rise in average pay. The Short-Term Wage and Salary Statistics are the Riksbank's preferred measure of wage developments in Sweden.

[5] In the wage negotiations in Norway, the parties base themselves on the inflation projection from the Technical Reporting Committee on Income Settlements (TBU), while in Sweden it is usual to use the Riksbank's inflation projections as the starting point. Despite the high inflation in 2022, the Swedish employee side used as its basis an inflation figure that did not differ too much from the inflation target, which led to a considerable fall in real wages; see Fullman and Mjølnerød (2025).

[6] The weak global manufacturing economy has hit the Swedish export industry hard, particularly the motor vehicle and machinery sector. Demand for Swedish exports has been weaker than for those from Norway, whose export industry is based to a greater extent on commodities.

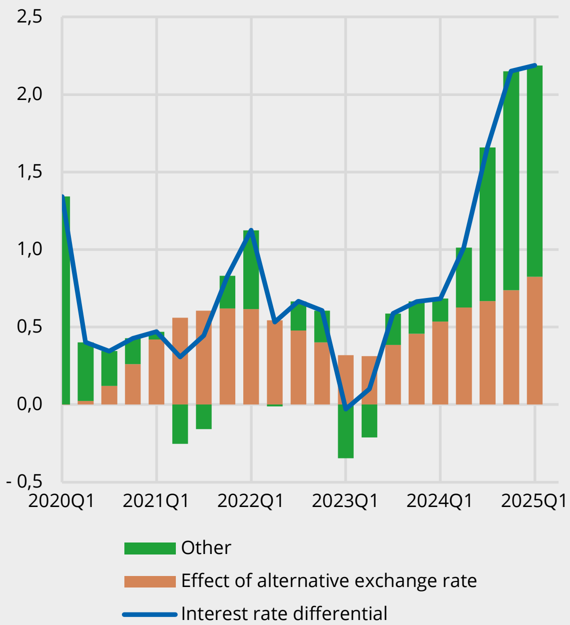
←

Figure 6. Decomposition of the change in the Norwegian money market rate as a consequence of an alternative scenario for the krone exchange rate



Sources: Statistics Norway, Norges Bank

Figure 7. Interest rate differential between Norway and Sweden1 and significance of exchange rate differences for the Norwegian money market rate



[1] Measured as the differential between the Norwegian and Swedish money market rates.
Sources: Statistics Norway, Norges Bank, Sveriges Riksbank

Figure 6 shows how the decline in interest rates – in our alternative exchange rate scenario – can be decomposed into contributions from changes in inflation, wage growth and unemployment. Inflation (green columns) plays the greatest part in the fall in interest rates. Over time, however, changes in wage growth (yellow columns) and unemployment (red columns) are of growing importance.

As a consequence of high inflation in 2022–2023, both Sveriges Riksbank and Norges Bank raised their policy rates markedly (see Figure 2). As inflation slowed, the Riksbank started with an interest rate cut in May 2024, and by January 2025 had reduced the policy rate by 1.75 percentage points, to 2.25 per cent. Conversely, Norges Bank has kept the interest rate unchanged at 4.50 per cent since December 2023.

The blue line in Figure 7 shows the interest rate differential between Norway and Sweden. The orange columns show the estimated effect on the Norwegian money market rate if the Norwegian krone exchange rate had followed the same path as the Swedish. Our projections show that a stronger krone would reduce the interest rate differential by on average 0.5 percentage point over the whole period, and that the interest rate in Norway would have been 0.8 percentage point lower in 2025 Q1. It would still, however, have remained more than one percentage point higher than the Swedish rate.

The principal objective of both the Riksbank and Norges Bank is to maintain low and stable inflation of around 2 per cent, while contributing to balanced output and high employment. In this analysis, we have demonstrated that the exchange rate differential between Norway and Sweden can explain a substantial part of their differences in monetary policy in recent years. However, other factors have become increasingly significant this past year. Amongst other things, Sweden has experienced weaker domestic demand and lower manufacturing output, which has reduced capacity utilisation in the economy. This has paved the way for an appreciably more expansionary monetary policy than in Norway.

In this analysis we have treated the krone exchange rate as an exogenous variable. In reality, differences in exchange rates reflect market expectations regarding future developments in the underlying factors that drive the economy. The analysis must therefore be understood as a decomposition that investigates the effects of differences in exchange rates, and not a causal analysis based on exogenous shocks.

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Fullman, D. and K. Mjølnerød (2025). Knowing Me, Knowing You – En sammenligning av svensk og norsk økonomi [A comparison of the Swedish and Norwegian economies – Norwegian text]. Bankplassen blog.

that inflows will be based on oil and gas prices that track forward prices.

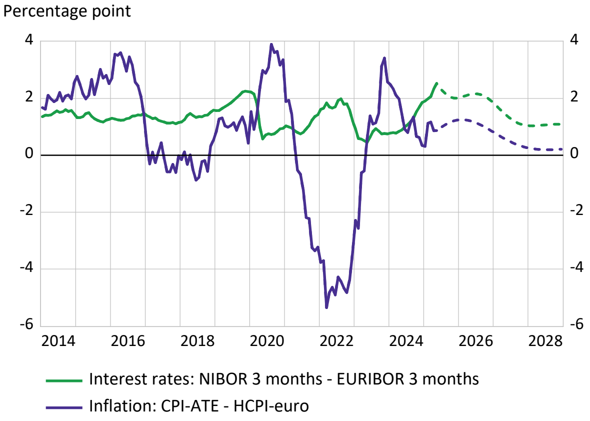
In this report we assume that investment in defence will exceed the NATO target that at least 2 per cent of GDP must be used on defence, and that the long-term plan to strengthen the defence forces will be adhered to in the period ahead. All F-35 fighter aircraft have now been delivered. Imports of military defence materiel and support for Ukraine will have little impact on activity in the Norwegian economy. However, purchases of materiel produced in Norway, as well as investment in and upgrading of Norway's defence infrastructure, will boost economic activity. A gradually expanding health and care sector will also stimulate economic activity going forward. The percentage withdrawn, excluding extraordinary supplementary support to Ukraine, is expected to remain below 2.7 per cent further out in the projection period despite the increased investment in defence.

NB25 forecast that growth in general government consumption and gross investment would be 2.1 and -0.3 per cent, respectively, in 2025. The corresponding figures are 3.1 and 0.4 per cent in RNB25, which also forecasts growth of 1.2 and 0.5 per cent, respectively, in 2026. Statistics Norway forecasts growth in general government consumption and gross investment of about 2 and 1 per cent, respectively, in 2025. Consumption growth has been revised up since our last report, while investment growth has been revised down, due to postponement of investment. We forecast growth of 2.1 and 2.2 per cent, respectively, for 2026. Public consumption is forecast to grow by 1–2 per cent annually further out in the projection period, partly a result of a change in priorities in favour of increased defence investment. We expect the real value of transfers, measured by the consumer price index, to increase by just over 2 per cent in 2025. This is 0.7 percentage point lower than the figure in our previous report, and a result of low projections in Q1. We expect growth of about 2.5 per cent further out in the projection period, partly because of the growing number of old-age pensioners.

Interest rate cuts this autumn

Since December 2023 the key policy rate has been 4.5 per cent, the highest since December 2008. Prior to the monetary policy meeting in March this year, Norges Bank had long been signalling that the first interest rate cut would probably come at the March meeting. However, high inflation in February, among other factors, led to the cut being postponed. At the same time, Norges Bank signalled that the key policy rate would "most likely be reduced in the course of 2025", which was repeated at the monetary policy meeting in May. Norges Bank's March Monetary Policy Report presents an interest rate scenario implying two rate cuts in 2025.

Figure 6. Interest rate and inflation differential between NOK and euro



Source: Norges Bank and Statistics Norway

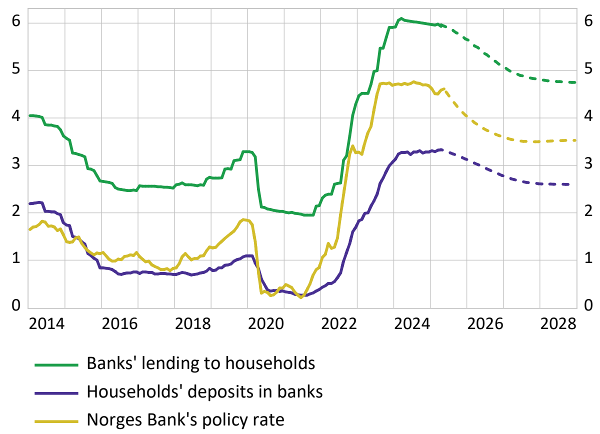
The money market rate normally shadows the key rate with an added premium. From August 2023 to December 2024, the three-month money market rate remained almost unchanged at around 4.75 per cent. It then fell, and at the beginning of March this year lay just under the policy rate, indicating that at that time the market strongly believed in a rate cut at the end of March. Due to the high CPI figures for February, and to Norges Bank not cutting the interest rate in March, the money market rate has increased, and at the beginning of June was 4.6 per cent.

Deposit and lending rates from banks and financial institutions increased from record low levels in 2021 up to 2024 Q2. The average interest rate on loans secured on dwellings tripled during this period, and at the end of 2024 Q1 was 6.1 per cent. It edged down during the summer half year, and was 6.0 per cent from 2024 Q4 to the end of 2025 Q1. The average deposit rate was close to 3.4 per cent from the end of 2024 Q1 to the end of Q1 this year.

The krone appreciated considerably through Q1 this year. A euro became 50 øre cheaper in

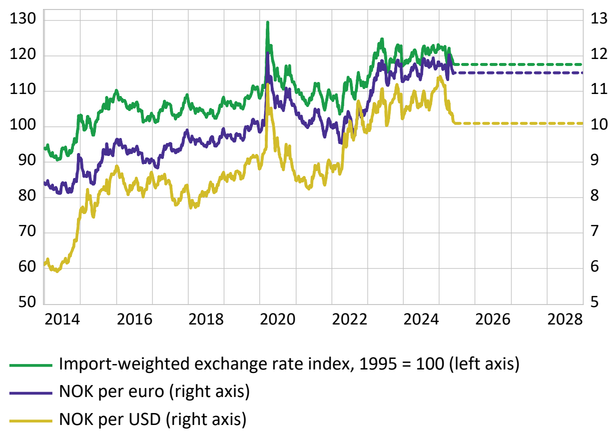
Figure 7. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

Figure 8. Exchange rates



Source: Norges Bank

the period, while a dollar became over 1 krone cheaper. The krone depreciated sharply in early April in connection with Trump's "Liberation Day", when "reciprocal" tariffs (Federal Register) were announced, before strengthening again. A little way into June, a euro cost NOK 11.50 while the price of a dollar was NOK 10.10. Measured by the import-weighted krone exchange rate, the krone has also appreciated by about 2.5 per cent since our last economic report, added to the 1 percentage point appreciation since our December 2024 report. We keep the krone exchange rate unchanged in our near-term projections.

Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank also takes into account that the interest rate level influences activity in the Norwegian economy. Moreover, it takes into account that its setting of interest rates influences imported inflation through the krone exchange rate. Periods of global turbulence may lead to increased fear of investing in small currencies, such as the Norwegian krone, which may weaken them. The uncertainty facing us now in the form of trade conflicts and possible breaches of cooperation on security may therefore increase the risk premiums associated with small currencies. A higher than normal interest rate differential between Norway and other countries may therefore be necessary to counteract the depreciation of the krone (see Box 1). In isolation, this suggests the postponement of interest rate cuts in the near term. The preliminary national accounts figures also show high activity growth in the mainland economy in Q1 this year, which also points to the postponement of the interest rate cuts. However, reduced activity and lower EU interest rates point to interest cuts in Norway too.

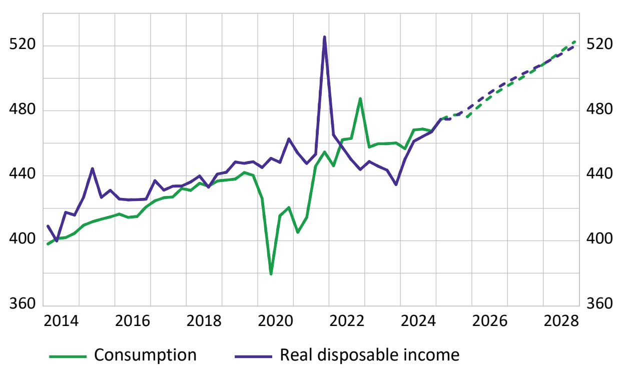
Higher than expected economic activity in Q1 has led us to revise up activity growth for 2025 compared to our previous report. At the same time we have revised down growth in the Norwegian economy next year. We have therefore chosen not to change our assessment of the path the policy rate will take going forward. This means that we are still assuming two interest rate cuts this year and a further three next year. The key rate will then come down to 3.25 per cent by the end of 2026, and we assume that it will remain at this level through 2027 and 2028. The lending rate – measured as the interest rate on loans secured on dwellings – will fall to just under 5 per cent towards the end of the projection period.

Rising consumption growth

According to the preliminary non-financial sector accounts, the real disposable income of households and non-profit organisations, both including and excluding share dividends, grew by around 4 per cent in 2024. This estimate is approximately the same as the figure published in the non-financial sector accounts in March. Higher wage income and a lower rise in prices for some goods and services boosted household purchasing power last year, while higher net interest expenses had a countering effect. In 2025 Q1, real disposable income, also excluding share dividends, increased by about a further 1.5 per cent. The growth was

Figure 9. Income and consumption in households

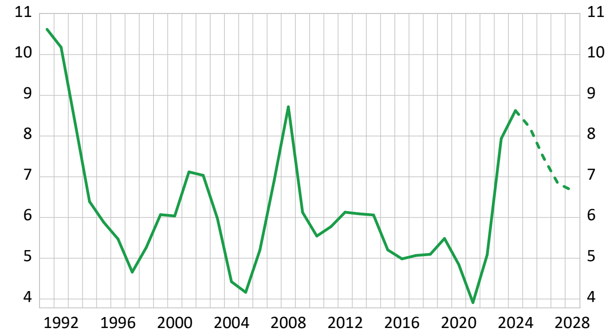
Seasonally adjusted, billion 2022 NOK, quarter



Source: Statistics Norway

Figure 10. Household interest burden

Interest expenses after tax as a share of disposable income in percent, year



Source: Statistics Norway

mainly due to higher wage income and increased disbursements from pension and other funds.[1]

As a consequence of their improved purchasing power, overall consumption by households and non-profit organisations increased by around 1.5 per cent in 2024, according to the preliminary national accounts. Goods consumption increased by about 1 per cent last year, pushed up largely by higher electricity consumption, while consumption of services, driven primarily by increased demand for leisure services, grew by around 2 per cent. Following almost flat developments through the second half of last year, overall consumption increased markedly in 2025 Q1, with growth of 1.5 per cent. There was a broad-based increase in goods consumption of a full 2 per cent in the same period, boosted by car purchases in particular in advance of the increase in tax on hybrid cars which took effect on 1 April. However, consumption of services showed more moderate growth of 0.5 per cent in the first quarter of the year.

Disposable income was lower than consumption through 2024, with both measured in current prices. The saving ratio increased nonetheless as a result of substantial saving in collective pension funds. Last year, the saving ratios including and excluding share dividends were around 7 and 2.5 per cent, respectively. Household net financial investment as a share of disposable income also increased through last year to a level consistent with the saving ratio. Households therefore appear to have strengthened their financial positions last year through increased saving and lower housing investment. As income and consumption increased at approximately the same pace in Q1 this year, the saving ratio remained at roughly the same annualised level as last year.

We expect real disposable income excluding share dividends, which do not tend to promote consumption, to increase by around 4.5 per cent in 2025. This growth projection is about one percentage point higher than in our previous report, largely due to an upward revision of growth in wage income and a downward revision of the rise in prices for goods and services. For the years 2026–2028, growth in annualised average real disposable income will hover around 2.5 per cent. Both wage income and public transfers are expected to increase considerably more than prices for goods and services, and will thus be the most important drivers of growth in real income in the near term. At the same time, net interest expenses will gradually make a positive contribution to purchasing power when borrowing rates fall. The level of the household interest burden, measured as interest expenses after tax as a share of disposable income, is therefore projected to fall gradually from around 8.5 per cent in 2024 to around 6.5 per cent in 2028. The average interest burden in the years 2010–2019 was 5.5 per cent.

We now forecast growth in total consumption in 2025 of around 2.5 per cent, roughly 0.5 percentage point higher than forecast in our last report. The upward revision of the projection for consumption this year is largely attributable to the upward revision of real income growth. The projection for consumption growth in 2025 implies a moderate upswing through the current year, after

[1] Disbursements from pension and other funds consist of disbursed benefits associated with employment from employers and disbursements associated with pensions from life insurance and pension funds.

the almost flat developments through the second half of last year. As a result of strong growth in both real disposable income and real wealth, consumption growth will lie between 2.5 and 3 per cent in the years 2026–2028. These figures are between 0.5 and 1 percentage point higher than the annual averages for the years 2010–2019.

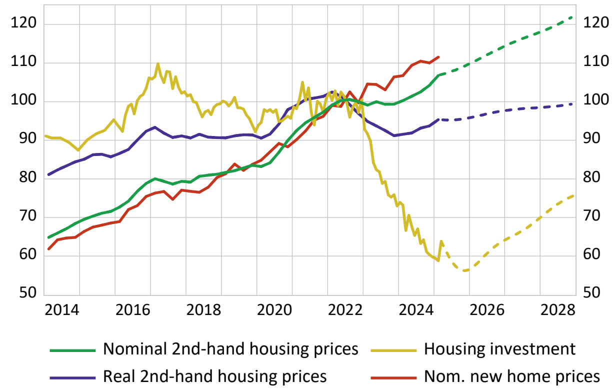
Our projections for income and consumption, together with saving in collective pension funds, imply an annual saving ratio of between 7 and 8 per cent in the projection period. The ratio excluding share dividends will be between 3 and 4.5 per cent. The saving ratios will then be somewhat higher than their averages for the years 2010–2019, partly because greater uncertainty normally prompts more precautionary saving. Our projections also imply that household net financial investment as a share of disposable income including share dividends will average about 7.5 per cent in the projection period compared with about 0.5 per cent for the years 2010–2019. Thus households' financial position will be strengthened in the near term, as also indicated by the reduction in their interest burden.

More subdued rise in house prices going forward

January this year saw changes in the lending regulations come into force, with a reduction from 15 to 10 per cent in the equity requirement for mortgages. Statistics Norway's resale homes price index shows that prices increased by 2.4 per cent in 2025 Q1 compared with the previous quarter. Much of this very strong rise can probably be attributed to the changed equity requirement for mortgages.

The effect of the changes in the lending regulations appear to have been instant, and when the interest rate cut in March did not materialise, the rise in prices slowed. According to the monthly house price index published by Real Estate Norway, the price rise from February to March was virtually zero, and there was a weak fall of 0.2 per cent in April. In May the house price level remained unchanged. However, house prices have moved very differently in different parts of Norway, with the Stavanger region pushing them up while Oslo and Bærum had a countering effect. At the same time, historically high volumes of resale homes for sale and associated record high sales are reported. In May more homes were put up for sale than were

Figure 11. Housing market
Seasonally adjusted, index, 2022 = 100



Source: Statistics Norway

sold, and the supply side was therefore very strong in early June.

The data source for housing investment in the preliminary national accounts is housing start permits recorded in Statistics Norway's building statistics. The number of registered housing start permits per quarter, measured in square metres, more than halved from 2021 up to the end of 2024. However, a very large number of new permits were registered in 2025 Q1, and growth compared with 2024 Q4 was close to 40 per cent. This increase is due to the unusually high number of permits registered for large housing projects in March – more than 2.5 times more than in February. The April figures show that registered housing start permits have fallen back, but are a little higher than the level for February. The March figures show that housing investment in the preliminary quarterly national accounts increased by 0.4 per cent in Q1. As discussed in Economic Survey 1/2025, preliminary national accounts figures can overestimate housing investment if registered permits do not lead to actual residential construction. Rehabilitation of resale homes, which historically has accounted for about 35 per cent of total investment, may have a countering effect if new source data reveals a higher degree of rehabilitation than first assumed. The most recent accounts figures should therefore be interpreted with caution, in light of the strong impact on the building statistics for March. The preliminary national accounts figures may be revised towards the end of the year.

The figures for actual housing starts up to and including April, which are published by the Norwegian Homebuilder Association, show that building so far this year is somewhat higher than in 2024. However housing starts in April were weak, and layoffs have been reported for several firms that supply the building industry. The fall in employment in the building sector is persisting, but has slowed somewhat. Sales of new dwellings, an indicator of future housing starts, were relatively high at the start of the year, but have fallen back since February. The lack of an expected interest rate cut in March may be part of the reason for this fall. The structural economic conditions that have characterised the housing sector in recent years continue to prevail and will continue to curb residential construction. Statistics Norway's construction cost index for residential buildings shows that the rise in costs is still relatively high, and was 4.5 per cent for materials in April. Developers' borrowing costs are still high, and there are still challenges associated with access to credit. Since 2022, prices for new homes have risen more rapidly than resale home prices, but this trend has reversed recently. Statistics Norway's price index for new homes shows that the annual increase in prices for new homes was 4.5 per cent in Q1, compared with 6.5 per cent for resale homes. A relatively higher rise in prices for resale homes will make it more attractive to purchase new homes. However the general uncertainty about the future may mean that households do not want to commit themselves to taking over a new dwelling at a future time. In February the Government launched a target of 130 000 new dwellings by 2030. It proposes to achieve this by making planning and building processes more efficient at municipal level and by simplifying regulations. However these measures are unlikely to affect residential construction much in the short term. In its response to the Storting, the Government has specified that the target is 130 000 new housing start permits measured by Statistics Norway's building statistics, a target which it is easier to meet.

We assume in our housing investment projection that some of the increase in housing start permits registered in Q1 will not lead to an equally rapid increase in actual housing construction. We are nonetheless revising our projection for 2025 up by 3 percentage points, to a decline of 11 per cent. The turning point will come towards the end of the year, and result in cautious investment growth of approximately 3 per cent in 2026. We foresee that in the last two years of the projection period, housing investment will grow by roughly 20 per cent, but this still means that the investment level will be at a historically low level.

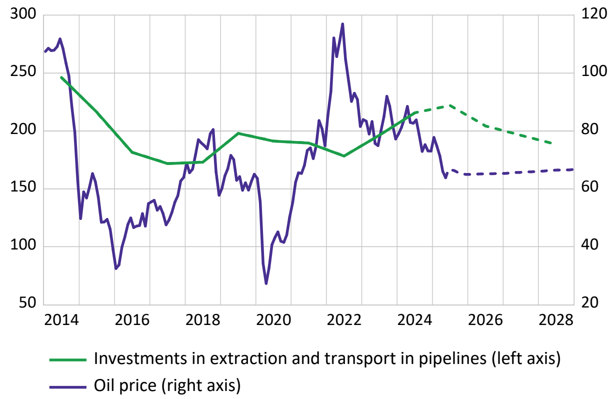
Our house price projections are based largely on fundamental factors that are involved in determining household demand for homes. These include their real income growth, borrowing, interest burden and real interest rates. We are assuming a lower real interest rate this time, and continued fairly strong growth in household real disposable income. This, coupled with the weak residential construction, will push up price inflation. Expectations and uncertainty may also play a part. Although there was no interest rate cut in March, and the rise in house prices has levelled off in recent months, the Norwegian Federation of Cooperative Housing Associations' housing market barometer for May shows that just under 70 per cent of those asked expect house prices to rise in the next year. However, developments in house prices so far this year have been weaker than previously anticipated. This year we expect a 5.5 per cent rise in house prices, a 1.5 percentage point downward revision compared with our last report. The rise in house prices is expected to slow to about 4 per cent in 2026 and to remain between 3 and 4 per cent through the projection period. This implies a real rise in house prices for the next two years of just over 5 per cent.

Decline in petroleum investments in the years ahead

Following strong growth of 7 per cent in 2024 Q4, petroleum investment fell 10 per cent in Q1 this year. The Q1 slump was driven by lower investment activity in the categories production platforms, drilling rigs and modules, and exploration. First quarter investment was nonetheless 5 per cent higher than in the same quarter last year. This growth is attributable to the category production wells.

Statistics Norway surveys the petroleum companies' investment plans for the current year and the following year through its quarterly survey of intended investment in oil and gas, manufacturing, mining and power supply (KIS). In the most recent survey, from May, the nominal projection for 2025 is NOK 269 billion, which is NOK 15 billion more than in the previous survey. The projection for this year indicates nominal growth of 9 per cent com-

Figure 12. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2022 NOK, year
Right axis: USD per barrel



Source: Statistics Norway

pared with the corresponding projection for 2024 published a year ago. NOK 207 billion is now being forecast for 2026. This is 4.3 per cent lower than the corresponding projection for 2025 published in 2024 Q2.

Oil and gas investment rose sharply in 2023 and 2024. The main reason for the growth in these years is that the Storting package of tax measures from 2020 prompted operators on the Norwegian continental shelf to submit plans for development and operation (PDOs) for a number of new fields. Growth was particularly strong because favourable taxation was contingent on PDOs being delivered before the end of 2022, which led to developments commencing at about the same time. The start-up of new development projects is normally distributed more evenly across time.

The smallest of these developments have now been completed and commenced operations, while the largest are still under development, and investment in them either peaked in 2024 or will do so this year. As very few new developments have followed after 2022, it is not surprising that a moderate downturn in development investment is indicated this year. Very high planned investment in fields in operation nonetheless appears likely to bring about growth in total investment this year. A high level of drilling and upgrading activity is proceeding in fields in operation. As the great majority of the ongoing developments peaked this year, the survey shows a decline in development investment in 2026.

A number of new developments are expected in the near term, which will increase development investment over and above that incorporated in the survey now, most of it for the coming years, but also a little for 2025. The Wisting field is the largest of these, with expected start-up in late 2026. It is unlikely, nonetheless, that the new developments will be able to prevent a decline in overall oil and gas investment in the next few years. Investment in forthcoming developments is thus not sufficient to fully compensate for the lapse of investment in connection with the phasing down and subsequent completion of the ongoing developments.

The accumulation of fixed capital in the extraction industry presupposes the purchase of a number of goods and services. The national accounts gather information from other statistics on movements of price for these goods and services. These data are used to create a weighted price index. According to this index, the rise in investment prices in the industry has slowed substantially since 2023, when it was around 10 per cent. In Q1 this year the rise had slowed to 4.7 per cent.

In view of the strong projection for 2025 in the last investment intentions survey, we are revising nominal investment growth up to 8 per cent for this year. Assuming a price rise of 5 per cent, this will result in a 3 per cent growth in volume this year. The projection in our last report was 1 per cent.

We assume that the increase in the projection in the survey for 2025 is due partly to a rise in prices, partly to investment planned for this year demanding more investment than previously assumed, and partly to investment originally planned for 2026 being brought forward to 2025. We are therefore revising the investment level in 2026 down somewhat compared to our previous report. As our projection for the investment level for 2025 has also increased since our previous report, we are now forecasting an 8 per cent decline in fixed investment in 2026. We are maintaining the projections in our previous report for investment levels in 2027 and 2028, forecasting a 4 per cent fall in investment in both 2027 and 2028.

Oil and gas extraction was 5.7 per cent lower in Q1 this year than in the same period last year. Liquid production fell 5.7 per cent, while gas production fell 5.6 per cent compared with 2024 Q1. The Norwegian Offshore Directorate anticipates that liquid production will pick up somewhat in the course of the year, and that this production will increase by 0.2 per cent for the year as a whole. Gas production is forecast to fall 4.7 per cent this year. The Directorate forecasts that overall petroleum production will fall 2.3 per cent this year. Production is expected to edge up 0.6 per cent next year, owing to higher gas production. Petroleum production is then expected to fall by 1.8 and 5.4 per cent in 2027 and 2028, respectively.

Business investment is being buoyed up by manufacturing this year

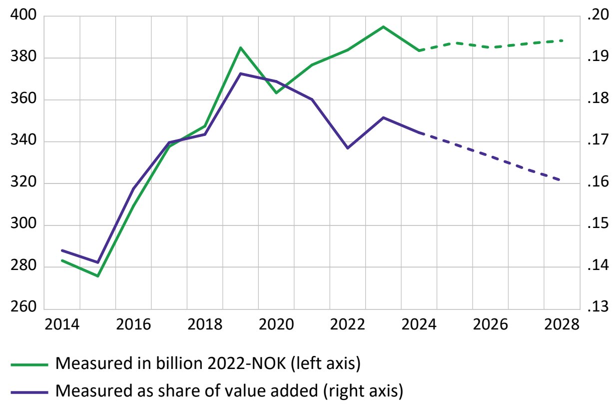
The year got off to a weak start for manufacturing and mining investment, with a fall in the first two months of the year and partial rebound in March. On balance, manufacturing and mining investment fell in Q1. The reverse was seen in service sector investment, which got off to a strong start and then fell back. Overall, the tendency in business investment appears to have been weakly positive in Q1. Business investment as a share of mainland GDP has been around 10 per cent in recent decades, but was markedly higher than that in the post-2019 period. The level has now reverted more or less to the historical average of 10 per cent.

Businesses in manufacturing, mining and quarrying, power supply and oil and gas report regularly to Statistics Norway's investment intentions survey on planned and completed investment. The most recent forecasts show stronger growth in manufacturing and mining than we assumed in our previous economic report. The industry group refined petroleum products and chemicals and pharmaceuticals manufacturing is making a particular contribution to growth. The survey's projection for 2026 also shows that growth will gather pace next year.

Norges Bank's survey of enterprises' outlook on the economy, Regional Network, gathers data on their planned investments. In the latest report, published in March 2025, few businesses report that willingness to invest is notably dampened by the ongoing global trade conflicts. According to the report, investment in energy transition and automation continues to boost investment. In services, the investment rate is being maintained at a high level by the hotel, restaurant and transport sector,

Figure 13. Investments Mainland Norway

Billion 2022 NOK, year



Source: Statistics Norway

while the limited number of projects in commercial property, office buildings and shopping centres is depressing growth. Higher sales and an upswing in the profitability of wholesale and retail trade give grounds for expecting businesses to increase investment this year and next.

There is still reason to expect that the broad-based build-up of Europe's defence capability may increase activity among producers of defence materiel. This may contribute to keeping manufacturing investment at a high level further out in the projection period.

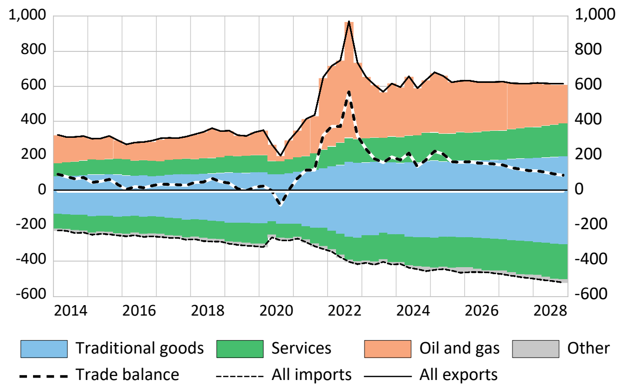
For business investment as a whole, we expect flat developments to the end of the projection period. This is because the weak growth in investment in service industries at the start of the projection period is countering the effect of increased investment in power supply, manufacturing and mining. There are a number of factors pulling in different directions. Uncertainty associated with global trade and lower demand from trading partners points to lower domestic investment growth. Lower domestic interest rates and increased domestic demand point in isolation to a rise in investment growth.

Towards a lower balance-of-payments surplus

Preliminary national accounts figures for Q1 this year show that exports and imports of goods and services chiefly featured a decline in volume and a rise in prices. Higher oil and gas prices lifted the trade surplus, while the mainland trade deficit (which excludes oil and gas and shipping) increased.

Figure 14. Foreign trade

Exports (positive axis), imports (negative axis) and balance of trade
Value (current prices), seasonally adjusted, billion NOK, quarter



Source: Statistics Norway

Of the major groups of export goods, engineering products and basic metals depressed overall exports of manufacturing products, while power supply had a countering effect, resulting in a small upswing in exports of traditional goods. Lower gross freight earnings and lower consumption by foreign tourists in Norway contributed to a decline in overall service exports. Oil and gas extraction fell in Q1 and hence so did exports of oil and gas. On the other hand, export prices for traditional goods and services increased, as did prices for oil and gas. Depreciation of the krone against the US dollar increased the export price of oil in NOK, while appreciation of the krone against the euro reduced the export price of gas in NOK.

There was virtually no growth in imports of traditional goods in Q1 this year, or in services as a whole. A sharp decline in imports of the product group ships, platforms and aircraft was mainly due to the import of 6 fighter aircraft in 2024 Q4. This almost doubled imports of this non-traditional product group in Q4. The reversal in Q1 caused a slump in overall imports. Import prices for traditional goods and services increased, but to a lesser extent than export prices. The total value of imports fell, while the total value of exports increased. As a result the trade surplus expanded by NOK 50 billion (28 per cent) to NOK 229 billion in 2025 Q1.

The uncertainty surrounding US trade policy persists. It is still uncertain what tariffs the Trump administration will impose on Norwegian exports to the US. Of greater importance are the tariffs on the EU, what the EU's response will be, and the consequences for Norway. The EU is by far Norway's largest and most important market, while the US is considerably smaller (see Box 1.2 in *Økonomiske analyser* 2/2025 - Norwegian text). Our projection for growth in demand from our trading partners has been revised down somewhat compared with our previous projection, and forecasts slightly lower growth in mainland exports than previously. Our projections imply loss of market shares for Norway. Growth in mainland exports is forecast to be lower than growth in imports, adding to the growing non-oil trade deficit.

The production and export value of oil and gas are expected to decline slightly through the 2025–2028 projection period, which will reduce the trade surplus. An increasing income and current transfers surplus, which was reduced this year by support for Ukraine, will offset this to some extent. The current account surplus as a share of GDP will thus fall from about 14 per cent this year to under 9 per cent in 2028.

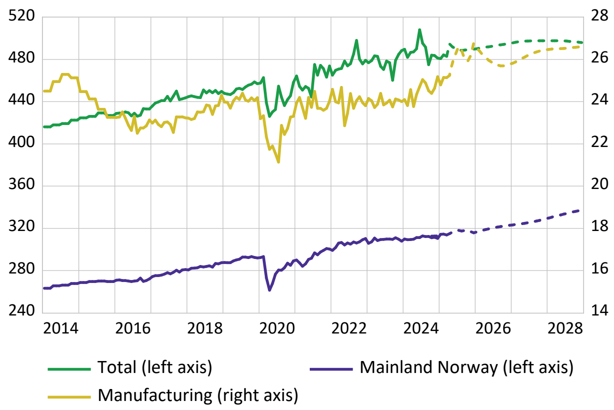
Upward revision of growth for mainland industries in 2025

In terms of basic prices, annualised mainland GDP increased by 0.9 per cent from 2024 Q4 to 2025 Q1, following a decline of 0.2 per cent in the last quarter of 2024. Most mainland industries reported solid growth in Q1.

The primary industries, particularly the fisheries sector, grew strongly, but this must be viewed against the backdrop of the weak figures at the end of 2024. Despite the strong first quarter increase, there is great uncertainty going forward, partly because of reduced fishing quotas in 2025, which are impacting the ocean-going fishing fleet. Otherwise, the aquaculture industry expects an increase in its production volume in the near term; see the latest report from Norges Bank's survey of businesses' economic prospects.

The building and construction industry has experienced negative developments since 2022, but activity turned around in Q1 this year. Sales of new homes have picked up since 2024, but according to the Norwegian Homebuilder Association have come to a halt recently. At the same time the building statistics show a positive trend for both housing and other starts in the first four months of 2025. We still expect a turnaround in housing

Figure 15. Gross domestic product
Seasonally adjusted, billion 2022 NOK, month



Source: Statistics Norway

investment towards the end of the year. Weak local government economies are dampening the level of activity in the industry, while large state-financed projects are making a positive contribution.

Manufacturing output as a whole has risen steadily since 2023 Q3, but with variations across segments. The food products industry and suppliers to the petroleum sector have experienced growth in the period. Statistics Norway's business tendency survey for 2025 Q2 has a positive evaluation of the outlook ahead, albeit with slightly less optimism than in the last two quarters. Producers of capital goods have the best prospects for the future, with a good supply of orders from both the domestic and the export market. Manufacturers of intermediate goods, often called traditional export-oriented manufacturing, and of consumer goods have more neutral expectations, although they, too, are seeing growth in the inflow of orders. Otherwise, industrial leaders report expectations of higher prices for intermediates and for products sold on both the domestic and the export market.

Wholesale and retail trade saw a pronounced upswing in 2025 Q1 following weak developments through 2024. This upswing is closely related to household purchasing power, and given prospects of higher real disposable income, an increase in goods consumption is expected going forward. The preliminary national accounts figures show that goods consumption increased from 2024 Q4 to 2025 Q1, and most for consumer durables such as cars and furniture. Other service industries that mainly supply households report moderate first quarter growth. Stable growth is expected going forward, in pace with increased purchasing power. Accommodation and food service activities are an example of a service industry that has enjoyed solid growth. Varying first quarter growth is reported by service industries that mainly supply the business sector. The oil tax package has led to strong growth over time of services associated with the petroleum sector, while growth has been weak for other areas such as ICT services and administrative and support service activities.

Our projections indicate less than 2 per cent output growth in mainland industries in 2025. Growth will slow somewhat in 2026, and then increase to about 2 per cent again for the remainder of the projection period. As a consequence of the upswing in economic activity in Q1, the projection for 2025 has been revised up by 0.5 percentage point, while overall growth for the four years of the projection period has been revised slightly down. As in our previous report, there is still great uncertainty as to how international factors such as increased tariffs and higher defence investment in Europe will affect the Norwegian economy. It is the greater uncertainty in particular that has exerted downward pressure on the outlook for growth from next year. We foresee strong growth in manufacturing in 2025, with a continued increase in petroleum investment. Manufacturing growth is subsequently expected to decline for the remainder of the projection period.

The upturn in the Norwegian economy is largely driven by domestic factors, including growth in public consumption and investment. Some of this is attributable to increased defence investment. The increase in household real disposable income will stimulate consumption and promote growth in service industries. Our projections also show that the turning point for housing investment will probably come towards the end of 2025, which will boost building and construction activity further out in the projection period. On the other hand, lower business sector investment, including in commercial buildings, will make a negative contribution.

Stable unemployment in the years ahead

Unemployment measured by the Labour Force Survey (LFS) rose from a fairly low level of 3.2 per cent in 2022 to 4.0 per cent in 2024, which is roughly the same as the average for the 2010s. Unemployment in 2025 Q1 was again 4.0 per cent, unchanged from the previous two quarters. According to the most recently published trend figures, however, unemployment increased to 4.3 per cent in April.

The number registered as fully unemployed, which is published by NAV, increased by 2 300 persons from April to May, adjusted for breaks and normal seasonal variations. NAV has had breaks in the jobseeker statistics in March, April and May, and therefore publishes figures adjusted for breaks. The breaks are due to the introduction of a new jobseeker register and changes in IT systems, and the effect of these changes has different impacts on the different groups of jobseekers. Adjusted for the breaks, persons registered as fully unemployed accounted for 2.1 per cent of the labour force in May.

The number of vacancies has decreased steadily since the historically high level in 2021–2022, but rose again from 2024 Q4 to 2025 Q1. According to Statistics Norway's survey, growth was 13 per cent, and although there are not as many vacancies as in 2021–2022, the number is high. NAV also publishes statistics on vacancies, but based on a narrower definition which excludes informally announced vacancies. In May the number of registered vacancies per business day was down by about 300 compared with the previous month, but to about the same level as in March. The number of registered vacancies is still higher than in the years prior to the Covid pandemic.

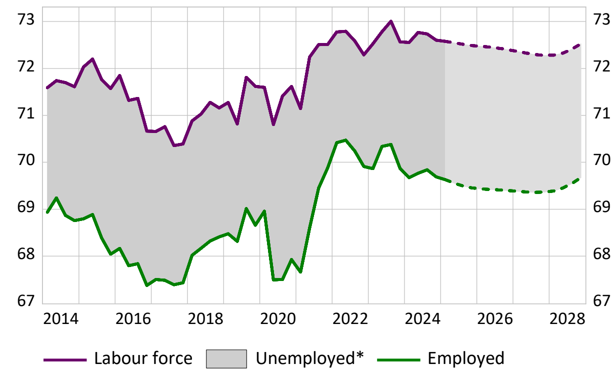
According to the LFS, the share employed in the age group 20–64 years has fallen fairly steadily for the past three years, but from a high level in 2022. In 2025 Q1 the employment rate for this group was 81.2 per cent, which is just under the average for the period 2010–2019 and lower than the target of 82 per cent set by the Norwegian Government for 2030.

According to preliminary national accounts figures, the number employed increased by 0.4 per cent from 2024 Q4 to 2025 Q1. This is larger than the increase through 2024. Year-on-year growth from 2023 to 2024 in the number employed was 0.6 per cent. Hours worked also increased by 0.4 percent in 2025 Q1.

Industries with increased employment in the first quarter of this year include public administration

Figure 16. Labour market status

Percent of population in working age, LFS

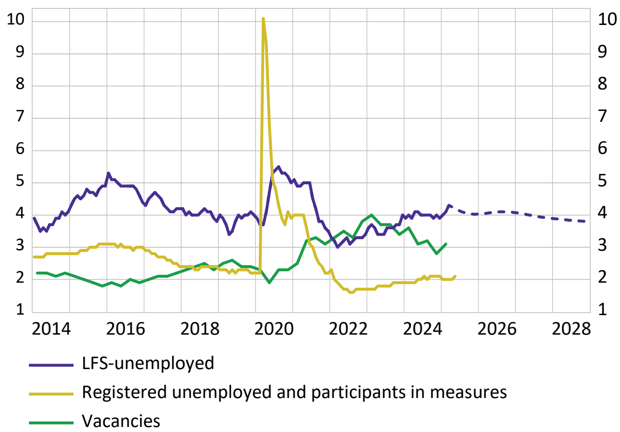


* Unemployment is here measured as share of population in working age

Source: Statistics Norway

Figure 17. Unemployed and number of vacancies

Percent of labour force and of the sum of occupied and vacant positions, seasonally adjusted and smoothed



Source: The Norwegian Labour and Welfare Administration and Statistics Norway

and defence, accommodation and food service activities and manufacture of metal products, electrical equipment and machinery. For the first time since 2023, the construction industry saw a slight increase in the number employed in 2025 Q1. Figures from Statistics Norway's jobs and wages statistics show that the increase is related to a growing number of jobs among wage-earners in infrastructure construction, and that the decline in building construction jobs has slowed somewhat. The decline in building construction was a major factor in the decline in the construction industry through 2024, while the same period saw fairly solid growth in jobs in infrastructure construction. Measured in terms of number of jobs among wage-earners, the latter segment of the construction industry is less than half the size of the building construction segment.

Box 2. Average wage, composition effects and the wage leader model

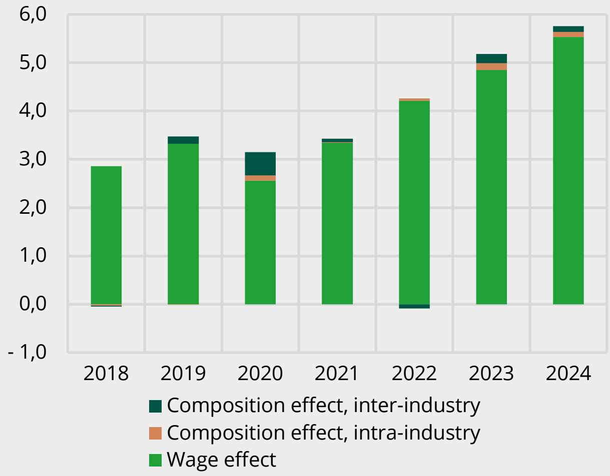
Average accrued annual wage is probably the most widely used statistical measure of the wage developments of employees in Norway. Statistics Norway, Norges Bank, the Norwegian Ministry of Finance and several banks provide projections for changes in annual wages in their macroeconomic forecasts. The average reflects both the annual wage of the individual employees and employee composition. If the annual wage of employees increases, or if the share of high-paid employees increases, the average annual wage will increase in both cases.

It is important for decision-makers to obtain information on how much changes in the composition of the labour force mean for the change in annual wage. For example, developments in annual wages are in focus prior to wage settlements. The wage leader model means that sectors that are parties to the agreement with a large proportion of traded sector businesses negotiate first (the wage leader) and that this settlement forms a norm for other industries. As the wage leader norm is defined in terms of growth in annual wages, the composition effects form an integral part of the norm. The Holden III committee (NOU 2013: 13), a public committee appointed in 2012 to evaluate the wage leader model and wage formation in the Norwegian economy concluded that it would be correct to adjust the norm for composition effects: "The various sectors compete for the same labour, which in the main course theory means that wage growth must be about the same in all sectors. On the basis of this reasoning, it would be correct to adjust wage growth in different sectors for changes in the composition of the labour" (p. 145 in original Norwegian text – Statistics Norway's translation).

In this box we calculate wage growth in different industries adjusted for changes in the labour composition. We decompose the change in average monthly basic earnings into contributions from wage effects, composition effects across industries and composition effects within industries.[1] We use monthly wage, and not annual wage, as the latter is constructed at a more aggregated industrial level than what is being analysed here.[2] The decomposition used is derived in Brasch et al. (2023) and the calculation is based on wage statistics that use data from the "A-ordning" (a reporting service used by employers). Compositional effects *across industries* are defined by industry section (based on a two-digit industry code) and capture flows between, for example, manufacturing, construction, wholesale and retail trade, and health and social services.[3] Composition effects *within industries* capture flows internally across industry subgroups within the individual industry section. For example, the flow of employees from manufacturing firms that process and conserve meat to manufacturing firms that process and conserve poultry is identified as a composition effect within manufacturing.

[1] In the reports from the Technical Reporting Committee on Income Settlements (TBU) composition effects across industries, but not within industries are calculated. In the Wage Leader Model Committee (NOU 2023: 30, Appendix 1) composition effects were analysed by dividing average annual wage growth among wage-earners who continue in the same job, newcomers to the labour market, persons who stop working and persons who switch jobs.
[2] There are some discrepancies between growth in the annual figure for monthly wages and the published figures for annual wages due to accrual of irregular supplements, bonuses and back pay.
[3] The breakdown into industry sections is based on Standard Industrial Classification 2007 (SN 2007).

Figure 1. Decomposed growth in monthly wage. 2018–2024. Per cent



Source: Statistics Norway

Positive composition effects are a measure of increased productivity that is due to labour moving to where the return is greater. A closely related topic in the research literature is measuring and quality adjustment of labour services; see for example Liu (2023), Brasch et al. (2018) and Nilsen et al. (2011) for analyses based on Norwegian data. Labour costs can be broken down into a volume component and a price component. Whereas the aforementioned literature includes the productivity effect in the volume component, here we are separating out the productivity effect from the price component.

According to the main course theory, which is a key framework for describing the wage leader model, increased productivity will have different effects on wages and prices depending on where in the economy it arises. Increased productivity in manufacturing (the wage leader) results in higher nominal pay, while prices are not affected as they are set in international markets. Since wage development in the non-traded sector follows the wage leader, increased productivity in these industries will not result in higher nominal wages. However, increased productivity in the non-traded sector makes it possible for businesses to deliver goods and services at a lower cost, which leads to lower consumer prices. Common to both types of productivity growth is thus that real wages increase.[4]

Figure 1 shows growth in monthly wages in the period 2018–2024 (measured as percentage change on the previous year), decomposed into contributions from wage effect, composition effect across industries and composition effect within industries. Wage growth in this period was driven largely by pure wage effects, but in 2020 composition effects across industries helped to push up wage growth by about 0.5 percentage point. The labour market was strongly impacted by the Covid pandemic that year, not least by extensive layoffs of employees in the industry accommodation and food service activities.[5] On average, this industry has a lower wage level

[4] These mechanisms are described in Bjertnæs et al. (2023), in both the main course theory (p. 26) and through model simulations (chapter 8).
[5] See Box 2.2 in ***Økonomiske analyser*** 3/2020 (Norwegian text).

←

Table 1. Sum of contributions to growth in monthly wage by industry section.[1] 2018–2024. NOK

Industry section	Total contribution	Wage effect	Composition effect, intra-industry	Composition effect, inter-industry
Not available	20	13	0	7
Agriculture, forestry, fishing	147	132	29	-14
Mining, quarrying and extraction	720	585	-38	173
Manufacturing	1 171	1 136	30	5
Electricity, water supply, sewerage and waste management	268	246	4	19
Construction	1 234	1 276	-11	-30
Wholesale and retail trade, repair of motor vehicles	1 468	1 387	73	8
Transportation and storage	638	670	-29	-3
Accommodation and food service activities	290	309	2	-21
Information and communication	943	728	30	186
Financial and insurance activities	499	393	19	87
Technical services, property management	1 283	1 095	30	159
Administrative and support service activities	689	686	8	-5
Public administration, defence, social insurance	1 011	986	8	17
Education	945	964	-1	-19
Health and social services	2 298	2 365	36	-104
Personal services	369	382	8	-21
Total	**13 994**	**13 353**	**198**	**443**

[1] The sum of wage effect, composition effect, intra-industry and composition effect, inter-industry makes up the total contribution. The sums are first calculated as the average for each industry and year, then summed for all years for each industry.
Source: Statistics Norway

than other industries, and reduced employment in this industry therefore served to push up wage growth in 2020.

Table 1 shows the sum of the contributions from the wage effect, the intra-industry composition effect and the inter-industry composition effect for each of the main industry sections to growth in monthly wages from 2018 to 2024, measured in NOK. The intra-industry composition effect accounted for NOK 198 of the sum of the growth in monthly wages from 2018 to 2024 which amounted to a little under NOK 14 000. The industry section wholesale and retail trade and repair of motor vehicles, which in 2025 Q1 accounted for about 11 per cent of employee-months (measured as full-time equivalents), contributed NOK 73 from intra-industry effects. Viewed in terms of employment in the industry, the contribution from wholesale and retail trade and repair of motor vehicles is large, which indicates that labour within this industry has largely moved to where the returns are greater.

For manufacturing, which very largely overlaps with the wage leader segment, the composition effects have been relatively small. Small composition effects from manufacturing to other industries are due to the wage level in manufacturing being close to the average wage level.

The analysis in this box has shown that, on balance, composition effects are relatively small from year to year. In the period from 2018 to 2024, the composition effects contributed to increasing the average monthly wage by NOK 641. This is equivalent to around 5 per cent of growth in monthly wages in this period. The largest composition effects in the period 2018–2024 were due to labour moving across industry sections, not between subgroups within the sections. As the composition effects are consistently positive, over time they may nonetheless accumulate to significant sizes.

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NOU 2023: 30. Utfordringer for lønnsdannelsen og norsk økonomi. [Challenges for wage formation and the Norwegian economy] Oslo: Official Norwegian Reports.

In April 2025, 16 500 Ukrainian immigrants were in work and receiving pay, according to figures from Statistics Norway's jobs and earnings statistics. They account for 35 per cent of Ukrainians aged 20–66 who have immigrated since the invasion and remained living in Norway. The share of Ukrainians in work has accordingly increased by 14 per cent on the same month the previous year. The fairly low employment rate is related to the fact that many take part in the introduction programme for newly arrived refugees before they look for work. The immigration from Ukraine has depressed the employment rate somewhat in the period 2022–2024, particularly among women.

In the last eighteen months, the number in the labour force has increased roughly in pace with population growth, according to the LFS. The participation rate (share of the population in the labour force) has thereby remained at a historically high level. In 2025 Q1, the number of persons in the labour force accounted for 72.6 per cent of the population aged 15–74, down 0.1 percentage point on the previous quarter.

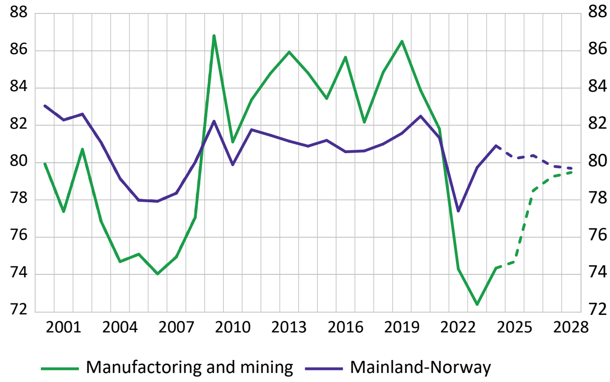
In the last couple of years, the labour market has been characterised by fairly low growth in employment and a slight increase in unemployment. This follows a period of labour market tightness in the wake of the Covid pandemic. We forecast that employment growth will remain at approximately the same level this year as last, and that it will remain low for the remainder of the projection period. This, coupled with a slightly higher population increase, implies a slight decline in the employment rate. Increasing demand is likely to further reduce growth in unemployment. We expect unemployment to end up at 4.1 per cent on average for the year 2025, and then to fall a little towards the end of the projection period.

High, but declining wage growth

After brief mediation by the National Mediator of Norway, the Federation of Norwegian Industries (Norsk Industri) and the United Federation of Trade Unions (Fellesforbundet) reached agreement on 31 March on a projected norm of 4.4 per cent for annual wage growth in 2025 in overall manufacturing under the Confederation of Norwegian Business and Industry (NHO). For manufacturing workers, who account for over half of full-time equivalents in businesses under the NHO, the wage carry-over

Figure 18. Wage share

Calculations based on factor income adjusted for income of self-employed, percent



Source: Statistics Norway

from 2024 into 2025 will contribute 1.6 percentage points, while for clerical employees in manufacturing it will contribute 1.9 percentage points. The centrally negotiated pay increases for manufacturing workers are estimated to contribute 1.3 percentage points, while the majority of clerical workers in manufacturing will only receive locally negotiated pay increases. The remainder of the 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 and composition effects (see Box 2).

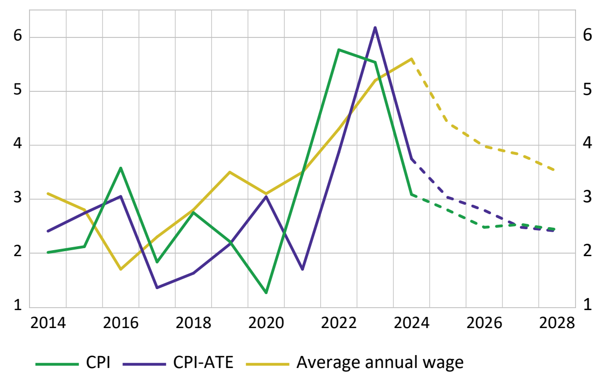
Growth in average monthly basic earnings in 2025 Q1 compared with the same quarter last year was 5.2 per cent, the same as the growth rate in the previous two quarters. The wage growth was generally broad-based across industries. Of the major industries, health and social services and construction pushed up average wage growth in Q1, with growth of 5.4 per cent and 5.6 per cent, respectively. Average monthly basic earnings in education and public administration increased by 4.8 and 3.3 per cent, respectively, in Q1, thereby pushing down the average overall wage growth. The low wage growth for public administration in 2025 Q1, as well as in 2024 Q4, when wage growth was 2.5 per cent, must be viewed bearing in mind that the wage settlement for 2024 for many central government employees was delayed. Payments will not be recorded in the statistics until 2025 Q2.[2]

[2] Skjæveland, M. H. and Røv, V 2025): Små bevegelser på arbeidsmarkedet [Small movements in the labour market], Statistics Norway.

Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to workers, is estimated to be 72 per cent for manufacturing in 2024.[3] We forecast that the labour share in manufacturing will pick up to about 75 per cent in 2025, and up further to around 80 per cent by the end of the projection period; some of this increase will be attributable to a stronger krone. The projection for the current year has been revised down somewhat compared with the previous economic report, due in part to an upward revision of projected operating results in manufacturing this year.

Figure 19. Consumer price indices and annual wage

Change from previous year in percent



Source: Statistics Norway

Our projection for annual wage growth in 2025 is being revised up, from 4.2 per cent in the previous economic report to 4.4 per cent, as a consequence of higher wage growth in 2025 Q1. We subsequently expect wage growth to decline in nominal terms further out in the projection period, up to 2028. There is uncertainty associated with the projections. The low labour share in manufacturing will exert upward pressure on wage growth in the current year and further out in the projection period, while the upwardly revised near-term unemployment will ease pressure on wages. The higher projections for both annual wage growth and the rise in the consumer price index (CPI) mean that real wage growth in 2025 is forecast to be 1.6 per cent, approximately unchanged from the figure in our previous report. Going forward, we expect annual wage growth to be reduced somewhat more than CPI inflation, such that real wage growth falls to about 1 per cent in 2028.

Food and electricity prices drive inflation

The 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) fell gradually from a peak of 7.0 per cent in June 2023 down to 2.8 per cent in January 2025. The 12-month rise in the CPI-ATE increased to 3.4 per cent in February and March before falling back to 3.0 per cent in April. The 12-month rise in the CPI in May was back at 2.8 per cent. The relatively high rise in the CPI-ATE in February and March can be largely attributed to movements in prices for food and non-alcoholic beverages, where the rise in prices remained at a high level. However, the price level for food and non-alcoholic beverages peaked in July last year and, measured by the CPI, the price index for this product group just topped this peak in May. One reason for the high 12-month rise in prices for this consumption group, which was 7.5 per cent in February this year and 8.7 per cent in March, was a surprisingly steep fall in the price level from January to March last year, when Easter fell in March. Supermarket chains' Easter special offer campaigns were pushed back to April this year. As a result prices for food and non-alcoholic beverages went down from March to April this year, and helped to slow the 12-month rise in the CPI-ATE in April. The 12-month rise for food and non-alcoholic beverages ended up at 5.3 per cent in May. The price level for the consumption group rose substantially in June and July last year, and the rate of increases may slow further if the rise in prices in the months ahead is more moderate this year than last year.

The 12-month rise in the CPI ended at 3.0 per cent in May, 0.5 percentage point up on April. The rise can be largely attributed to higher prices for food and electricity, while movements in rentals and air fares slowed the rate at which prices rose.

The Government has reached agreement with the farmers' unions on a new agricultural agreement for the coming agreement year. The agreement implies an overall increase in potential income for 2025 and 2026 of just over NOK 1.1 billion, with NOK 288 million covered through increases in target prices. Milk products have been excluded from the scheme, and there are now very few products that have a target price. In isolation, then, the agricultural agreement will have relatively little

[3] Blytt, J. P., Midttun, S. and Slaatsveen, I. (2025): Svak vekst i norsk økonomi i 2024 [Weak growth in the Norwegian economy in 2024], Statistics Norway.

impact on food prices, as price movements are determined even more than previously by market conditions, but still with tariffs and import protection as key factors. There are no tariffs on agricultural products that are not produced in Norway, such as citrus fruits, bananas and rice. Bilateral agreements on substantial tariff-free quotas for agricultural products have been reached with the EU through the EEA Agreement. Agricultural products produced in Norway, such as beef and milk products, have the highest tariffs.

Nortura is the market regulator for meat and eggs in Norway. According to Nortura, the regulatory stock of pork was empty in March, and that of beef in May. The Norwegian Agriculture Agency temporarily lifted the tariff on beef in the second half of May because of the empty stocks. As a result of strong demand and a shortage of eggs and several types of meat, Nortura is raising prices from 1 July by 2.7 per cent for beef, 7.2 per cent for eggs, 3.5 per cent for lamb and 3.3 per cent for pork compared with the current half year.

The price index for initial sales of food, i.e. food that is sold for the first time following production or import, has developed in recent months roughly in pace with movements in the CPI. Weights for underlying products are different in the price index for initial sales of food products, which also include animal feed, from the food products index in the CPI. When underlying prices for initially sold food products are weighted according to the weighting basis in the CPI, a new potential is arrived at for a rise in food prices going forward. Relatively high wage growth and high electricity prices for the business sector, which increase costs in both the production stage and the sales stage, add to the effect. A mild spring can result in an increased supply of agricultural products which, coupled with the competition between the supermarket chains and increased efficiency in the sales stages, may slow the rise in prices. The krone has strengthened recently against the euro, which has the same effect. We assume that the 12-month rise in prices for food products and non-alcoholic beverages may fall a little further from May to July. These prices remained lower than the level in July last year for the remainder of 2024, which limits the possibility of the rise in prices for the product group slowing in the second half of 2025.

The 12-month rise in the price index for the food products group alcoholic beverages and tobacco products slowed gradually from the new year and up to April, when it was 3.6 per cent. Price inflation for this consumption group was almost unchanged overall from April to May. A decline in beer prices was offset by higher prices for wine and liquor. A/S Vinmonopolet raised its prices by an average of 1.4 per cent from 1 May 2025, while the adjustment on 1 May 2024 was 0.2 per cent. This time Vinmonopolet increased the mark-up partly to cover increased pension costs. The price increase will maintain price inflation for the consumption group alcoholic beverages and tobacco products at a high level in the near term.

According to the CPI by supplier sector, the 12-month rise in prices for imported goods excluding agricultural products has been low this year, and less than 1 per cent since March. This is reflected in import-related product groups such as clothing and footwear, furniture and household equipment and cars, where price inflation has been low and in some cases negative since the new year. We assume that imported inflation on consumer goods will be low in the near term.

The rise in prices for services has been a good deal higher than for goods so far this year, but fell on balance from April to May. According to the CPI-ATE, the 12-month rise in prices for services by supplier sector fell from 4.3 per cent in April to 3.3 per cent in May. This decline was partly attributable to high air fares for Easter travel in April followed by the rise in fare prices slowing again in May. The rise in rental prices has also slowed somewhat more than expected earlier, and the 12-month rise for rental services ended at 3.6 per cent in May, after being somewhat over 4 per cent early in the year. Existing rents are largely regulated by means of the CPI. Lower CPI inflation than in previous years is slowing the increase in rents and helps to explain the decline. Price inflation is very low in service groups in which labour is a dominant factor. This has to do with the reduction in August 2024 of parental payments for day-care services. This coming August, the effect of reduced day-care rates on the year-on-year rise will be exhausted, which will push up CPI-ATE inflation by about 0.3 percentage point from July to August.

A period of low precipitation in Southern Norway and low post-winter levels in snow reservoirs have contributed to realised spot prices in this part of Norway being far higher in recent months than was indicated by the forward prices in February. This tendency lasted into June, while at the same time the area prices in the forward market for 2025 have risen in Southern Norway since our last report. So far this year, prices in Central and Northern Norway have been low. According to the Norwegian Water Resources and Energy Directorate, reservoir levels in these parts of the country were record high at the beginning of June. In the forward market, spot prices in Central and Northern Norway are expected to remain low until the winter, and far lower than in Southern Norway for the whole projection period until 2028. Our previous report incorporated the Government's proposed package of lower electricity prices for households, which was submitted on 31 January this year. According to Government statements at the time, households would be able to choose between the current electricity support scheme and a new, fixed "Norway Price" of 40 øre/kWh excluding VAT, applicable from 1 October 2025. The package included a proposal to reduce value-added tax on grid charges from 25 to 15 per cent from 1 July 2025.

The Government's proposal for new and revised schemes has now been set out in a Storting bill, Prop. 148 L (2024–2025) [Act relating to 'Norway price' and electricity support for households]. The principal elements of the Government's previous proposal from January have been retained. The Government proposes that from 1 October 2025 to 31 December 2026, households can choose between a fixed 'Norway Price' of 40 øre/kWh excluding VAT, or continue to take part in the electricity support scheme. The Government proposes that the Act should apply until 31 December 2029. Instead of reducing VAT on grid charges by 15 per cent, the Government now proposes reducing overall grid charges by reducing the excise dues on electricity by 4.4 øre per kWh in all months from 1 July 2025. The reduction in excise dues is assumed to have the same effect on grid charges as reducing VAT to 15 per cent for households that pay VAT.

According to plan, the bill will be considered by the Storting before the summer. At the time of working on this report, it was uncertain whether the bill would be passed by the Storting. The premisses in the bill may be amended or replaced by other support schemes. We have incorporated the Government's revised proposal for support schemes into our projections. We have retained the same assumptions as to how large a share of households will choose the fixed price that the Government has proposed in the bill. We assume that the threshold value for electricity support and grid charges will move in line with general price inflation through the whole period. A similar price adjustment forms the basis for the fixed price and excise dues in 2027 and 2028. Given higher spot prices than assumed previously, we expect households' average electricity prices including grid charges to increase a little more than general inflation in the current year. It has been calculated that, as in our previous report, the support measures will reduce CPI inflation by about 0.2 percentage point in 2025. Next year we expect the support measures to exert downward pressure on household electricity prices, which will reduce CPI inflation by an annualised average of 0.3 percentage point in 2026.

Given the spot prices forming the basis for the calculations, a potential extension of the current electricity support scheme and unchanged excise dues will raise the whole inflation path for households' average electricity prices. In isolation, this will contribute 0.2 percentage point to CPI inflation in 2025 and 0.3 percentage point in 2026. Annual inflation in 2027 and 2028 will not be much altered by a potential extension of the current support scheme. Both the fixed price and the threshold value for receiving electricity support are adjusted for general inflation and as a result the rate of increase in 2027 and 2028 will not be affected much in the long term by the choice of support regime. Given these assumptions, household electricity prices will rise roughly in pace with general inflation in 2027 and 2028.

The difference between the CPI and the CPI-ATE is determined by movements in prices for energy products and developments in special tax and VAT rates. We assume that fuel prices largely shadow the crude oil price in NOK, as a high premium of special taxes dampens the effect of the underlying movements in the price of crude oil. The importance of fuel prices in the weighting basis for the CPI will lessen in the years ahead as cars with fossil fuel combustion engines are phased out and fuel consumption is reduced. The value-added tax on water supply and waste water services will be reduced from 25 to 15 per cent from July this year. The tax relief is forecast to reduce inflation by an annualised 0.1 percentage point, measured as the difference between annual CPI-Ate inflation and the consumer price index excluding energy products (CPI-AE). The reduction of VAT on water supply and waste water services will affect the difference between the CPI-ATE and the CPI-AE until July next year.

Fuel prices are expected to fall considerably as an annual average from 2024 to 2025. This will also mean that on balance, and taking account of tax reductions on water supply and waste water services, prices for energy products will reduce CPI inflation for 2025 by 0.2 percentage point, measured as the difference between the CPI and the CPI-ATE. The introduction of the fixed price and reduced energy tax will cause the reduction in CPI inflation to increase to 0.3 percentage point in 2026. For the years 2027–2028 we assume that household energy prices will rise roughly in pace with general price inflation. We have adjusted the other special tax rates for inflation for the years 2026–2028 and assume that they have a neutral effect on CPI inflation. At the same time, we have assumed that prices for energy products as a whole will parallel general inflation in 2027 and 2028, so that CPI and CPI-ATE inflation will be identical for these years.

In our projections, producer prices move such that industries' production costs are covered over time. The time from when a cost impulse arises to when it feeds fully through into producer prices and further into consumer prices is considerable, however. Since our last report, leading indicators that determine inflationary developments have been revised on the basis of new, updated data. Global inflation has been revised slightly down, and the krone exchange rate slightly up. The result is lower imported inflation, the effects of which will mainly come next year, as a consequence of a considerable time lag from the time of changes in underlying prices until they are reflected in consumer prices. The effects of the decline in import prices are counteracted by somewhat higher wage growth and somewhat lower productivity growth than forecast previously.

Projections for CPI-ATE inflation in the years ahead have undergone little change since our previous report. Annual CPI-ATE inflation is projected to be 3.0 per cent in 2025 and 2.8 per cent in 2026. The CPI-ATE inflation rate is then forecast to slow somewhat in the medium term and end at 2.4 per cent in 2028. The CPI is the most relevant inflation index for calculating developments in household purchasing power. CPI inflation for 2025 has been revised up by 0.1 percentage point from March and is now forecast to be 2.8 per cent for 2025. Given the assumptions forming the basis for developments in prices for energy products, CPI inflation will fall to 2.5 per cent in 2026 and then shadow the CPI-ATE.

Inflation projections are uncertain. The uncertainty is associated in particular with movements in the krone exchange rate and global economy, including significant changes in trading partners' tariff policy. There is also uncertainty associated with the introduction of the fixed price for electricity and whether this will lead to higher electricity prices for the business sector, which could lead indirectly to higher inflation as a result of the pass-through of costs to consumer prices.

Table 4. Main economic indicators 2016–2028. Accounts and forecasts[1, 2]

										Forecasts			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Demand and output													
Consumption in households etc.	1.1	2.2	1.4	1.0	-6.2	5.1	7.8	-1.2	1.4	2.4	2.5	3.0	2.7
General government consumption	2.3	1.9	0.6	1.1	-0.5	3.6	1.8	3.4	2.4	2.1	2.1	1.9	1.3
Gross fixed investment	3.9	2.6	2.2	9.5	-4.1	0.7	0.3	-1.5	-1.4	-0.8	-0.6	1.9	1.8
Extraction and transport via pipelines	-16.0	-5.4	0.7	14.3	-3.3	-0.9	-6.0	10.2	9.8	3.0	-8.0	-4.0	-4.0
Mainland Norway	9.0	6.8	1.5	6.3	-3.1	1.6	1.7	-2.6	-4.6	-1.4	1.0	3.5	3.2
Industries	12.6	9.2	3.1	10.3	-5.3	3.2	2.7	2.9	-2.9	1.0	-0.6	0.5	0.4
Housing	6.6	7.3	-6.5	-1.1	-1.6	3.5	0.4	-18.3	-19.1	-11.1	3.0	10.3	9.8
General government	6.4	2.6	8.1	7.5	-1.1	-2.5	1.5	4.1	3.9	0.8	2.2	4.1	3.5
Demand from Mainland Norway[3]	3.1	3.1	1.2	2.3	-3.9	3.9	4.7	-0.3	0.3	1.5	2.1	2.8	2.4
Exports	0.4	1.6	-1.5	2.1	-2.3	6.1	5.2	0.4	5.2	-1.0	1.0	0.4	-1.5
Traditional goods	-11.2	0.9	2.0	5.1	-0.8	6.7	-1.8	5.3	2.1	2.2	1.6	2.8	2.4
Crude oil and natural gas	5.4	5.2	-4.6	-2.9	10.5	0.2	0.3	-1.8	6.7	-2.4	0.6	-1.4	-4.6
Imports	1.9	1.8	1.4	5.3	-9.9	1.8	13.3	-1.5	4.3	2.5	1.5	3.1	2.7
Traditional goods	-1.4	3.5	2.8	6.2	-2.7	5.4	6.2	-6.2	3.8	0.3	1.4	3.3	3.0
Gross domestic product	1.2	2.5	0.8	1.1	-1.3	3.9	3.2	0.1	2.1	-0.2	1.3	1.1	-0.1
Mainland Norway	0.9	2.2	1.9	2.3	-2.8	4.5	4.3	0.7	0.6	1.7	1.5	2.1	1.9
Manufacturing	-4.1	-0.1	1.6	2.1	-5.7	5.6	1.0	0.0	1.6	5.6	0.6	1.4	0.5
GDP in current prices (NOK billion)	3 116	3 323	3 577	3 597	3 462	4 324	5 733	5 102	5 197	5 453	5 577	5 702	5 805
Labour market													
Total hours worked, Mainland Norway	0.6	0.5	1.6	1.5	-2.1	2.4	3.5	0.6	0.3	0.7	0.9	1.1	0.5
Employed persons	0.3	1.1	1.6	1.6	-1.5	1.1	3.7	1.3	0.5	0.6	0.4	0.3	0.7
Labor force	0.2	-0.2	1.4	1.0	0.4	2.2	1.4	1.3	0.9	0.5	0.5	0.3	0.5
Participation rate (level)	70.4	69.7	70.2	70.5	70.4	72.1	72.6	72.8	72.7	72.5	72.4	72.3	72.4
Unemployment rate (level)	4.7	4.2	3.8	3.7	4.6	4.4	3.2	3.6	4.0	4.1	4.1	4.0	3.9
Prices and wages													
Annual earnings	1.7	2.3	2.8	3.5	3.1	3.5	4.3	5.2	5.6	4.4	4.0	3.8	3.5
Consumer price index (CPI)	3.6	1.8	2.7	2.2	1.3	3.5	5.8	5.5	3.1	2.8	2.5	2.5	2.4
CPI-ATE[4]	3.0	1.4	1.6	2.2	3.0	1.7	3.9	6.2	3.7	3.0	2.8	2.5	2.4
Export prices, traditional goods	4.5	4.7	5.1	0.1	-3.5	12.6	30.4	0.0	-1.5	1.8	0.9	2.2	2.3
Import prices, traditional goods	2.5	3.2	4.1	2.5	4.3	5.0	15.9	5.5	0.7	1.5	1.0	1.8	2.1
House prices	7.0	5.0	1.4	2.5	4.3	10.5	5.2	-0.5	2.7	5.5	4.1	3.7	3.1
Income, interest rates and excange rate													
Household real disposable income	-1.6	2.0	0.9	2.0	1.1	4.1	-3.6	-2.4	4.0	3.6	2.9	2.6	2.3
Household saving ratio (level)	6.9	6.6	5.9	7.1	12.9	13.8	4.7	4.0	7.1	7.9	8.2	7.6	7.1
Money market rate (3 month NIBOR) (level)	1.1	0.9	1.1	1.6	0.7	0.5	2.1	4.2	4.7	4.4	3.8	3.5	3.5
Lending rate, credit loans (level)[5]	2.6	2.6	2.7	3.0	2.6	2.1	2.9	5.0	6.0	5.9	5.4	4.9	4.8
Real after-tax lending rate, banks (level)	-1.6	0.1	-0.7	0.2	0.7	-1.8	-3.3	-1.5	1.5	1.8	1.4	1.0	0.9
Import-weighted krone exchange rate (44 countries)[6]	1.8	-0.8	0.1	2.9	6.7	-5.3	1.2	8.5	0.8	-1.2	-1.0	0.0	0.0
NOK per euro (level)	9.29	9.33	9.60	9.85	10.72	10.16	10.10	11.42	11.63	11.58	11.52	11.52	11.52
Current account													
Current balance (bill. NOK)[7]	163	210	320	136	38	644	1 699	887	868	754	708	618	496
Current account (per cent of GDP)	5.2	6.3	9.0	3.8	1.1	14.9	29.6	17.4	16.7	13.8	12.7	10.8	8.5
International indicators													
Exports markets indicator	3.8	5.5	4.3	3.4	-7.5	10.1	8.2	1.9	2.5	2.1	1.9	2.7	3.1
Consumer price index, euro-area	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.4	2.0	1.7	2.0	2.2
Money market rate, euro (level)	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.3	1.7	2.2	2.5
Crude oil price US dollar (level)[8]	45	55	72	64	43	71	99	82	80	68	65	66	66
Crude oil price NOK (level)[8]	379	452	583	564	407	609	951	867	856	707	659	664	671

[1] Percentage change from previous year unless otherwise noted.
[2] Some time series may have been revised after the publication of the Economic Survey.
[3] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Credit lines, secured on dwellings.
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 11 June 2025.