

Cyclical developments in Norway

In 2005, growth in the mainland economy continued at the same pace as in the previous year. The cyclical upturn in the Norwegian economy has now spanned two and a half years. Since the cyclical trough was passed in summer 2003, growth has not been particularly high in the context of a cyclical upturn. The cyclical deviation from trend level in activity thus remains modest. Unemployment has declined and is now clearly lower than previously. Consumer price inflation has been low during the upswing and remains low adjusted for energy prices and tax changes. High oil prices, which partly reflect strong growth in the global economy over several years, have contrib-

uted to high growth in real disposable income in Norway and very high current-account surpluses.

The cyclical upswing has been fuelled by an expansionary monetary and fiscal stance, coupled with strong growth in petroleum investment. The economic policy stance has had a particularly pronounced influence on the household sector. Lower taxes and interest rates have boosted consumption and housing investment, which has translated into strong growth private services. Rising petroleum investment has contributed to buoyant growth in manufacturing in the course of the cyclical upswing and reversed the weak

Macroeconomic indicators 2004-2005. Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	2004	2005	05.1	05.2	05.3	05:4
Demand and output						
Consumption in households etc.	4.7	3.8	0.4	1.8	1.0	0.0
General government consumption	2.2	1.4	0.2	0.4	-0.2	0.4
Gross fixed investment	8.1	10.8	-9.3	4.9	2.7	12.3
Mainland Norway	7.8	9.0	-6.4	4.9	2.2	8.9
Extraction and transport via pipelines	7.8	15.7	-12.4	21.3	-4.8	15.1
Final domestic demand from Mainland Norway ¹	4.5	4.0	-0.8	1.9	0.9	1.6
Exports	0.6	0.5	-0.5	2.7	0.5	-1.1
Crude oil and natural gas	-0.7	-3.4	1.7	1.4	-1.5	-1.7
Traditional goods	3.4	5.6	0.0	-1.7	4.5	1.3
Imports	8.9	6.7	-2.2	3.6	3.6	1.4
Traditional goods	10.2	8.3	0.3	4.0	4.8	0.2
Gross domestic product	3.1	2.3	0.0	1.5	0.7	0.2
Mainland Norway	3.8	3.7	0.5	1.0	0.8	1.1
Labour market						
Man-hours worked	1.9	0.9	0.2	0.2	0.2	0.1
Employed persons	0.4	0.7	0.1	0.2	0.5	0.3
Labour force ²	0.4	0.9	0.1	0.4	0.6	0.1
Unemployment rate, level ³	4.5	4.6	4.5	4.7	4.8	4.5
Prices and wages						
Wages per standard man-year ⁴	4.3	3.5	4.7	3.9	3.0	2.6
Consumer price index (CPI) ⁴	0.4	1.6	1.0	1.5	1.8	1.8
CPI adjusted for tax changes and excl. energy products (CPI-ATE) ⁴	0.3	1.0	0.7	1.0	1.2	1.0
Export prices, traditional goods	8.4	3.2	-0.5	1.2	2.2	0.9
Import prices, traditional goods	4.5	0.3	0.5	-0.6	-0.2	0.8
Balance of payment						
Current balance, bill. NOK	233.0	319.7	74.9	58.3	81.9	104.6
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.0	2.2	2.0	2.1	2.3	2.5
Lending rate, banks ⁵	4.2	4.0	4.0	3.9	4.0	4.0
Crude oil price NOK ⁶	257.3	351.4	298.0	327.5	398.9	377.1
Importweighted krone exchange rate, 44 countries, 1995=100	95.6	91.8	93.6	92.1	90.7	91.0
NOK per euro	8.37	8.0	8.24	8.05	7.88	7.88

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

² Unemployed (Labour Force Survey) and employment (NA) excl. maritime personnel in ocean transport.

³ According to Statistics Norway's labour force survey (LFS).

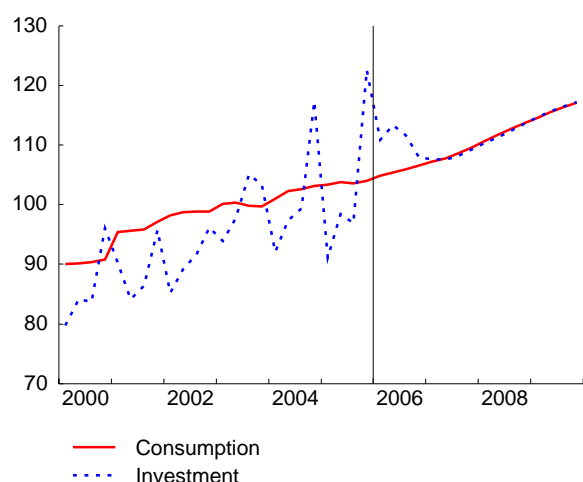
⁴ Percentage change from the same period the previous year.

⁵ End of period.

⁶ Average spot price, Brent Blend.

Source: Statistics Norway and Norges Bank.

General government
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

trend in manufacturing prevailing towards the end of the 1990s.

The global economy has had a considerable influence on developments in the Norwegian economy through a number of channels in recent years. Strong international growth, particularly in Asia, has pushed up demand for commodities. Combined with uncertain conditions as to oil production in certain OPEC countries, this has contributed to high and rising oil prices in recent years. The expansion in Asia has also been accompanied by strong growth in the supply of manufactured goods, with a fall in prices for some goods. Against this background, inflation has been unusually low during this cyclical upturn, which has laid the basis for a low interest rate level. Finally, EU enlargement to include several Eastern European countries has increased labour mobility in Europe. As a result, labour market pressures have been lower than normally observed in earlier expansionary phases. This has contributed to curbing wage growth.

Monetary policy in Norway is now being tightened gradually, while fiscal policy is no longer providing further impulses to demand. Petroleum investment may continue to edge higher in 2006, but according to companies' investment plans the growth rate will be markedly lower. The upswing in the global economy is continuing, but there are signs of some softening in the US and UK, while growth in the euro area and Japan may be picking up, albeit from a low level.

There is reason to believe that the current expansion in the Norwegian economy will be more moderate compared with previous booms over the past 25 years. The main source of uncertainty now seems to be whether the low level of interest rates in Norway will lead to a situation where economic policy responses do not lead to a sufficiently swift moderation in strong growth in domestic demand. Our projections

show that our predominant view is that the Norwegian economy will move on a balanced path in the years ahead.

Fiscal policy – more quickly to fiscal rule limit, and below thereafter?

Quarterly national accounts figures (QNA) show that general government consumption increase by as little as 1.4 per cent between 2004 and 2005. The low growth rate partly reflects a substantial decline in defence spending. Developments in public employment show about the same pattern with weak growth in the civilian sector and a marked decline in the defence sector. Gross investment in the general government sector exhibited little change in 2005 compared with the previous year. Growth in transfers to the household sector continued to fall over the past year, and from 2004 and 2005 the sum of these transfers remained unchanged in real terms. This is the lowest growth rate recorded since 1974. A fall in sick pay and unemployment benefits, combined with a stable number of old-age pensioners, partly explains the low level of growth in transfers. Overall growth in general government expenditure was also low in 2005. Reductions in direct taxes nevertheless entailed a slightly expansionary fiscal stance, as measured by the structural, non-oil budget deficit as a percentage of mainland GDP. Taking into account the composition of expenditure and revenues, the changes in fiscal policy had an approximately neutral cyclical impact in 2005.

The approved fiscal policy programme for 2006 is also broadly neutral. Growth in general government consumption is slightly lower than projected growth in the mainland economy. The tax level is raised somewhat compared with the previous years. In addition, the tax system is changed, with the replacement of the split-income model with taxation of dividend in excess of the normal yield level, while the marginal tax on high wage income is reduced to achieve more equal taxation of labour and capital income for marginal taxpayers. The VAT rate was increased at the beginning of the year, and combined with a number of smaller rate increases, will push up CPI inflation by about 0.4 percentage point. At the same time, transfers to the day-care sector have been increased in order to reduce rates, which will push down CPI inflation by close to a tenth of a percentage point.

The Government's estimate for the structural, non-oil budget deficit in 2006 and deficit projections based on technical assumptions for the following years show that the Government aims to approach the spending limit under the fiscal rule gradually. The value of the Petroleum Fund (the Government Pension Fund – Global) was higher at the end of 2005 than previously assumed. Combined with higher oil prices so far in 2006 and expectations of somewhat higher prices through the year than previously assumed, we now expect the Petroleum Fund to be close to NOK 1 750

billion at the beginning of 2007. If expenditure and tax rates are in line with the estimates underlying our projections for 2007, the structural, non-oil budget deficit may be NOK 5 billion lower than provided for under the fiscal rule. Against the background of our assessment of the economic outlook, fiscal policy should avoid generating further impulses to the Norwegian economy in 2007, unless the view is that the interest rate level in Norway should be higher than currently implied by market expectations. Personal taxes are still assumed to increase by about NOK 2 billion from 2006 to 2007, and excise duties to be adjusted for inflation. This provides room for slightly higher growth in general government consumption of goods and services in 2007 than in 2006. The moderate rate of growth in transfers to the household sector works in the same direction.

Strong growth in the Petroleum Fund provides substantial room for fiscal accommodation in 2008 and 2009 if the fiscal rule is to be strictly interpreted. We have assumed that the tax level is held unchanged in real terms in these two years and that general government consumption of goods and services increased markedly, in line with the growth projections presented earlier. With the estimated future increases in the Petroleum Fund, our projections now imply that the structural, non-oil budget deficit will be below the limit implied by the fiscal rule. Overall, this implies that our estimates for the structural, non-oil budget deficit for the entire projection period 2006-2009 will be broadly in line with or a little lower than the limit implied by the fiscal rule. These projections seem to be consistent with statements by the Government that the scope for higher budget deficits will not automatically be fully utilised when the Norwegian economy is assumed to be in a situation with high capacity utilisation and falling unemployment.

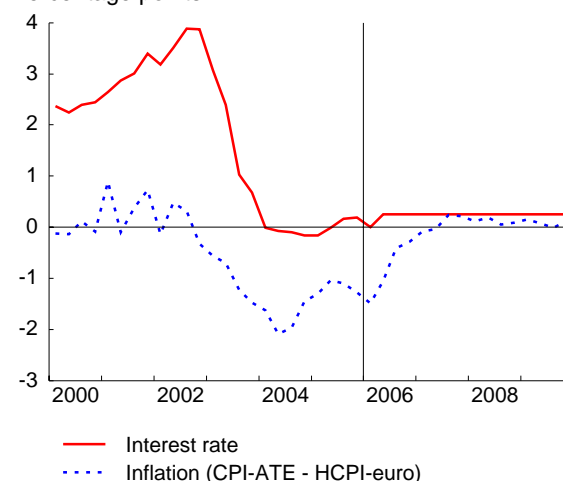
Monetary policy somewhat tighter this year

Since 2 November in 2005, Norges Bank has held the interest rate unchanged at 2.25 per cent. The European Central Bank raised its key rate by 0.25 percentage point to 2.5 per cent on 2 March 2006. After almost six years without interest rate increases, this was the second increase in the euro area in three months. At the end of January 2006, the Federal Reserve raised its key rate for the fourteenth time by 0.25 percentage point to 4.5 per cent. Unlike interest rates in the euro area and Norway, interest rates in the US have increased considerably over a longer period partly owing to fears of higher inflation. In the beginning of March this year, the three-month money market rate was 2.7 per cent in both Norway and the euro area, while it was close to 5 per cent in the US.

The interest rate is set on the basis of an assessment of the effects of interest rate changes on inflation, the krone exchange rate and the activity level in the economy. The objective of financial stability is also taken

Interest rate and inflation differential between NOK and the euro

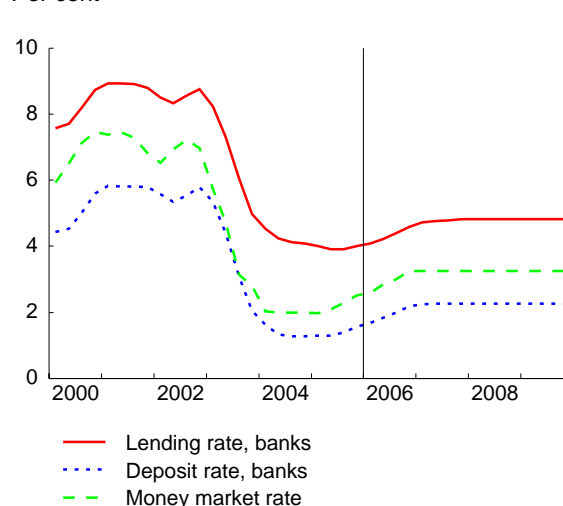
Percentage points



Source: Norges Bank and Statistics Norway.

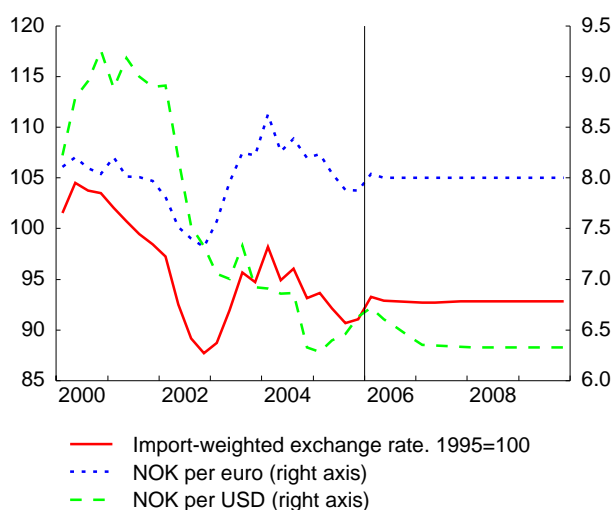
Norwegian interest rates

Per cent



Source: Norges Bank and Statistics Norway.

Exchange rates



Source: Norges Bank.

Main economic indicators 2005-2009. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts 2005	Forecasts							
		2006			2007		2008		2009
		SN	MoF	NB	SN	NB	SN	NB	SN
Demand and output									
Consumption in households etc.	3.8	3.9	3.1	3 1/2	3.6	2 3/4	3.1	2	3.2
General government consumption	1.4	2.0	1.9	2	2.3	1 3/4	3.8	3	3.4
Gross fixed investment	10.8	6.6	2.7	..	-2.4	..	1.1	..	0.2
Extraction and transport via pipelines ¹	15.7	6.3	0.0	2 1/2	-5.1	-2 1/2	0.0	-5	0.0
Mainland Norway	9.0	6.2	3.6	6	-1.0	3 1/4	1.5	2 1/2	0.3
Industries	9.4	7.4	6.0	..	2.5	..	2.4	..	0.4
Housing	14.5	0.5	0.9	..	-2.8	..	-1.7	..	-2.2
General government	0.7	11.7	1.6	..	-6.3	..	3.9	..	3.8
Demand from Mainland Norway ²	4.0	3.8	2.9	3 3/4	2.5	2 1/2	3.0	2 1/4	2.8
Stockbuilding ³	0.1	0.0	..	..	0.0	..	0.0	..	0.0
Exports	0.5	-0.3	2.7	..	4.5	..	3.7	..	0.8
Crude oil and natural gas	-3.4	-3.2	1.3	..	6.6	..	5.6	..	-1.4
Traditional goods	5.6	3.0	3.6	3 1/4	3.1	3 1/2	2.0	3 1/4	3.2
Imports	6.7	7.1	4.5	4 1/4	3.1	2 1/4	4.0	1 3/4	3.9
Traditional goods	8.3	4.4	5.1	..	2.8	..	3.3	..	3.4
Gross domestic product	2.3	1.3	2.1	2 3/4	2.5	2 1/4	2.7	2 1/4	1.4
Mainland Norway	3.7	2.3	2.5	3 1/4	1.9	2 1/2	2.4	2 1/4	2.2
Labour market									
Employed persons	0.7	1.5	1.0	1 1/2	0.7	1	0.7	3/4	0.9
Unemployment rate (level)	4.6	3.8	4.1	4	3.7	4	3.6	4	3.4
Prices and wages									
Wages per standard man-year	3.5	3.8	3 1/2	4 1/4	4.0	4 1/2	4.2	4 1/2	4.0
Consumer price index (CPI)	1.6	2.6	1 3/4	2	1.9	2	2.0	2 1/2	1.9
CPI-ATE ⁴	1.0	1.3	1 1/2	1 3/4	2.0	2	2.0	2 1/2	2.0
Export prices, traditional goods	3.2	1.2	..	..	-1.1	..	0.2	..	1.8
Import prices, traditional goods	0.3	-0.3	..	..	-1.1	..	- 0.7	..	-0.1
Housing prices ⁵	7.9	3.4	..	..	0.6	..	1.8	..	0.4
Balance of payment									
Current balance (bill. NOK)	319.7	333.7	..	..	314.2	..	315.9	..	301.3
Current balance (per cent of GDP)	16.8	16.6	15.3	..	15.3	..	14.7	..	13.6
Memorandum items:									
Household savings ratio (level)	12.1	3.2	5.0	..	3.3	..	3.3	..	3.3
Money market rate (level)	2.2	2.9	3.0	3	3.3	3 3/4	3.3	4 1/4	3.3
Lending rate, banks (level) ⁶	4.0	4.3	..	..	4.8	..	4.8	..	4.8
Crude oil price NOK (level) ⁷	351	365	350	..	317	..	316	..	316
Export markets indicator	4.9	5.7	..	..	4.2	..	1.8	..	3.0
Importweighted krone exchange rate (44 countries) ⁸	-3.9	1.1	..	- 3/4	-0.2	1/2	0.1	1/2	0.0

¹ Forecasts from Ministry of Finance incl. service activities incidental to extraction.² Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.³ Change in stockbuilding. Per cent of GDP.⁴ CPI adjusted for tax changes and excluding energy products (CPI-ATE)⁵ Freeholder.⁶ Households' borrowing rate in private financial institutions. Yearly average.⁷ Average spot price, Brent Blend.⁸ Increasing index implies depreciation.

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 Tillegg nr.1 (2005-2006), (MoF), Norges Bank, forecasts based on forward interest and exchange rates, Inflasjonsrapport 3/2005 (NB).

into account. Domestic credit growth, as measured by 12-month growth in gross domestic debt of non-financial enterprises, households and municipalities, C2, was 13.4 per cent the end of January 2006. In his annual address, the Governor of Norges Bank (the central bank) pointed out that the long period of strong debt growth could lead to instability in output and employment. The increases in external interest rates, solid growth in the Norwegian economy and prospects of a gradual rise in inflation provide Norges Bank with room to increase the interest rate some-

what in the period ahead. The central bank has announced that the interest rate will be raised in small, not too frequent steps ahead. The year-on-year rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE), was 1.0 per cent in February 2006. This is clearly lower than the inflation target. The central bank governor has stated that "low inflation is not the result of a decline in demand, activity and employment... In a period of extensive changes in the functioning of the Norwegian and the world economy, we may with our very open

economy have to accept somewhat greater variability in inflation and deviations from the target, as we have witnessed over the past two-three years.”

The Norwegian economy is still experiencing a boom. We assume that the key rate will be raised by a total of 0.75 percentage point this year. The increases will result in a money market rate of 3.25 per cent towards the end of the year. Market expectations, as reflected in forward interest rate agreements (FRAs) in early March, point to an increase to about 3.5 per cent in the same period. Slower economic growth internationally and lower petroleum investment will gradually contribute to moderating production growth in the mainland economy through the remainder of the projection period.

The European Central Bank is expected to increase its key rate through 2006, bringing the euro rate to 3.0 per cent at the end of the year. Thereafter, no further interest rate increases are expected until after 2009 as a result of an international downturn. Against this background, we do not expect any further interest rate changes in Norway during the remainder of the projection period.

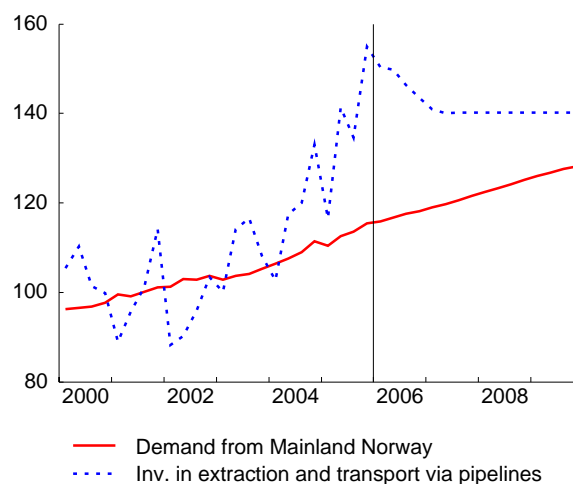
The krone has depreciated somewhat since the previous *Economic Survey*. The import-weighted exchange rate index has depreciated by about 3.5 per cent over the past six months. The krone/euro exchange rate has varied between 7.7 and 8.1 during the period. The krone is expected to hover around 8 against the euro during the projection period, primarily owing to a continued small, but positive interest rate differential against other countries and sustained higher oil prices ahead. This forecast is in line with the average forecast from Consensus Forecasts in February. The import-weighted krone exchange rate index is expected to remain at today's level through the projection period.

Moderating growth in petroleum investment in 2006, but high level in the coming years

According to QNA figures, gross investment in extraction and pipeline transport increased by a good 15 per cent between 2004 and 2005. The increase was slightly lower than previously projected. Statistics Norway's most recent investment intentions survey in March this year shows that companies have maintained their investment plans for 2006 as reported in December last year. This implies a small upward adjustment of growth from 2005 to 2006, since the level in 2005 turned out to be somewhat lower than previously assumed. Investment in field development and exploration activity shows the strongest increase according to the estimates for 2006, while onshore and pipeline investment is set to fall. Investment in exploration and field development expanded sharply again in 2005. Investment was particularly high for the Ekofisk, Troll and Valhall fields. As regards investment in onshore

Domestic demand

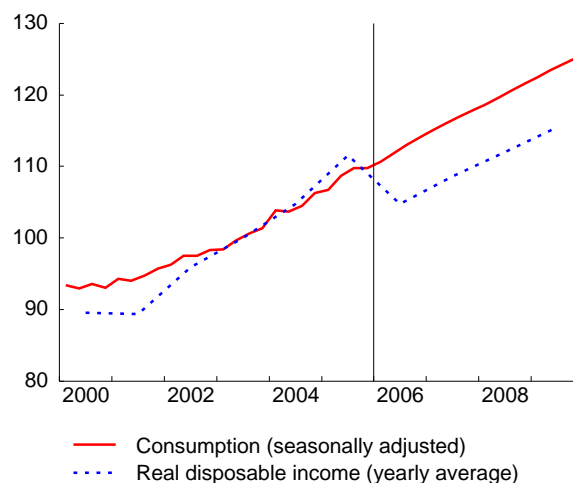
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Income and consumption in households

Volume indices, 2003=100



Source: Statistics Norway.

Residential market

Left axis adj. indices, 2003=100, right axis per cent



Source: Statistics Norway.

installations, the terminal projects on Aukra (Ormen Lange) and Melkøya (Snøhvit) made the largest contribution to the high level of investment. Lower projections for onshore and pipeline investment must be seen in connection with the near completion of several large projects.

Strong growth in exploration investment in 2006 may prove to be somewhat lower than planned as a result of capacity problems in the rig market. However, contracting of new rigs could buoy exploration activity somewhat further ahead. It is therefore likely that investment in the petroleum sector will remain high in the years following 2006. High oil prices will also support a high investment level in the years ahead. If companies' expectations of a normal oil prices level gradually increase as a result of persistently high oil prices, this may lead to further developments plans. However, new investment projects will have to be on a very large scale in order to offset the investment decline owing to the forthcoming completion of development projects. Our projections are based on the assumption that this will materialize. We expect some decline in onshore investment after 2006 and higher investment in exploration and fields in operation.

Our projections for oil investment in the years following 2006 are close to the projections recently published by the Petroleum Directorate. This implies a small decrease in oil investment in 2007, followed by an approximately unchanged level in 2008 and 2009. The projections are closely in line with earlier projections for these years, and imply that oil investment will remain at a high level over many years ahead. Nevertheless, the projections imply that the Norwegian economy will not receive new impulses from these investments. The impulses will be about the same, and these assumptions contribute to curbing the growth projections for the Norwegian economy over the next four years.

Gross value added in the sector crude oil and natural gas extraction fell by 5 per cent, at constant prices, between 2004 and 2005. Oil production sank, but production of natural gas increased, which is also reflected in export statistics. We anticipate a further fall in oil production in 2006, but the rate of decline may be somewhat slower than through the previous year. Natural gas production is expected to show little change between 2005 and 2006. As a result of production starts at new fields and production increases at some existing fields, both oil and gas extraction will increase somewhat in 2007. In the following years, and particularly in 2008, gas production shows a continued strong increase, while oil production remains stable or shows a gentle decline.

High consumption growth ahead

According to preliminary national accounts figures, real disposable income for household and non-profit

institutions rose by as much as 6.5 per cent in 2005, compared with 4.8 per cent the previous year. Household net capital income made the clearly largest contribution to income growth in 2005, which primarily reflects a sharp increase in dividend payments. In the national accounts, dividends paid out to households are estimated at about NOK 93 billion for 2005, which corresponds to growth of around 45 per cent on the previous year when dividend payments reached an historical record-high. It appears that tax-related adaptations in connection with the re-introduction of dividend tax in 2006 are one of the main factors behind this development. Household wage income also made a substantial contribution to growth in real disposable income in 2005, with solid growth in both the number of employed, normal person-hours, and average real wages per normal person-year. Growth contributions from self-employed income, government transfers and tax on income and capital were more modest. Growth in transfers was particularly low in 2005.

Preliminary figures show that consumption for household and non-profit institutions grew by 3.8 per cent in 2005, compared with 4.7 per cent in 2004. Consumption growth primarily reflects the high level of income growth. Excluding dividend payments, which probably have little impact on consumption, real income growth was 3.4 per cent in 2005 and 4.1 per cent in 2004. The saving ratio moved up to a historical record of 12.1 per cent in 2005 from an already high level of between 9 and 10 per cent in the three previous years, but this must also be seen in the light of high dividend payments.

Growth in household real disposable income is expected to be lower in the projection period in relation to 2005, also when excluding the decline in dividend payments. This will occur in spite of strong growth in wage income and government transfers ahead. Households' financial position and a moderate interest rate increase will, however, contribute to weak growth in net capital income (also excluding dividend payments) through the projection period. Combined with higher direct taxes and higher consumer price inflation (particularly in 2006), this pushed down real growth in household income. Owing to the re-introduction of dividend tax this year and attendant adaptations, the dividend projections are highly uncertain.

Weaker growth in real disposable income will gradually lead to slower growth in consumption. However, developments in the real interest rate after tax were expected to underpin consumption growth this year. Even if nominal interest rates are assumed to edge higher, real interest rates after tax will nevertheless be low as a result of higher consumer price inflation. The real interest rate is assumed to be around 1.5 per cent from 2007 to the end of the projection period. The combination of developments in income and real in-

Household real disposable income. Percentage growth from the previous year

	2004	2005	2006	2007	2008	2009
Real disposable income incl. dividends	4.8	6.5	-6.0	3.7	3.1	3.1
Real disposable income excl. dividends	4.1	3.4	2.2	2.2	3.0	2.7

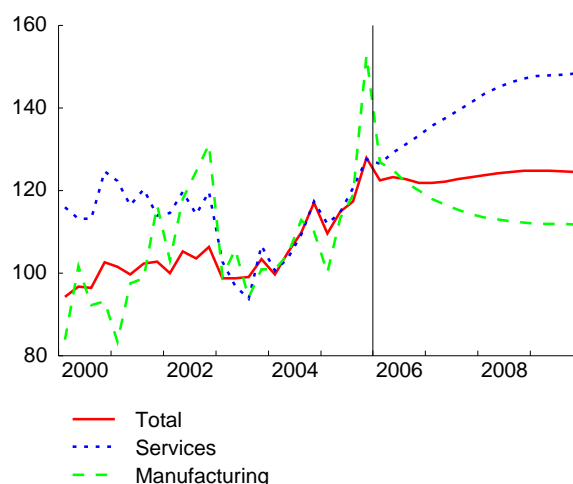
terest rates implies a path for consumption where consumption growth remains at around 3.5 per cent through the projection period.

With the projections presented here, the saving ratio will fall from the record-high level of 12.1 per cent in 2005 to a good 3 per cent in 2005 and through the remainder of the projection period. The sharp drop in the saving ratio is reflected in a marked fall in household net lending. Measured at current prices, household net lending is expected to decline from a little less NOK 62 billion in 2005 to about - 7 billion in 2009. This decline can, however, be attributed to the projected changes in dividend payments and a high level of housing investment.

Turnaround in housing investment

According to preliminary figures, housings starts came to about 31 600 in 2005, i.e. an increase of 5.4 per cent on the previous year. By way of comparison, the increase was as much as 29.4 per cent in 2004. According to preliminary national accounts figures, housing investment expanded by 14.5 per cent in 2005. Strong real income growth and low real interest rates contributed to this development. High and rising housing starts through the fourth quarter of last year points to sustained high growth in housing investment again in 2006. Housing starts in January this year (seasonally adjusted) were, however, clearly lower than the average for the fourth quarter last year and may indicate that housing investment is levelling off.

Prospects of lower growth in real disposable income, somewhat higher real interest rates and a fall in real prices for resale homes are expected to lead to a turnaround and weaker growth in housing investment ahead. Housing wealth is now at a very high level in a historical context, and this may gradually lead to lower house prices. Against this background, housing investment is projected to show a gradual decline from a level of about NOK 74 billion in 2005 to a level of a little less than NOK 70 billion in 2009, measured at 2003 prices. Resale home prices are expected to rise by a good 3 per cent this year, compared with 8 per cent in 2005, which implies a very high rise in real prices during this two-year period. Thereafter, nominal prices for resale homes are expected to remain broadly unchanged.

Investment, Mainland Norway
Seasonally adjusted volume indices, 2003=100

Source: Statistics Norway.

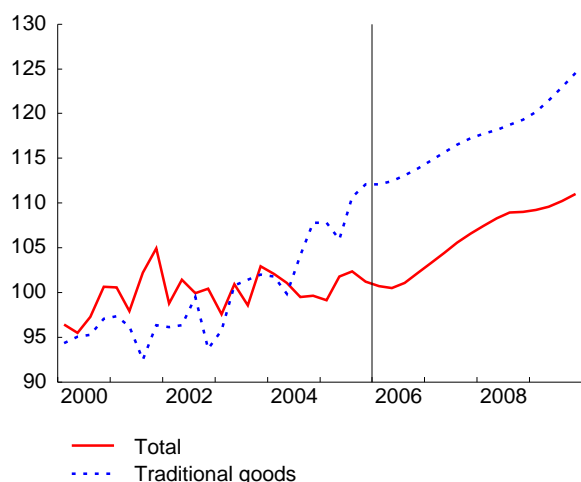
Gradual softening of growth in mainland business investment

Over the past two years, growth in gross mainland business investment has been fairly high after investment passed a cyclical trough in 2003. In 2005, growth in mainland business investment was close to 10 per cent. Growth was particularly high in manufacturing, but investment in many service industries also exhibited strong growth. Statistics Norway's investment intentions survey for manufacturing shows that manufacturing companies expect an approximately unchanged investment level in 2006 compared with the previous year. This implies that the investment level in manufacturing will be relatively high when taking into account that there are no particularly large projects that dominate or explain this development. Moreover, we expect the investment level in manufacturing to remain fairly high over the next few years. A number of new industrial projects, for example related to the use of natural gas in Norway, may make a contribution. Investment plans in the electricity production sector point to a sharp increase in investment in this sector between 2005 and 2006. We project investment to increase by as much as 30 per cent. Both the need for renewal of the transmission network and investment in gas plants suggest that the investment level may remain at a high level over the next few years. Growth is not expected to show a further rise in the years following 2006, but the high level is expected to hold up.

Investment growth in service industries has also shown steady, high growth in recent years. In line with the cyclical upswing in the Norwegian economy and a sustained high level of activity, investment is projected to rise further in 2006 at about the same pace as in the two preceding years. Growth is projected to slow markedly in 2007 and the following years. The level of investment in service industries is now

Exports

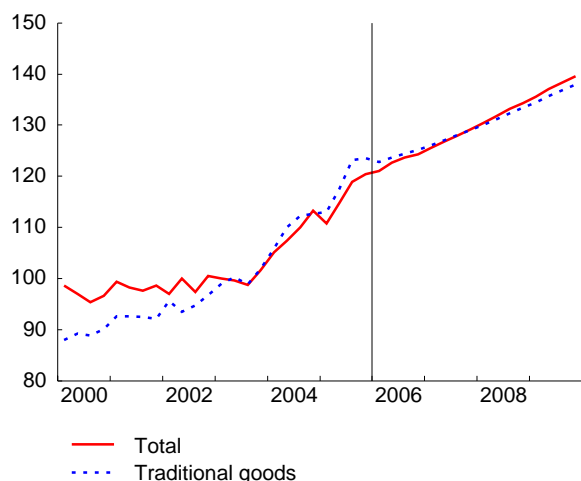
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Imports

Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

clearly higher than during the previous cyclical upturn.

Our projections for growth in mainland business investment in 2006 show little change compared with the projections presented earlier. The same applies to the prospects for more moderate growth in investment in the years following 2007. With a gradual softening in growth in the Norwegian economy ahead in relation to the growth rates recorded in the two previous years, investment growth will most likely also moderate. The interest rate increases through 2005 and 2006 may make a small contribution, even though our experience suggests that interest rate changes have a limited impact on mainland business investment.

Lower export growth

Traditional merchandise exports grew by 5.6 per cent in 2005, compared with 3.4 per cent in 2004. The strong growth rate in 2005 primarily reflects high exports of electricity. In 2006 and 2007, growth is projected at around 3 per cent, followed by a further moderation in 2008 given our assumption of weaker market growth. From the end of 2009, export growth is expected pick up again, in line with the assumption of a renewed upturn in the global economy. Export growth is expected to be somewhat weaker than market growth in the coming years. This implies a reduction in export industries' market shares.

Prices for traditional export goods exhibited a pronounced rise in 2004, up 8.4 per cent on the previous year. Buoyant global demand and a marked depreciation of the Norwegian krone through 2003 contributed to this. In 2005, the rise in prices was more moderate, at 3.2 per cent. On the other hand, prices for refined petroleum products, such as petrol, heating oil and diesel, showed an appreciable rise. From the beginning of 2004 to autumn 2005, the krone appreciated, which contributed to curbing the rise in prices.

Commodity prices, particularly metal prices, are expected to fall in 2007 and 2008, in line with a slowdown in the international economy. Prices for refined petroleum products are expected to remain at a high level through the downturn, but to edge down in pace with a moderate fall in oil prices. On balance, a moderate fall in prices for traditional export goods is expected through 2007 and 2008. Towards the end of the projection period, prices rise again when the global economy enters a new period of expansion.

Slower import growth

Import growth at constant prices was high in 2005, but somewhat lower than in 2004. Total import growth was 6.7 per cent in 2005, compared with 8.9 per cent in 2004. Traditional goods imports grew by 8.3 per cent in 2005. A fall in imports of ships, platforms and xxx (det mangler noe i den norske versjonen) pushed down growth in total imports. Developments in import growth tend to shadow cyclical developments, and are thus in line with a traditional cyclical pattern where the volume of imports is a good coincident indicator of cyclical developments.

Growth in imports of engineering products was 13.5 per cent in 2005 and growth for this group of goods is making a substantial contribution to the high growth rate for total imports. This is to a large extent attributable to the high level of investment growth in 2005. Other groups of goods that made a contribution to strong growth in imports are commercial services and travel.

The rise in import prices was lower in 2005 than in 2004. Overall, import prices rose by 1.4 per cent in

2005, while the rise was 5.6 per cent in 2004. The rise in prices for traditional imports goods has been very low, while prices for crude oil, natural gas, ships, platforms and aircraft have exhibited a sharp rise. The overall rise in imports was still low as traditional goods and services account for the bulk of imports. Prices for engineering products, which account for a large portion of imports of traditional goods, have edged down, and partly explain the high level of import growth for these products. The trend with a low rise in prices for imported finished goods, such as clothing and footwear, is continuing. For this group, prices fell by 3.7 per cent in 2005, which has pushed up imports of these goods. The price fall reflects increased trade with countries such as China and India, which produce labour-intensive finished goods at low costs. On the other hand, prices for industrial commodities increased owing to higher global demand.

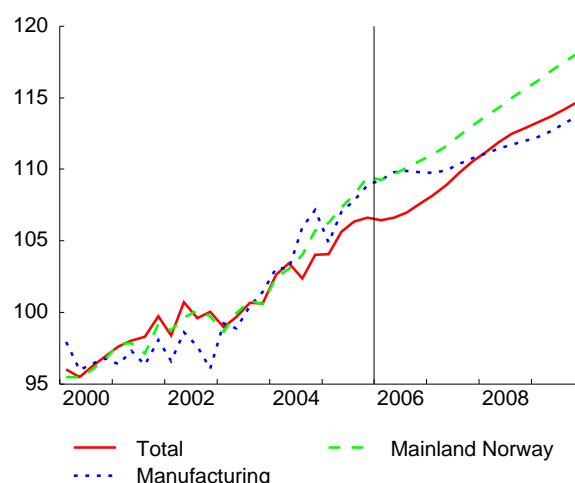
In the years ahead, import growth is expected to slow as a result of moderating investment growth and generally somewhat weaker cyclical conditions. In 2006, growth in imports of traditional goods is projected to slow to 4.4 per cent, and to about 3.5 per cent in 2008 and 2009. Growth in total imports will deviate somewhat from this owing to extraordinary military investments. Two frigates are to be delivered in 2006, while in the following three years one new frigate is to be delivered each year. As a result, total imports will be somewhat higher in 2006, with a negative contribution in 2007, and a neutral effect in 2008 and 2009.

Cyclical turnaround in 2006?

According to QNA figures, GDP increased by 2.3 per cent between 2004 and 2005. Mainland GDP grew by as much as 3.7 per cent, or at about the same pace as in 2004. There has been strong growth in private services, while growth in general government services has been more moderate (see section on fiscal policy above). Revised figures for gross value added in manufacturing show strong growth in 2004 and growth of 2.4 per cent in 2005. The upward revision of the growth rate for manufacturing for 2004 has pushed up the projection for mainland GDP growth by 0.4 percentage point to 3.8 per cent in 2004. The cyclical upswing through 2004 has thus been somewhat more pronounced than previously projected, while growth in the preceding year was broadly in line with previous forecasts. QNA figures for housing investment through 2005 have been revised upwards since December, and entail an upward adjustment of gross value added in the building and construction industry.

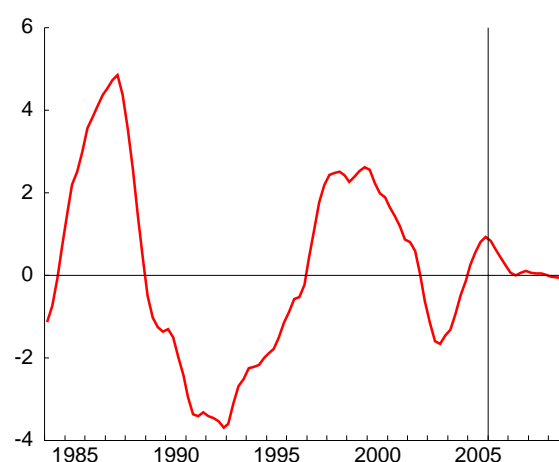
On the whole, our assessment of the economic outlook for the next few years remains unchanged. Somewhat weaker growth in the world economy results in weaker export growth. Modest fiscal impulses in 2006 and 2007 will curb growth in the mainland economy, both directly through moderate growth in gross value

Gross domestic product
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Output gap, Mainland Norway
Deviation from trend, per cent



Source: Statistics Norway.

added in the public sector and indirectly as a result of a neutral fiscal stance. A somewhat tighter monetary policy will have a dampening impact on household demand, albeit to a limited extent. Finally, as mentioned, petroleum investment is projected to reach a peak in 2006 and show little change thereafter. These conditions will contribute to dampening growth in aggregate demand. As a result of continued specialization of the production structure, imports (and exports) will expand faster than demand. As a result, mainland GDP growth will be lower than mainland demand growth. For 2006, mainland GDP growth is forecast at 2.3 per cent and at about 2 per cent thereafter. This implies that the expansion will soften ahead without a pronounced cyclical downturn. Our growth forecast is now somewhat higher than earlier, particularly for 2007. This means that growth is now slightly higher than trend mainland GDP growth in

Labour force, employment and number of man-hours

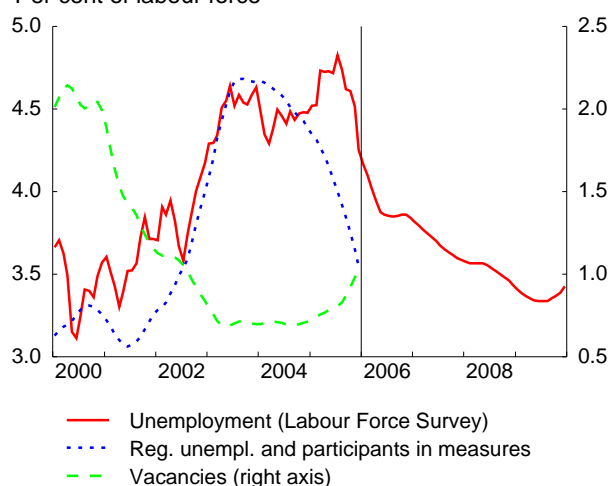
Millions. Seasonally adjusted and smoothed indices



Source: Statistics Norway.

Unemployment and number of vacancies

Seasonally adjusted and smoothed
Per cent of labour force



Source: The Directorate of Labour and Statistics Norway.

2007, while previous forecasts have been slightly lower than trend growth. Total GDP growth will be somewhat lower in 2006 owing to a decline in oil production, but increased gas production will push up growth in 2007 and 2008.

Slower growth in the Norwegian economy as projected here will have the heaviest influence on goods producing industries. Manufacturing will gradually be affected by somewhat weaker international cyclical developments and lower growth in oil investment. The building and construction industry will feel the effect of a gradual moderation in growth investment, including housing investment. Gross value added in industries excluding manufacturing will show steadier growth, but will also see a gradual softening of growth to below 2 per cent, according to our projections. Looking further ahead to 2008 and 2009,

growth in general government consumption will push up production in the public sector. This may imply a somewhat different distribution of economic growth across industries than observed so far this millennium.

Labour market improves

The labour market has been improving since 2004. A marked increase in the number employed did not take place until the latter half of 2005, however. According to seasonally adjusted quarterly national accounts figures, employment rose by 20 000 between the second quarter 2005 and the fourth quarter 2005, i.e. growth of 0.9 per cent.

Employment growth primarily reflects growth in employment in commercial services, the building and construction industry and health and social services. Preliminary national accounts figures showed that employment continued to decline in manufacturing between 2004 and 2005, for the seventh consecutive year. However, the decline was smaller than in previous years. According to seasonally adjusted figures, the number of manufacturing employees rose by close to 2 000 between the third and fourth quarter of 2005 as a result of increased employment in the engineering industry and the construction of ship and platforms.

Since 2000, employment growth in the public sector has been moderate, partly as a result of cuts in defence personnel, but also low employment growth in the wider public sector. According to national accounts figures back to 1970, average growth in public employment was close to 15 000 annually in the period up to the turn of the millennium. Growth was lowest in 1982 when the number employed in the public sector rose by 6 400 on the level in 1981. By comparison, public employment rose by as little as 8 100 between 2001 and 2005.

After growing steadily over a few years, sickness absence fell by 13 per cent between 2003 and 2004. This accounted for 1.1 per cent of total labour input measured in hours. Developments in sickness absence have probably contributed to reducing growth in the number employed. Sickness absence moved on a fairly stable path through 2005. Sickness absence increased by 2.4 per cent between the third quarter 2004 and the third quarter 2005.

The proportion employed in the age group 16-74 has declined since 2000. This partly reflects a general fall in labour force participation, but also a change in population composition with a relative increase in the number of young and older persons. It is for these two groups that labour force participation rates are lowest. For the age group 25-54, the proportion employed increased by 0.3 percentage point between 2003 and 2005 after falling by 2.2 percentage point between 2001 and 2003.

According to the Directorate of Labour, the number of registered unemployed and persons participating in ordinary labour market programmes fall markedly in 2005. The decline was moderate up to spring 2005, but accelerated steadily thereafter. At the end of February 2006, the sum of unemployed and persons participating in ordinary labour market programmes (seasonally adjusted) fell to a little more than 80 000, i.e. 23 000 below the level one year earlier. The number declined across all main occupational groups. At a good 30 per cent, the decline in unemployment compared with the previous year was largest for the group manufacturing and science. The decline was smallest for groups in the health and care sectors and commerce, where the decline was 13 and 15 per cent, respectively.

Both the increase and stock of registered vacancies advertised in the media or registered with the Directorate of Labour increased by about 50 per cent between February 2005 and February 2006. Measured in per cent, growth was highest in manufacturing, science and transport. Measured as number of vacancies, growth was highest in the health and care sector.

Developments in the number of unemployed registered with the Directorate of Labour and unemployment according to Statistics Norway's Labour Force Survey (LFS) showed some divergence through the first half of 2005, partly owing to high growth in the number of occupationally disabled. The occupationally disabled are not registered as unemployed with the Directorate of Labour, but they often respond so that they are classified as unemployed in the LFS. Developments in the two unemployment measures through the latter half of 2005 were in close accord, however. From July to December 2005, seasonally adjusted unemployment fell by 13 000 according to the LFS and by 11 000 according to the Directorate of Labour (LFS figures are a three-month gliding average, while Directorate of Labour figures are end-month registrations).

In 2005, average LFS unemployment stood at 4.6 per cent, but at the beginning of 2006 unemployment already showed a considerable fall. On average, seasonally adjusted LFS unemployment came to 4.2 per cent in the period from November 2005 to January 2006. In the course of 2006, unemployment will probably show a further decline. For 2006 as a whole, LFS unemployment is projected to drop to 3.8 per cent.

Slow international growth, in conjunction with expansionary impulses from petroleum investment, will contribute to a small decline in manufacturing employment in the period 2007-2009, after rising somewhat in 2006. There are prospects of strong employment growth in private services in 2006, but weaker household demand will lead to a considerable moderation in employment growth in these industries after

2006. Employment growth in the public sector is projected show a clear increase through the projection period, particularly in the local government sector. Employment growth in the local government sector will probably be more moderate in 2006 and 2007 than in 2008 and 2009, but still markedly higher than in the period 2002-2005. Public employment is projected to increase by an annual average of about 14 000 during the projection period.

In 2006, total employment is expected to increase by about 35 000, but employment growth is anticipated to be somewhat lower in 2007 and 2008. At the same time, demographic changes and increased inflows of foreign labour will contribute to pushing up the supply of labour in this period. Overall, unemployment will only show a moderate fall in 2007 and 2008 before employment growth in the public sector is projected to bring unemployment down to an annual average of 3.4 per cent in 2009.

High profitability in the business sector results in increased wage growth ahead

According to preliminary national accounts figures, wage growth per normal person-hour was 3.5 per cent from 2004 and 2005, of which an estimated 0.3 percentage point is attributable to the fall in long-term sickness absence through 2004. Average annual wage growth, which shows wage growth for full-time equivalent employees, was estimated at a good 3¼ per cent for the same period, according to a preliminary report from the Technical Reporting Committee on Income Settlements. Wage growth has not been that low since after the deep recession early in the 1990s.

Since 2003, wage growth has been moderate. However, low consumer price inflation has resulted in relatively high real wage growth during this period. The fact that real wage growth did not reach a higher level must be seen in connection with the increase in unemployment through 2002 and 2003, particularly in manufacturing. Manufacturing employment fell further in 2004 and 2005.

Preliminary national accounts figures for 2005, including revisions of the figures for 2003 and 2004 on the basis of new company accounts information, indicate that workforce reductions in manufacturing have accompanied strong growth in manufacturing companies' operating profits. According to national accounts figures, the manufacturing sector has on the whole achieved markedly higher profits during the period of labour shedding, which has translated into exceptionally high growth in labour productivity in recent years.

Hourly wage growth in Norway has traditionally followed developments in income growth in manufacturing. National accounts figures for the period 2003-

Alternative calculation of wage growth

Revised national accounts figures for 2003 and 2004, and preliminary accounts figures for 2005, show that wage growth in Norway has been markedly lower than income growth in manufacturing enterprises during this period. According to national accounts figures dating back to 1970, labour costs as a share of total manufacturing earnings have never been as low as the present level. Historically, wage formation implies that the movement in these two variables should coincide to a much greater extent. Admittedly, as experience has shown, it is normal for increased unemployment to restrain wage growth in the period, but not nearly as much as necessary to explain the moderate level of wage growth recorded in the past three years.

One explanation may be that the abnormally high level of income growth in manufacturing has not been known among the agents concerned. National accounts figures for 2003 did not show particularly high income growth in manufacturing until the revision in December 2005. New information, such as new company accounts data, was incorporated at that time and showed strong growth in manufacturing enterprises' income from sources other than sales of traditional manufactured products. The 2004 figures have now been revised as well, and show a further increase in this income. Another explanation may be that such income does not influence wages to the same degree as income from sales of traditional manufactured goods. In that case, this indicates that the Norwegian business sector is changing, and that the changes entail a shift in income distribution to the benefit of capital owners and at the expense of wage-earners.

As previously, our projections are based on the assumption that the functional distribution of income will remain changed. Wage growth will then be more moderate throughout the projection period, according to our calculations. In this box, we present an alternative calculation, where we allow the functional distribution of income to revert gradually through higher wage growth, using our macroeconomic quarterly model (KVARTS).

In the alternative calculation, annual wage growth is on average about 1 percentage point higher than in the baseline scenario. Growth in wages per normal person-year would be about 5 per cent in the period 2006-2009. Prices would also have shown a higher rise, but the increase would still have been lower than the increase in wages. Norwegian enterprise exposed to international competition would also have increased prices more, but to a lesser extent than enterprises not exposed to foreign competition. Competition would have entailed a loss of market shares. Increased wage growth would thereby have resulted in an increase in wages in relation to prices for domestically produced goods, which would again increase in relation to prices for products supplied by foreign enterprises. This shift is restrained by some depreciation in the krone exchange rate. In 2006, the effect of higher wage growth on CPI-ATE inflation is small, but in the period 2007-2009 the annual rise in prices is on average 0.5 percentage point higher than in the baseline scenario.

The shift in relative prices contributes to reducing demand for domestically produced goods, both in Norway and abroad, with an attendant fall in exports and increase in

imports. As a result, employment declines. In the alternative scenario, manufacturing employment is 1.7 per cent lower in 2009 than in the baseline scenario. Moreover, some enterprises will replace a portion of their workforce with factor inputs. This could be done, for example, by investing in modern technology or by importing a larger share of semi-finished goods. This would also contribute to reducing employment. On the other hand, increased real wage growth contributes to an increase in household real disposable income, which pushes up household consumption and housing investment. This translates into higher activity and employment in private service industries and the building and construction industry, but also leads to a further increase in imports.

On the whole, employment remains approximately unchanged, but owing to higher wage growth, a larger number is drawn into the labour force so that unemployment rises moderately compared with the baseline scenario. In 2009, unemployment is 0.2 percentage point higher than in the baseline scenario. The shift away from using labour towards factor inputs leads to higher productivity. In spite of broadly unchanged unemployment, annual growth in mainland GDP increases by 0.1-0.2 percentage point in the alternative scenario compared with the baseline scenario.

In spite of higher inflation and increased activity growth, we have held fiscal policy and interest rates unchanged in relation to the baseline scenario. These assumptions may be unrealistic, and the calculation must then be seen as partial in that it shows possible consequences before any policy responses. An interest rate increase with a view to neutralizing the price impulses from higher wage growth would result in a stronger krone exchange rate. Employment would show a clear decline, owing to both reduced competitiveness in relation to other countries and lower household demand as a result of a higher real interest rate.

On the other hand, the calculation without policy responses provides an indication of how high wage growth should be in order to reach the inflation target of 2.5 per cent. In the period 2007-2009, average wage growth is 5.2 per cent, while the average annual rise in consumer prices is 2.3 per cent in the same period.

Alternative calculation with higher wage growth. Percentage deviation from the baseline scenario, unless otherwise stated

	2006	2007	2008	2009
Household consumption	0.2	0.5	1.0	1.6
Gross fixed capital formation	0.1	0.5	1.1	1.7
Housing investment	0.3	1.3	3.4	5.8
Exports, traditional goods	-0.0	-0.1	-0.1	-0.2
Imports	0.2	0.6	1.2	1.8
Mainland GDP	0.1	0.2	0.3	0.6
Gross value added in manufacturing	-0.1	-0.4	-0.6	-0.9
Employment	-0.0	-0.1	-0.1	-0.0
Wages	0.9	1.8	2.9	4.2
House prices	0.3	1.7	3.9	6.6
Krone exchange rate	0.1	0.3	0.8	1.3
Changes in percentage points:				
Inflation (measured by the CPI-ATE)	0.1	0.3	0.5	0.6
Wage growth	1.0	0.9	1.2	1.2
Unemployment rate	0.1	0.1	0.2	0.2

2005 show a different development, however. At current prices, gross hourly output in manufacturing increased by 17.8 per cent from 2002 to 2005. By comparison, hourly wage growth was only 10.2 per cent in the same period. The difference between income and wage growth may either mean that wage formation has changed during the period, or that there has been an unusually strong increase in some companies' income that does not influence wage growth. Accounts statistics for 2003 and 2004 show that income growth in these years is primarily ascribable to strong growth in income from sources other than sales of traditional manufactured goods. This may reinforce our assumption that not all sources of income influence wage growth to the same extent. Moreover, changes in the composition of the manufacturing sector may have taken place in this period, which may themselves have contributed to pushing up average profitability. This may be the result of closures of the least profitable companies, with the most profitable ones remaining. Owing to a relatively high degree of centralization in Norwegian wage formation, there is probably little variation in the wage level across the different companies. Consequently, wages will not be influenced by such structural changes to the same extent. If wage determination had been decentralized, wage growth would presumably have been higher in recent years.

The average increase in income growth in manufacturing in 2003 and 2004 is assumed to have little impact on wage growth, and wage growth is thus expected to be relatively moderate in the projection period up to 2009. In a box in this *Economic Survey*, we present the result of an alternative calculation where we allow the recent years' increase in manufacturing profitability to benefit wage-earners in the form of higher wage growth.

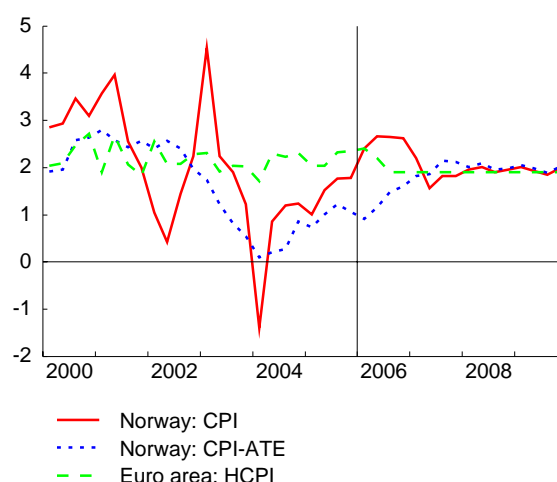
Generally solid profitability in the business sector and a clearly tighter labour market will contribute to pushing up wage growth in the years ahead. Somewhat higher consumer price inflation will also make a contribution. The increase in costs as a result of the introduction of the compulsory occupational pension scheme from 1 January 2006 works in the opposite direction.

The income settlement in 2006 is a main settlement with industry-level negotiations. Pay increases are assumed to be moderate despite a relatively low carry-over from the increases awarded in 2005. Rising shortages of certain types of labour skills will probably lead to higher wage drift compared with the average for the past few years. Overall, growth in wages per normal person hour is projected at 3.9 per cent in 2006.

Our projections imply relatively balanced developments in the Norwegian economy in the years ahead.

Consumer price indices

Percentage growth from the same quarter previous year



Source: Norges Bank and Statistics Norway.

Unemployment is projected to fall to 3.4 per cent, and consumer price inflation to rise to about 2 per cent annually. Our projection of wage growth of about 4 per cent in the period 2007-2009 entails real wage growth close to the average growth in wages since 1950.

Continued low inflation

The year-on-year rise in the consumer prices index (CPI) was 1.6 per cent in 2005, compared with 0.4 per cent in 2004. The underlying rise in prices has been very low over the past three years. As an annual average, the rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 1.0 per cent in 2005. The year-on-year rise in the CPI-ATE has hovered around this level for over a year and was 1.0 per cent again in February.

In each of the two past years, the increase in indirect taxes in excess of the rise in prices has contributed to pushing up CPI inflation by about 0.4 percentage point. On 1 January 2006, VAT on food products was increased from 11 to 13 per cent, while the low VAT rate was increased from 7 to 8 per cent. Combined with a number of other tax changes, the contribution to CPI inflation will be about 0.4 percentage point this year. The reduction in maximum day-care rates from 1 January 2006 will have the opposite effect, pushing down both CPI and CPI-ATE inflation by a good 0.1 percentage point.

On an annual basis, developments in energy prices pushed down CPI inflation by 0.2 percentage point in 2005, compared with a negative contribution of 0.4 percentage point in 2004. However, developments in energy prices have exerted increased upward pressure on inflation over the past year, with a contribution of 1.4 percentage points in February this year. Electricity prices were 24 per cent higher in February than one year earlier, while petrol prices were about 13 per

Prospects in the electricity market ahead

In 2005, the average system price for electricity in the Nord-Pool area was 23.5 øre/kWh. So far in 2006, the price has stood at 34.2 øre/kWh. Forward prices on NordPool imply an average system price of a little less than 35 øre/kWh in 2006 as a whole, i.e. a 60 per cent increase on 2005. The electricity price (including grid rent and taxes) in the consumer price index was 6.7 per cent higher in January than in the same month one year earlier, while the corresponding increase was 24.4 per cent in February. As an annual average, the price is assumed to increase by about 20 per cent from 2005 to 2006.

Higher expected electricity prices, sustained economic growth and normal temperatures through the remainder of 2006 imply an increase in electricity consumption for general supply of about 2 TWh on an annual basis compared with 2005. For energy-intensive industries and electroboilers, consumption may fall by about 1 TWh in 2006. All total, electricity consumption in Norway may then reach about 127 TWh, i.e. about 1 TWh higher than in 2005.

At the beginning of 2006, water reservoir levels were about 4 percentage points above normal. So far this year, the inflow to reservoirs has been close to normal. Snow levels in mountain areas as measured in early March are estimated to be about 6 TWh below normal. With normal precipitation levels, total production of 120 TWh in Norway, i.e. 13 per cent below the level in 2005, will result in an approximately normal reservoir level at the beginning of 2007. Net trade in electricity may then shift from net exports of 12 TWh in 2005 to net imports of about 7 TWh in 2006.

On the basis of observed forward prices on NordPool, it appears that the system price may be 4 per cent lower in

2007 compared with 2006. The forward price for 2008 and 2009 is about 7 per cent lower than for 2007. The gas plant on Karstø, which is expected to come on stream in autumn 2007, may be one of the factors behind a further fall in forward prices in 2008 and 2009. If electricity taxes or grid rent increase broadly in pace with the expected change in the consumer price index in the years ahead, electricity prices (including grid rent and taxes) in the consumer price index may be at about the same level in 2009 as this year.

With approximately unchanged electricity prices, increased production in the business sector and higher household income in the period to 2009, electricity consumption for general supply may increase by an estimated 4 TWh in relation to 2006. In addition, electricity consumption is expected to increase for industrial installations linked to oil activities on Ormen Lange and Snøhvit. On the other hand, the expiry of some of profitable electricity contracts for energy-intensive industry may entail reduced electricity consumption. All in all, electricity consumption may increase by about 5 TWh in 2009 compared with 2006. Given normal temperatures, this may bring total domestic electricity consumption to about 132 TWh in 2009. As to gas production in 2009, the gas plant on Karstø and the gas plant linked to the Snøhvit installation will produce a total of about 5.5 TWh in the course of one year. Even though a common Norwegian-Swedish market for mandatory el-certificates did not materialize, political signals indicate that alternative arrangements for the development of new sources of renewable energy will be introduced. This implies that electricity production may be 8 TWh higher in 2009 than in 2006, given normal inflows to water reservoirs. With normal precipitation levels, net electricity imports may come to about 4 TWh in 2009.

cent higher than one year earlier. The year-on-year rise in the total consumer prices index has thus moved up from 1.0 per cent in February 2005 to 2.6 per cent in February 2006.

Electricity prices are expected remain at a high level in the period ahead, with a relatively moderate year-on-year rise over the next months, followed by a decline. The high rise in fuel prices largely reflects a marked increase in petrol prices through winter last year, owing to the rise in crude oil prices. Prices remained fairly stable thereafter, and we assume that this trend will continue so that petrol prices will only make a modest contribution to CPI inflation ahead.

Underlying inflation measured by the CPI-ATE is projected to edge up in 2006. The depreciation of the krone over the past half-year will contribute to curbing the negative price impulses from imported consumer goods. Furthermore, productivity growth is expected to slow towards the end of the cyclical upturn, while wage growth is projected to edge up. Hourly labour costs may also rise as a result of the introduction of the compulsory occupational pension

scheme. Higher energy prices will exert upward pressure on underlying inflation for a period ahead, but the effect will then be reversed, with energy prices showing a falling tendency.

The interest rate increases that have already been implemented and further expected increases will push up the rise in house rents to some extent. However, we expect a continued increase in imports from low-cost countries. Against this backdrop, CPI-ATE inflation is projected to stabilise in the years after 2006. According to our calculations, CPI-ATE inflation will remain at around 2.0 per cent to the end of the projection period. Unit labour costs are projected to show a somewhat higher increase, but developments in prices for imported goods will exert downward pressure on the rise in prices.

Record-high balance-of-payments surpluses

In 2005, the trade surplus increased by more than 35 per cent in relation to the previous year, bringing the surplus to a good NOK 330 billion. Goods exports, particularly exports of oil, petroleum and engineering products, made the largest contribution to growth.

The services surplus remained steady at the previous year's level of NOK 25 billion. The interest and transfers balance increased to NOK 12 billion. All total, the current-account surplus came to a record-high of NOK 320 billion in 2005.

Pronounced growth in the trade surplus in recent years primarily reflects rising oil prices. Over the next few years, growth is expected to level off as a result of an expected slowdown in the international economy at the end of 2006 and an assumed fall in oil prices through 2006. The current-account surplus will remain high, however, and is projected to range between NOK 300-340 billion per year through the projection period.

Imports of goods and services will continue to expand in volume terms, but the volume of exports is expected to show zero growth in 2006. At the same time, export prices are projected to rise more rapidly than import prices. All in all, this results in an unchanged trade balance in 2006. In 2007-2009, the volume of imports is expected to show somewhat stronger growth than the volume of exports, and export prices to rise somewhat less than import prices. This will reduce the trade surplus by close to 10 per cent towards the end of the projection period. In value terms, the trade surplus will nevertheless remain above NOK 300 billion per year.

High petroleum revenues will lead to an increase in the value of the Petroleum Fund, which will result in increased capital income for Norway. On the other hand, high petroleum revenues imply high outward dividend payments. High national income also entails an increase in foreign transfers, primarily in the form of development aid/assistance. All total, the interest and transfers balance is expected to show some improvement in the coming years compared with recent years, but will continue to run a deficit.

National accounts: Final expenditure and gross domestic product. At fixed 2003 prices. Million kroner

	Unadjusted		Seasonally adjusted							
	2004	2005	04.1	04.2	04.3	04.4	05.1	05.2	05.3	05.4
Final consumption expenditure of househ. and NPISHs	753 923	782 563	186 904	186 542	187 893	191 213	191 980	195 508	197 529	197 434
Household final consumption expenditure	722 765	749 069	179 110	178 867	180 098	183 310	183 855	187 139	189 077	188 871
Goods	394 044	404 606	97 950	97 250	97 778	99 865	99 517	101 787	102 244	101 129
Services	313 188	322 689	77 503	77 886	78 455	79 127	79 442	80 162	81 139	81 878
Direct purchases abroad by resident households	35 984	43 031	8 724	8 867	8 945	9 491	10 112	10 460	10 909	11 475
Direct purchases by non-residents	-20 451	-21 257	-5 067	-5 136	-5 080	-5 173	-5 216	-5 270	-5 215	-5 611
Final consumption expenditure of NPISHs	31 159	33 494	7 794	7 675	7 795	7 903	8 125	8 369	8 452	8 562
Final consumption expenditure of general government	362 156	367 268	89 395	90 544	90 871	91 338	91 554	91 896	91 743	92 099
Final consumption expenditure of central government	192 590	193 244	47 815	48 185	48 230	48 361	48 385	48 320	48 230	48 319
Central government, civilian	163 013	166 111	40 375	40 765	40 878	40 996	41 510	41 540	41 487	41 586
Central government, defence	29 577	27 133	7 440	7 420	7 352	7 365	6 874	6 780	6 743	6 733
Final consumption expenditure of local government	169 567	174 024	41 580	42 360	42 642	42 977	43 170	43 576	43 513	43 781
Gross fixed capital formation	298 950	331 214	67 547	71 793	75 451	84 242	76 391	80 098	82 288	92 404
Extraction and transport via pipelines	68 568	79 316	14 878	17 018	17 389	19 283	16 886	20 483	19 501	22 445
Service activities incidental to extraction	840	-1 634	34	100	40	667	106	-2 790	989	62
Ocean transport	9 775	13 999	1 847	1 190	2 111	4 627	3 525	3 816	1 937	4 721
Mainland Norway	219 768	239 533	50 788	53 486	55 912	59 666	55 874	58 588	59 860	65 176
Mainland Norway excluding general government	171 329	190 762	39 836	41 909	44 092	45 708	45 041	46 880	48 335	50 599
Industries	106 591	116 626	25 019	26 063	27 386	28 242	26 891	28 445	29 832	31 531
Manufacturing and mining	19 562	22 219	4 614	4 773	5 154	5 029	4 579	5 181	5 434	6 977
Production of other goods	20 855	21 478	4 938	5 360	5 429	5 166	5 102	5 638	5 867	4 929
Services	66 174	72 929	15 467	15 929	16 803	18 048	17 211	17 625	18 531	19 625
Dwellings (households)	64 738	74 136	14 817	15 846	16 705	17 465	18 150	18 435	18 502	19 068
General government	48 439	48 771	10 952	11 577	11 820	13 958	10 834	11 708	11 525	14 577
Changes in stocks and statistical discrepancies	33 108	32 790	9 294	11 410	7 109	4 251	9 465	8 109	10 358	4 225
Gross capital formation	332 058	364 004	76 842	83 203	82 560	88 493	85 856	88 206	92 645	96 629
Final domestic use of goods and services	1 448 138	1 513 835	353 141	360 289	361 324	371 043	369 390	375 611	381 917	386 162
Final demand from Mainland Norway	1 335 847	1 389 363	327 088	330 573	334 675	342 216	339 409	345 993	349 132	354 709
Final demand from general government	410 595	416 038	100 347	102 121	102 691	105 296	102 388	103 604	103 268	106 676
Total exports	640 937	644 372	162 775	161 091	158 666	158 810	158 087	162 324	163 132	161 397
Traditional goods	193 477	204 313	47 610	46 719	48 728	50 440	50 424	49 568	51 782	52 434
Crude oil and natural gas	278 867	269 280	72 745	71 197	68 815	66 456	67 560	68 509	67 495	66 355
Ships, oil platforms and planes	8 584	7 622	2 555	3 099	1 662	1 268	521	4 496	1 910	683
Services	160 010	163 157	39 866	40 076	39 462	40 646	39 582	39 751	41 945	41 925
Total use of goods and services	2 089 075	2 158 207	515 916	521 380	519 990	529 854	527 477	537 934	545 049	547 558
Total imports	463 796	495 063	111 890	114 288	117 110	120 631	117 924	122 144	126 513	128 227
Traditional goods	309 040	334 771	74 197	77 071	78 662	78 996	79 206	82 412	86 339	86 550
Crude oil and natural gas	1 511	2 176	213	414	656	297	578	463	479	654
Ships, oil platforms and planes	11 672	6 548	2 894	2 364	2 825	3 589	1 320	1 667	1 584	1 977
Services	141 573	151 567	34 587	34 439	34 966	37 750	36 821	37 603	38 112	39 045
Gross domestic product (market prices)	1 625 279	1 663 144	403 890	407 068	402 867	409 404	409 525	415 645	418 524	419 518
Gross domestic product Mainl. Norway (market prices)	1 305 000	1 353 603	321 399	323 291	326 318	331 737	333 321	336 816	339 624	343 422
Petroleum activities and ocean transport	320 279	309 541	82 490	83 777	76 550	77 666	76 204	78 829	78 900	76 095
Mainland Norway (basic prices)	1 147 605	1 193 599	283 257	284 619	287 579	291 323	293 807	297 050	299 588	302 535
Mainland Norway excluding general government	886 447	927 514	219 303	219 566	221 828	224 947	227 677	230 702	232 982	235 510
Manufacturing and mining	164 025	167 947	40 354	40 343	41 468	41 944	41 052	41 886	42 208	42 632
Production of other goods	124 282	134 451	31 042	30 975	31 000	31 124	33 066	33 886	33 304	34 230
Services incl. dwellings (households)	598 140	625 115	147 908	148 247	149 360	151 878	153 559	154 930	157 470	158 648
General government	261 158	266 086	63 954	65 054	65 751	66 376	66 130	66 348	66 607	67 025
Correction items	157 395	160 004	38 142	38 672	38 738	40 414	39 514	39 766	40 035	40 888

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. At fixed 2003 prices. Percentage change from the previous period

	Unadjusted		Seasonally adjusted							
	2004	2005	04.1	04.2	04.3	04.4	05.1	05.2	05.3	05.4
Final consumption expenditure of househ. and NPISHs	4.7	3.8	2.5	-0.2	0.7	1.8	0.4	1.8	1.0	0.0
Household final consumption expenditure	4.7	3.6	2.4	-0.1	0.7	1.8	0.3	1.8	1.0	-0.1
Goods	5.4	2.7	3.2	-0.7	0.5	2.1	-0.3	2.3	0.4	-1.1
Services	3.3	3.0	1.3	0.5	0.7	0.9	0.4	0.9	1.2	0.9
Direct purchases abroad by resident households	12.3	19.6	6.3	1.6	0.9	6.1	6.5	3.4	4.3	5.2
Direct purchases by non-residents	8.9	3.9	5.3	1.4	-1.1	1.8	0.8	1.0	-1.0	7.6
Final consumption expenditure of NPISHs	5.0	7.5	3.5	-1.5	1.6	1.4	2.8	3.0	1.0	1.3
Final consumption expenditure of general government	2.2	1.4	1.3	1.3	0.4	0.5	0.2	0.4	-0.2	0.4
Final consumption expenditure of central government	2.9	0.3	2.8	0.8	0.1	0.3	0.0	-0.1	-0.2	0.2
Central government, civilian	3.8	1.9	3.4	1.0	0.3	0.3	1.3	0.1	-0.1	0.2
Central government, defence	-1.4	-8.3	-0.6	-0.3	-0.9	0.2	-6.7	-1.4	-0.5	-0.1
Final consumption expenditure of local government	1.5	2.6	-0.5	1.9	0.7	0.8	0.4	0.9	-0.1	0.6
Gross fixed capital formation	8.1	10.8	0.2	6.3	5.1	11.7	-9.3	4.9	2.7	12.3
Extraction and transport via pipelines	7.8	15.7	-5.1	14.4	2.2	10.9	-12.4	21.3	-4.8	15.1
Service activities incidental to extraction	119.3	..	-102.5	192.5	-60.1	..	-84.2	..	-135.4	-93.8
Ocean transport	11.7	43.2	403.2	-35.6	77.5	119.2	-23.8	8.3	-49.2	143.7
Mainland Norway	7.8	9.0	-3.7	5.3	4.5	6.7	-6.4	4.9	2.2	8.9
Mainland Norway excluding general government	9.6	11.3	-1.5	5.2	5.2	3.7	-1.5	4.1	3.1	4.7
Industries	8.0	9.4	-3.0	4.2	5.1	3.1	-4.8	5.8	4.9	5.7
Manufacturing and mining	7.3	13.6	0.0	3.5	8.0	-2.4	-9.0	13.2	4.9	28.4
Production of other goods	9.9	3.0	3.4	8.5	1.3	-4.9	-1.2	10.5	4.1	-16.0
Services	7.6	10.2	-5.7	3.0	5.5	7.4	-4.6	2.4	5.1	5.9
Dwellings (households)	12.3	14.5	1.1	6.9	5.4	4.5	3.9	1.6	0.4	3.1
General government	1.9	0.7	-10.9	5.7	2.1	18.1	-22.4	8.1	-1.6	26.5
Changes in stocks and statistical discrepancies	131.9	-1.0	436.8	22.8	-37.7	-40.2	122.7	-14.3	27.7	-59.2
Gross capital formation	14.2	9.6	11.1	8.3	-0.8	7.2	-3.0	2.7	5.0	4.3
Final domestic use of goods and services	6.1	4.5	3.9	2.0	0.3	2.7	-0.4	1.7	1.7	1.1
Final demand from Mainland Norway	4.5	4.0	1.1	1.1	1.2	2.3	-0.8	1.9	0.9	1.6
Final demand from general government	2.2	1.3	-0.2	1.8	0.6	2.5	-2.8	1.2	-0.3	3.3
Total exports	0.6	0.5	-0.8	-1.0	-1.5	0.1	-0.5	2.7	0.5	-1.1
Traditional goods	3.4	5.6	-0.2	-1.9	4.3	3.5	0.0	-1.7	4.5	1.3
Crude oil and natural gas	-0.7	-3.4	3.9	-2.1	-3.3	-3.4	1.7	1.4	-1.5	-1.7
Ships, oil platforms and planes	-44.6	-11.2	-59.1	21.3	-46.4	-23.7	-58.9	763.1	-57.5	-64.3
Services	3.9	2.0	-0.7	0.5	-1.5	3.0	-2.6	0.4	5.5	0.0
Total use of goods and services	4.3	3.3	2.4	1.1	-0.3	1.9	-0.4	2.0	1.3	0.5
Total imports	8.9	6.7	3.5	2.1	2.5	3.0	-2.2	3.6	3.6	1.4
Traditional goods	10.2	8.3	4.0	3.9	2.1	0.4	0.3	4.0	4.8	0.2
Crude oil and natural gas	-17.1	44.0	-34.2	94.9	58.4	-54.7	94.4	-19.9	3.4	36.7
Ships, oil platforms and planes	14.5	-43.9	45.7	-18.3	19.5	27.0	-63.2	26.3	-5.0	24.9
Services	6.2	7.1	0.4	-0.4	1.5	8.0	-2.5	2.1	1.4	2.4
Gross domestic product (market prices)	3.1	2.3	2.0	0.8	-1.0	1.6	0.0	1.5	0.7	0.2
Gross domestic product Mainl. Norway (market prices)	3.8	3.7	1.9	0.6	0.9	1.7	0.5	1.0	0.8	1.1
Petroleum activities and ocean transport	0.4	-3.4	2.5	1.6	-8.6	1.5	-1.9	3.4	0.1	-3.6
Mainland Norway (basic prices)	3.6	4.0	1.8	0.5	1.0	1.3	0.9	1.1	0.9	1.0
Mainland Norway excluding general government	4.0	4.6	2.4	0.1	1.0	1.4	1.2	1.3	1.0	1.1
Manufacturing and mining	4.7	2.4	1.6	0.0	2.8	1.1	-2.1	2.0	0.8	1.0
Production of other goods	3.3	8.2	5.2	-0.2	0.1	0.4	6.2	2.5	-1.7	2.8
Services incl. dwellings (households)	3.9	4.5	2.1	0.2	0.8	1.7	1.1	0.9	1.6	0.7
General government	2.2	1.9	-0.3	1.7	1.1	1.0	-0.4	0.3	0.4	0.6
Correction items	5.3	1.7	2.4	1.4	0.2	4.3	-2.2	0.6	0.7	2.1

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. Price indices. 2003=100

	Unadjusted		Seasonally adjusted							
	2004	2005	04.1	04.2	04.3	04.4	05.1	05.2	05.3	05.4
Final consumption expenditure of househ. and NPISHs	100.9	102.1	100.4	100.9	100.8	101.9	101.1	101.5	102.6	103.3
Final consumption expenditure of general government	102.4	105.6	100.9	101.9	103.1	103.6	104.5	105.4	106.1	106.5
Gross fixed capital formation	103.6	107.5	101.6	102.9	104.5	105.0	106.5	107.7	107.3	108.3
Mainland Norway	103.3	105.5	101.7	103.0	104.2	104.0	105.0	105.3	105.4	106.3
Final domestic use of goods and services	101.8	104.0	101.2	101.7	102.6	102.0	101.8	105.6	104.9	103.4
Final demand from Mainland Norway	101.7	103.6	100.7	101.5	102.0	102.7	102.7	103.2	104.0	104.7
Total exports	114.3	133.8	107.9	110.1	116.6	122.7	125.7	128.0	136.5	144.4
Traditional goods	108.4	112.0	106.5	106.9	110.4	109.9	109.3	110.7	113.1	114.1
Total use of goods and services	105.6	112.9	103.3	104.3	106.9	108.2	109.0	112.4	114.3	115.5
Total imports	105.6	107.1	104.7	104.3	105.9	107.1	107.3	106.4	106.9	107.8
Traditional goods	104.5	104.9	104.3	103.9	105.0	104.8	105.3	104.6	104.4	105.2
Gross domestic product (market prices)	105.6	114.6	103.0	104.3	107.2	108.6	109.5	114.2	116.5	117.8
Gross domestic product Mainl. Norway (market prices)	102.1	104.3	100.9	102.0	103.0	103.0	101.7	105.7	104.5	105.0

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2004	2005	04.1	04.2	04.3	04.4	05.1	05.2	05.3	05.4
Final consumption expenditure of househ. and NPISHs	0.9	1.2	0.2	0.5	-0.1	1.1	-0.8	0.4	1.1	0.6
Final consumption expenditure of general government	2.4	3.2	0.1	1.1	1.2	0.4	0.9	0.9	0.7	0.3
Gross fixed capital formation	3.6	3.7	2.1	1.3	1.6	0.5	1.4	1.1	-0.4	1.0
Mainland Norway	3.3	2.1	2.7	1.3	1.2	-0.2	1.0	0.2	0.2	0.8
Final domestic use of goods and services	1.8	2.1	1.5	0.5	0.9	-0.6	-0.1	3.7	-0.7	-1.4
Final demand from Mainland Norway	1.7	1.9	0.5	0.8	0.5	0.7	0.0	0.5	0.8	0.6
Total exports	14.3	17.1	3.3	2.0	6.0	5.2	2.4	1.8	6.6	5.8
Traditional goods	8.4	3.2	4.3	0.4	3.3	-0.5	-0.5	1.2	2.2	0.9
Total use of goods and services	5.6	6.9	2.0	0.9	2.5	1.2	0.7	3.1	1.7	1.0
Total imports	5.6	1.4	1.9	-0.4	1.5	1.1	0.2	-0.8	0.5	0.8
Traditional goods	4.5	0.3	2.0	-0.3	1.0	-0.2	0.5	-0.6	-0.2	0.8
Gross domestic product (market prices)	5.6	8.5	2.0	1.3	2.8	1.3	0.9	4.3	2.1	1.1
Gross domestic product Mainl. Norway (market prices)	2.1	2.1	0.3	1.0	1.0	0.1	-1.3	3.9	-1.1	0.4

Source: Statistics Norway.