

Economic trends

Growth in the Norwegian economy remains high and is higher than what can normally be expected in the longer term. We expect that growth will be sustained for a few quarters ahead, but moderate through 2006. The cyclical upturn has been stimulated by an expansionary monetary and fiscal stance and strong growth in petroleum investment. This has engendered high growth in household consumption and housing investment. The latest quarterly national accounts indicate that housing investment has peaked, and the underlying tendency for housing starts has been falling for close to a year. Purchases of consumer durables are also exhibiting moderate growth and on balance this may suggest that we are entering a period of lower growth in household demand than observed so far in this cyclical upswing. The labour market now seems to be tightening somewhat in that the number of employed is rising at a faster pace than earlier in the upturn, with an attendant fall in registered unemployment. However, the number of job-seekers without employment (LFS) remains high in light of the fact that the cyclical upturn has now spanned a little more than two years. Underlying consumer price inflation has shown little change during autumn after edging up slightly during the first six months of the year. The krone exchange rate depreciated somewhat in autumn, but is still strong compared with the level prevailing at the beginning of the year.

Global GDP growth has been low in the euro area, but growth is now expected to pick up somewhat in 2006. In the US, growth remains relatively high and the figures for the first three quarters of 2005 do not suggest a negative turnaround in the near term as we had previously assumed. Growth remains robust in many Asian countries. The strong growth outlook has prompted the Federal Reserve to raise the key interest rate in the US. The European Central Bank (ECB) recently raised its key rate by a quarter percentage point. Even though expectations of extremely high oil prices have not materialised, oil prices are still at such a high level that they are generating inflationary impulses in most countries. This may be one of the factors behind the interest rate increases. We now assume that the rise in interest rates in the euro area will continue into early 2006, with a gradually less expansionary monetary policy. This will make it easier for Norges Bank to raise its key rate in order to curb the cyclical expansion in Norway without an appreciation of the krone. Stronger growth in the global economy than we had previously projected is stimulating Norwegian exports. In isolation, this will increase

activity in Norway. An increase in ECB key rates ahead will most likely imply higher interest rates in Norway as well since Norway, unlike the euro area, is experiencing a strong expansion.

Previously, we have pointed to three important sources of uncertainty associated with cyclical developments ahead. First, the global outlook which now appears slightly more positive further into 2006 than previously assumed. However, there is still considerable uncertainty surrounding developments ahead. Another source of uncertainty is economic policy in Norway in connection with the shift in government and high oil prices that are generating rising budget surpluses in Norway. It has now been clarified that fiscal policy will not become more expansionary in 2006 than we had previously assumed. The new government has made it clear that it intends to revert to the fiscal rule in the years ahead. Consequently, the Norwegian economy should not receive any positive stimulus from higher budget deficits in 2007. Third, there is uncertainty surrounding petroleum investment in Norway. Petroleum investment has increased by a good 50 per cent since the trough in early 2002 and, as mentioned, has made a positive contribution to the cyclical upswing since 2003. We do not believe that petroleum investment will be particularly strong ahead, but nor is investment expected to show a pronounced decline in the next few years. Even though the Norwegian economy might receive some stimulus from Norwegian oil companies' activities in other countries, we do not believe this will be of a magnitude over the coming years that will change the picture of gradually weaker impulses from the petroleum sector. The uncertainty here is considerable, however.

With prospects of moderate impulses from both fiscal policy and petroleum investment, GDP growth is expected to be considerably lower over the next two years. As a result, the decline in unemployment will come to a halt in the course of 2006. Owing to the strong krone exchange rate, inflation will continue to be moderate, but will edge up somewhat through 2006. If oil prices remain relatively high and interest rates in Norway are at least as high as the level in the euro area, the krone is unlikely to show any marked depreciation. Against this background, inflation is expected to be on a par with the inflation rate in the euro area, which is expected to fall back to about 2 per cent when the effects of this autumn's high oil prices unwind through summer 2006.

Cyclical developments in Norway

The Norwegian economy has continued to expand through 2005 broadly in line with projections. Gross investment, particularly in the petroleum industry, but also in other industries, household consumption and housing investment have pushed up growth. Growth has been stimulated by expansionary impulses from fiscal policy through tax reductions and not least by a very low nominal and real interest rate level. An interesting feature observed between the second and third quarter this year is a decline in housing investment. Housing starts have largely shown a falling tendency over the past year, which is now also having an impact on investment. Resale home prices are rising at a slower pace than earlier. Employment measured as

the number of person-hours worked has increased markedly in the course of the upturn, but far less in terms of number of persons. Registered unemployment has shown a fairly strong fall so far this year, while the number of job-seekers has only shown small changes according to LFS figures. Inflation in Norway, as measured by the consumer prices index, is moderate and adjusted for tax changes and excluding energy products (CPI-ATE) inflation is still very low and below the target range of 1.5-3.5 per cent.

High oil prices have engendered uncertainty as to global cyclical developments. There were fears that very high oil prices would lead to adverse effects on

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

			Seasonally adjusted			
	2003	2004	04.4	05.1	05.2	05.3
Demand and output						
Consumption in households etc.	2.9	4.7	1.8	0.3	1.7	0.9
General government consumption	1.3	2.2	0.5	0.0	0.4	-0.2
Gross fixed investment	0.2	7.8	11.7	-9.5	8.6	-3.3
Mainland Norway	-3.7	7.2	6.7	-7.7	4.6	0.5
Extraction and transport via pipelines	16.1	7.8	10.9	-9.4	21.4	-5.3
Final domestic demand from Mainland Norway ¹	1.4	4.4	2.3	-1.1	1.8	0.6
Exports	0.2	0.8	-0.3	-0.9	0.9	2.5
Crude oil and natural gas	-0.7	-0.7	-4.7	1.6	2.0	-0.5
Traditional goods	4.4	3.4	4.4	-1.2	-1.9	5.3
Imports	1.1	8.9	2.7	-2.4	4.3	2.8
Traditional goods	5.1	10.2	0.2	0.8	3.8	4.4
Gross domestic product	1.1	2.8	1.3	0.2	1.3	0.8
Mainland Norway	1.4	3.4	1.6	0.5	0.8	0.8
Labour market						
Man-hours worked	-1.6	1.9	-0.3	0.1	0.2	0.1
Employed persons	-1.1	0.4	0.0	0.0	0.2	0.4
Labour force ²	-0.5	0.3	0.0	0.0	0.4	0.5
Unemployment rate, level ³	4.5	4.5	4.5	4.5	4.7	4.8
Prices and wages						
Wages per standard man-year ⁴	3.9	4.3	5.1	4.8	4.0	3.0
Consumer price index (CPI) ⁴	2.5	0.4	1.2	1.0	1.5	1.8
CPI adjusted for tax changes and excl. energy products (CPI-ATE) ⁴	1.1	0.3	0.9	0.7	1.0	1.2
Export prices, traditional goods	-2.3	8.4	-0.8	0.3	1.3	1.6
Import prices, traditional goods	-0.3	4.5	-0.1	0.2	-0.4	0.0
Balance of payment						
Current balance, bill. NOK	204.3	231.4	66.2	73.3	56.4	82.4
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	4.1	2.0	2.0	2.0	2.1	2.3
Lending rate, banks ⁵	6.1	4.2	4.0	4.0	3.9	4.0
Crude oil price NOK ⁶	204.7	257.3	279.9	298.0	327.5	398.9
Importweighted krone exchange rate, 44 countries, 1995=100	92.8	95.6	93.1	93.6	92.1	90.7
NOK per euro	8.00	8.37	8.20	8.24	8.05	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.

Sources: Statistics Norway and Norges Bank.

production and income, which might be amplified by a contractionary shift in monetary policy. So far, however, it seems that developments have “normalized” somewhat, partly owing to a slight fall in oil prices since autumn and easing fears of a sustained rise in prices. Oil prices are now widely expected to hover around today’s level, i.e. slightly above USD 50 per barrel. The path for oil prices is still one of high nominal and real prices, but the outlook is far less dramatic than some observers envisaged a few months ago.

A new development in relation to the previous *Economic Survey* is the recent decision to increase interest rates in the euro area. The move partly reflects somewhat higher inflation as a result of higher oil price, but may also reflect expectations of slightly higher GDP growth in the euro area in 2006 than in 2005. However, the current growth scenario for the euro area can hardly be referred to as a pronounced cyclical upturn. Against this background, a marked interest rate increase in the euro area in 2006 is highly unlikely.

The US economy is expanding at an undiminished pace, and interest rates have continued to increase in line with expectations. It was previously assumed that growth in the US would slow towards the end of 2005. Figures for the first three quarters of 2005 and traditional leading indicators in the US do not point to a cyclical turnaround in the near term. Our projections for developments abroad have therefore been revised to bring our growth forecasts more closely in line with consensus forecasts for 2006. However, global growth is projected to slow in 2007 and 2008. In somewhat simplified terms, the international slowdown is now projected to materialise about one year further ahead than previously expected. Accordingly, we now assume somewhat higher interest rates in the euro area compared with the previous *Report*. This increases Norges Bank’s leeway for raising interest rates to a somewhat further extent also in Norway in order to restrain growth in domestic demand. Against this backdrop, we now assume that the key rate in Norway will be increased approximately in pace with the interest rate increase in the euro area in 2006.

The approved fiscal policy for 2006 is broadly in line with previous assumptions concerning macroeconomic impulses. The budget is now close to cyclically neutral, and is not generating any strong impulses to macroeconomic developments in the Norwegian economy in the short term. Some increases in indirect tax rates that will have short-term effects on consumer prices are being implemented, but the magnitude is relatively limited and is unlikely to influence monetary policy.

The cyclical upturn in the Norwegian economy is expected to continue into 2006, but growth is expected to slow markedly in 2006 compared with the two previous years. The main reasons behind the slowdown are the absence of fiscal impulses and moderat-

ing growth in petroleum investment. This is in line with previous projections. In addition, we now assume that the increase in Norges Bank’s key rate will be slightly higher than previously assumed, in pace with the interest rate increase in the euro area. This must also be seen in connection with somewhat stronger projected global growth than anticipated in previous reports. However, the interest rate increases are assumed to be fairly moderate. The main reason for this is that the upturn in the Norwegian economy will come to a partial halt and growth will be moderate in 2007. According to our projections, fiscal policy and petroleum investment will not generate any stimulus to the Norwegian economy in 2007. Moreover, a moderate international cyclical downturn is expected in 2007. With a small increase in interest rates from summer 2005 to summer 2006, growth in the Norwegian economy will be very modest in 2007.

In 2008 and 2009, fiscal policy is assumed to provide renewed strong expansionary impulses to the Norwegian economy. Petroleum investment is expected to increase over these years, but it is conceivable that the internationalisation of Norwegian oil activities will stimulate exports of both goods and services in connection with development projects in other countries. A moderate cyclical turnaround in the global economy may also make a contribution to growth in the economy towards the end of the projection period. In line with the projections in the previous *Economic Survey*, we assume a moderate increase in key rates both in Norway and abroad in 2009. Nevertheless, growth in the Norwegian economy will pick up somewhat from the low level in 2007, bringing growth close to a cyclically neutral level in 2009. In all the years, consumer price inflation is projected to remain below the inflation target of 2.5 per cent.

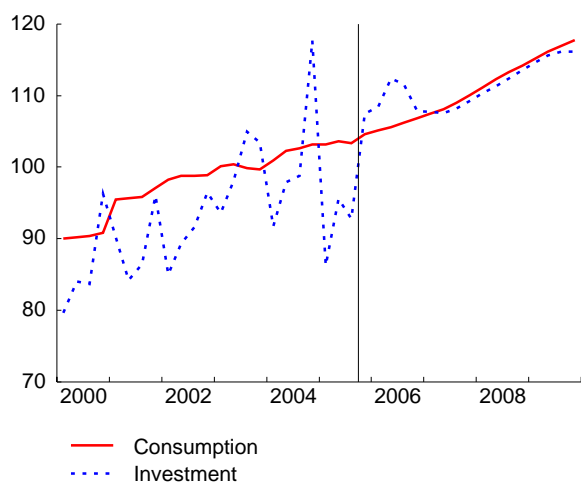
Fiscal policy – small aggregated impulses up to 2008

Growth in general government consumption and investment has been modest so far in 2005, according to the quarterly national accounts (QNA). The level of investment will fall somewhat in relation to 2004 and consumption growth appears to be lower than in the previous year, partly reflecting defence spending cuts. In spite of this, fiscal policy has been expansionary in 2005 measured by the structural, non-oil budget deficit in relation to mainland trend GDP growth partly owing to lower taxes. As a result of lower sickness absence and a decrease in disbursements of unemployment benefits, growth in transfers to households will be lower in 2005 than in 2004.

The fiscal policy programme approved by the new government is based on an unchanged structural, non-oil budget deficit in 2006 compared with 2005. This implies that oil revenue spending in excess of the fiscal rule will be lower in 2006 than in 2005, and it is thus realistic to assume that the deficit will be more

General government

Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

closely in line with a strict interpretation of the fiscal rule in 2007, largely thanks to estimates of strong growth in the Petroleum Fund. If crude oil prices remain around USD 50 per barrel in the years ahead, as assumed here, the Petroleum Fund will show a substantial increase in the next few years. According to the fiscal rule, this implies room for a considerably more expansionary fiscal policy in 2008 and 2009 than in 2007. As in our previous *Report*, we assume that this will translate into stronger growth in general government consumption and investment as from 2008.

Even though aggregated fiscal impulses are modest in 2006, considerable changes in the orientation of policy in different areas will be implemented next year. First, direct tax reforms are to be introduced involving the replacement of the split-income model with taxation of dividend in excess of the normal yield level, at the same that the marginal tax on wage income is reduced. One result of this is more equal taxation of wage and capital income for marginal taxpayers. In addition, the standard allowance will be increased and various other allowances will also be changed in various directions. These changes combined entail a reduction in direct taxes for taxpayers with normal wage income compared with an income- or inflation-adjusted system based on 2005 rules. However, overall direct personal taxation is about the same in 2006 as in 2005 when taking into account the removal of the split-income model among other things. These tax changes have been incorporated in our model-based estimates, but the estimates are uncertain as the changes are relatively extensive.

The most important indirect tax changes are that certain VAT rates are to be increased. The VAT rate on food will be increased from 11 to 13 per cent, and the low VAT rate on transport services will be increased

from 7 to 8 per cent. Combined with a number of smaller rate increases, this will contribute to an increase in indirect taxation from 2005 to 2006, which is estimated to push up CPI inflation by 0.4 percentage point. However, these changes will not influence CPI inflation adjusted for tax changes and excluding energy products (CPI-ATE). On the other hand, lower daycare rates will push down inflation by a little more than 0.1 percentage point in 2006.

Our projections for growth in general government consumption are in line with the projections in the new government's Supplementary Budget Bill, and imply fairly moderate growth in public consumption. An important component of the increase in the projections for general government consumption is based on the assumption that the increase in local government budget limits will primarily be used to increase spending rather than debt repayment. Our projections for general government investment deviate somewhat from the projections in the Supplementary Budget Bill (also in relation to our previous *Report*) because the defence sector is planning to import two frigates from Spain next year for a total value of more than NOK 6 billion. Payment for the vessels has been made on a continuous basis (and are thus included in the structural, non-oil budget deficit), but the investments are almost fully matched by corresponding imports so that the effects on GDP are minimal. Planned imports of one frigate in each year in the period 2007-2009 are treated in the same manner.

As previously, we have incorporated the cost effects of the introduction of occupations pensions in the business sector in 2006 for those who are not covered by such a scheme. The additional labour costs are assumed to be gradually passed on to wage earners in the form of somewhat weaker growth in disbursed wages. This partly explains our moderate wage growth projection for the coming years.

For 2007, we assume an increase of NOK 2 billion in indirect taxes, which will bring the personal tax level back to the 2004 level, in line with the signals from the new government. This provides room within the framework of the fiscal rule for slightly higher growth in general government spending. As mentioned, there is room in 2008 and 2009 for markedly stronger growth in general government purchases of goods and services than in 2006 and 2007 even when only adjusting the tax level for inflation. These projections are also in line with that assumed in the previous *Economic Survey*.

Moderate interest rate increase next year and continued strong krone

In the previous report, we assumed that interest rates would remain low and virtually unchanged in the period to 2008. This was based on forecasts of slow global growth at the beginning of 2006. The basis for

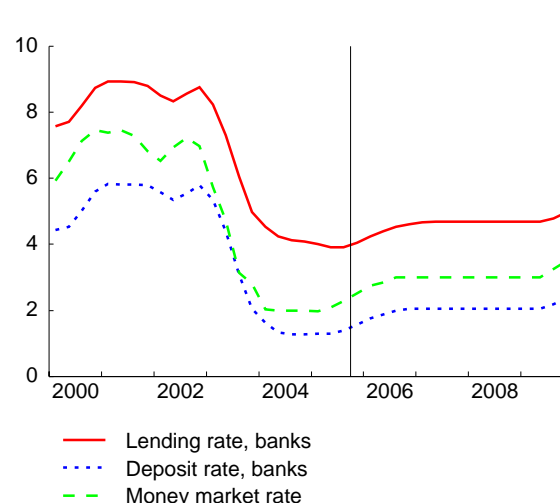
this assumption has weakened recently. Various economic indicators now point to sustained growth during the period ahead, and we assume that growth will not slow until near the end of next year. Several central banks have raised their key rates this autumn. At its monetary policy meeting on 2 November 2005, Norges Bank increased its key rate by 0.25 percentage point to 2.25 per cent. The European Central Bank increased its key rate to the same level in December, which was the first increase in the euro area since 2000. In the US, the key rate has been raised by 0.25 percentage point on 13 consecutive occasions. The background for the interest rate increases seems to be strong economic activity and fears of rising inflation.

Twelve-month growth in credit to households was 13.0 per cent at the end of October. Many observers perceive this as a source of concern in terms of financial stability. The international interest rate increases and lower oil prices provide Norges Bank with some room for raising the interest rate without an excessive appreciation of the krone. In Norges Bank's previous *Inflation Report*, the interest rate is expected to lie in the interval 2-3 per cent in the period to March 2006. The interest rate must be set on the basis of an assessment of the effects of an interest rate change on the krone exchange rate, inflation and capacity utilisation in the economy, in addition to financial stability considerations. In the period between November 2004 and November 2005, CPI-ATE inflation was 1.1 per cent, which is clearly lower than the inflation target. Long-term interest rates have moved up since summer and are now at about the same level as that prevailing one year earlier.

The Norwegian economy is still in a period of strong expansion. We assume that the key rate will be raised on two further occasions by a total of 0.5 percentage point next year, and subsequently remain unchanged for a period. This implies a money market rate of about 3 per cent. Market expectations reflected in FRAs in early December point to an increase to 3.3 per cent next summer. Lower economic growth internationally and moderating petroleum investment will contribute to slower output growth next year. In 2007, the Norwegian economy will shift into downturn. Against this background, we assume that interest rates will not be increased further until 2009 when a renewed cyclical upturn is projected for Norway and the global economy.

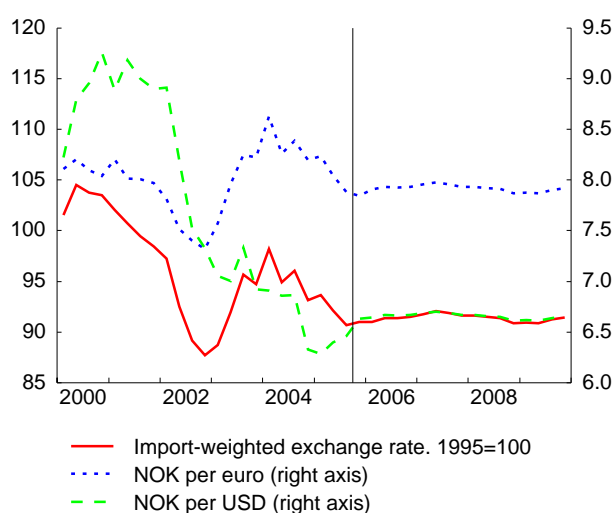
The krone has remained relatively strong since the previous report. As measured by the import-weighted krone exchange rate, the krone has held steady over the past six months. The krone has varied between 7.7 and 8.0 against the euro in the same period. The krone is expected to hold steady around 7.9 against the euro during the projection period to end-2009. A small positive interest rate differential against other countries and high oil prices will underpin the krone at this fairly strong level. This projection is in line

Norwegian interest rates



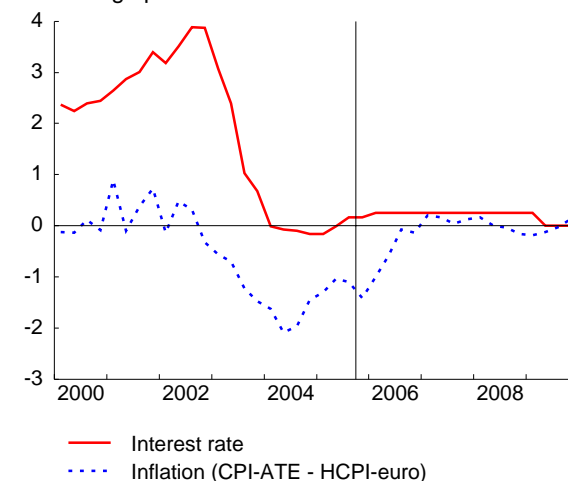
Sources: Norges Bank and Statistics Norway.

Exchange rates



Sources: Norges Bank and Statistics Norway.

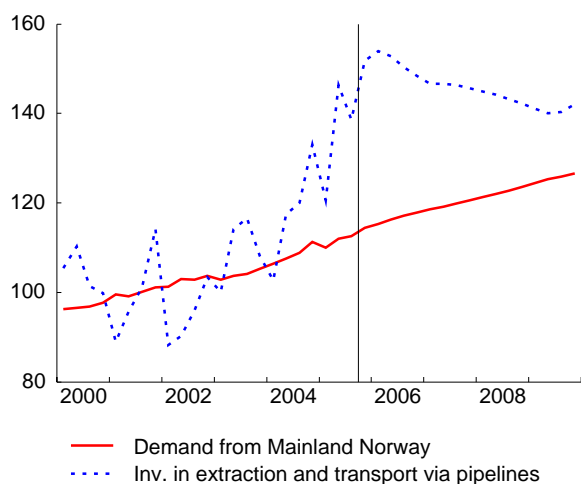
Interest rate and inflation differential between NOK and the euro



Sources: Norges Bank and Statistics Norway.

Domestic demand

Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

with the average forecast from Consensus Forecasts in November. The import-weighted krone exchange rate is assumed to depreciate somewhat during 2006 and into 2007, before appreciating somewhat again. Towards the end of the projection period, the krone is assumed to be about 1 per cent stronger than the level in mid-December 2005.

Continued high level of petroleum investment

Investment in extraction and pipeline transport is set to show a strong increase this year. According to QNA figures, investment in the first three quarters of 2005 is now a good 19 per cent higher than the level for the same period one year earlier. Statistics Norway's latest investment intentions survey estimates the value of this year's investment at close to NOK 87 billion, which is slightly lower than the survey figures from the previous quarter. This is primarily due to delays at ongoing projects. For 2006, the estimate is substantially higher at close to NOK 93 billion, primarily owing to very high estimates for exploration and fields in operation in addition to increased investment in connection with the development of the Snøhvit field.

Petroleum investment is projected to pick up again in the fourth quarter, with the investment volume for 2005 as a whole estimated at close to 20 per cent higher than in 2004. This is somewhat lower than projected in our previous *Report*, and in line with the investment intentions survey. In 2005 and 2006, investment is heavily influenced by investments linked to the development of the Ormen Lange and Snøhvit fields. As these investments are phased out, they are expected to be offset by investments in other fields such as Skarv, Gjøa, Statfjord, Senfase and Tyrihans, but other investment projects are also expected to push up the overall level of petroleum investment. The investment intentions survey for 2006 shows that oil companies are planning a substantial increase in exploration activity next year in relation to this year,

but it is difficult to conceive how all the plans can be realized given today's rig market. Somewhat further ahead, however, exploration investment is expected to pick up further in pace with a gradual increase in rig capacity. Pipeline investment has shown a clear rise through this year. A reversal is expected next year, with the phasing out of investments linked to the Langeled pipeline system. Pipeline investment is then expected to show a marked pickup again, primarily as a result of the start-up of the Skarv pipeline investment project. Investments in field development projects are expected to show an increase to a markedly higher level next year where they will remain more or less steady further into the projection period. The investment intentions survey shows that investment in fields in operation will increase substantially next year, partly due to the postponement of production drilling from this year to next year. Thanks to high oil prices, this type of investment is expected to remain high also further ahead. The onshore installations linked to Snøhvit and Ormen Lange will largely be completed next year, which implies some fall in onshore investment. In 2007, onshore investment will show a pronounced decline and subsequently remain at a low level to the end of the projection period. On the basis of these projections, investment will exhibit a modest fall in 2009. The carry-over from 2005 will nevertheless lead to an investment level for 2006 that is likely to be close to 5 per cent higher than the 2005 level. The investment level in 2009 is projected to be about 3 per cent lower than in 2005. Expectations of high oil prices at around USD 50 per barrel are contributing to keeping investment at a high level ahead.

According to seasonally adjusted QNA figures, total production of crude oil and natural gas declined through autumn 2004 to the first quarter of this year, followed by an increase in the past two quarters. The main contribution to growth has come from gas production during the past six months. The positive tendency for gas production will probably continue to the end of 2005, but oil production may also show somewhat stronger growth in the fourth quarter of this year than in previous quarters of 2005. Overall production of oil and gas is projected to be 2.5 per cent lower in 2005 than in 2004. Our projections for oil and gas production ahead are mainly based on the projections in the National Budget for 2006. Oil production is projected to be slightly lower than the current level in 2006 and to stabilise at this level in the period to the end of the projection period. Gas production is projected to show a marked increase also in the years ahead. Total petroleum production will probably exhibit an annual increase of 1-3 per cent in the coming years.

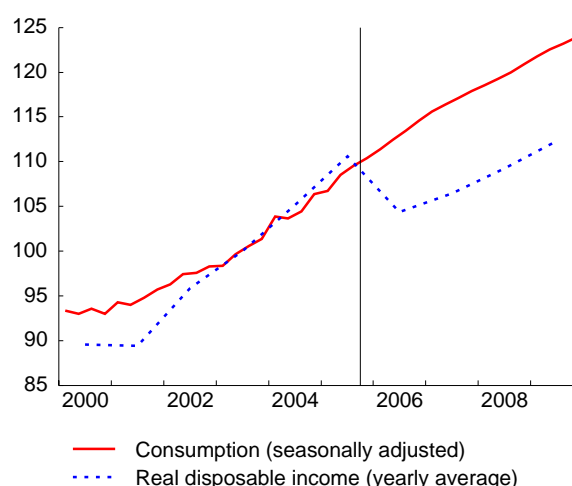
Continued strong consumption growth up to 2008

Seasonally adjusted QNA figures show that consumption for households and non-profit institutions rose by

0.9 per cent between the first and second quarter. Seasonally adjusted growth in goods consumption was fairly weak in relation to total in consumption in the third quarter of this year. Growth in goods consumption was primarily pushed down by a decline in spending on books, tobacco, clothing and footwear, petrol and oil, in addition to close to zero growth in spending on a number of other groups of goods such as furniture, white goods and various household articles. On the other hand, consumption of services continued to grow at strong pace in the third quarter of this year. For the first three quarters as a whole, total consumption was about 3.9 per cent higher than in the same quarter one year earlier. The strong rate of growth in consumption of 4.7 per cent in 2004 therefore seems to be continuing through 2005, albeit at a somewhat weaker pace. Consumption growth was primarily supported by solid income growth in 2004, even when excluding record-high dividend payments (see table). Abnormally high dividend payments in 2004, which probably have a limited impact on consumption, were partly made in anticipation of the introduction of dividend tax in 2006.

During the projection period, growth in household real disposable income is projected to weaken in relation to 2004, also when excluding the decline in dividend payments, and in spite of stronger growth in wage and corporate earnings and general government transfers through the period. However, households will gradually increase their debt in relation to assets, entailing a shift from a net asset position to a net debt position (including insurance claims) in 2009. The path for households' financial position results in weak growth in net capital income (also excluding dividend payments) throughout the projection period. Combined with an increase in direct taxes and higher consumer price inflation, this will push down real growth in household income through the projection period. The dividend estimates are highly uncertain owing to the introduction of dividend tax (in excess of a normal yield level) in 2006 and adaptations to this tax change. Weaker growth in real disposable income (also excluding dividend payments) will contribute to weakening consumption ahead. However, developments in real after-tax interest rates are expected to restrain the decline in consumption growth this year and to some extent in 2006. In spite of a somewhat higher nominal interest rate level ahead, real after-tax interest rates are still expected to fall by a little less than 2 percentage points, from 2.6 per cent in 2004 to 0.9 per cent in 2006, as a result of higher consumer price inflation. The real interest rate is then expected to hover around 1.5 per cent to the end of the projection period. A decline in real interest rates implies cheaper consumption in this period relative to consumption in the subsequent period which means that households will move forward consumption to the current period. Developments in income, coupled with the path for real interest rates, result in

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.

Household real disposable income. Percentage growth from the previous year

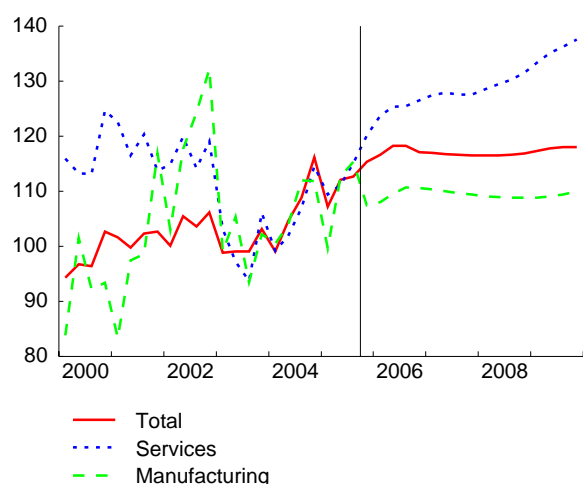
	2004	2005	2006	2007	2008	2009
Real disposable income incl. dividends	5.1	5.2	-5.7	2.0	2.7	2.8
Real disposable income excl. dividends	4.5	4.6	0.2	1.3	2.2	2.7

a path for consumption with relatively solid consumption growth over the next few years, followed by a marked decline to around 2.5 per cent in both 2008 and 2009.

Our projections imply a fall in the household saving ratio from a record-high level of 10.1 and 10.7 per cent in 2004 and 2005, respectively, to 2.4 per cent in 2006, and then to a historically low level between 1 and 1.5 per cent in the years 2007-2009. The sharp

Investment, Mainland Norway

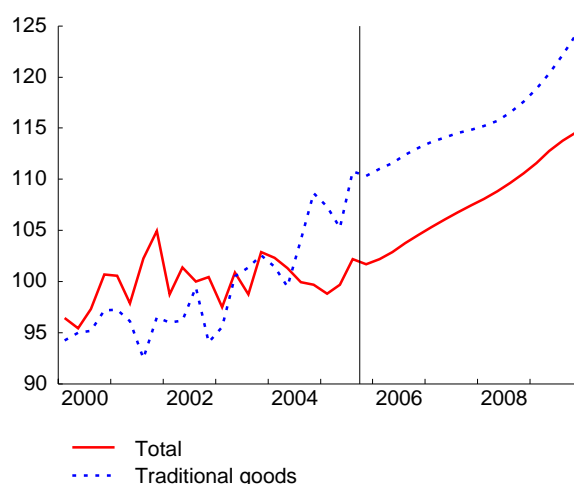
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Exports

Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

fall in the saving ratio reflects a pronounced decline in household net lending. In nominal terms, household net lending is projected to fall from about NOK 49 billion in 2004 to close to – NOK 15 billion in 2009. However, close to half of the decline can be ascribed to the estimated changes in dividend payments.

Turnaround in housing investment

In 2004, housing starts came to a little less than 29 500, i.e. an increase of around 31 per cent on the previous year. However, seasonally adjusted housing start figures show a downward tendency from the end of last year, and in the third quarter of this year the decline was as high as 11 per cent on the previous quarter. In line with these developments, seasonally adjusted QNA figures show that housing investment fell by close to 2 per cent in the third quarter of this year, after rising sharply through 2004 and into 2005. For this year's first three quarters as a whole, housing investment was still about 12 per cent higher than in the same period one year earlier. The strong expansion in housing investment since the end of 2003, which has been fuelled by strong real income growth and low real interest rates, appears to have come to halt and housing wealth is now at a very high level from a historical perspective. The high level of housing wealth is expected to restrain the rise in house prices ahead. This is important in cyclical terms since the building and construction sector is a large and cyclically sensitive sector.

Prospects for lower growth in real disposable income (also excluding dividend payments), higher real interest rates and a fall in real resale home prices are important factors behind the projected turnaround in housing investment during the projection period. Annual growth in housing investment is now projected at a little more than 9 per cent in 2005, which is somewhat lower than previously projected. Housing investment is then projected to show a gradual de-

cline from around NOK 71 billion in 2005 to around NOK 61 billion in 2009, at constant 2003 prices. Resale home prices are projected to rise by about 8 per cent in 2005 compared with about 10 per cent in 2004, which represents a marked rise in real prices over two years. Nominal resale home prices are projected to remain virtually unchanged through the period 2006-2009.

Moderating investment growth in mainland industries

Gross mainland business investment has continued to expand through 2005, after passing a cyclical trough in 2003. The investment level is now approximately on a par with the previous peak level in 2002. Investment is now projected to expand by close to 7 per cent compared with 2004. Investment growth has been fairly evenly distributed across main industries over the past few years. Investment is projected to continue to expand into 2006 in pace with normal cyclical developments where growth in the economy increases the need for additional capacity in the business sector. Weaker growth in the Norwegian economy in 2007 and 2008 will be accompanied by slower investment growth in 2007 and 2008, with a projected flattening out of the investment upswing in early 2007. The level of investment is then expected to show little change.

Statistics Norway's investment intentions survey for manufacturing shows that manufacturing enterprises are planning to increase investment in both 2005 and 2006. This implies that the tendency of little change in the investment level in manufacturing will continue. As regards electricity production, the figures point to a substantial increase in investment in 2006 owing to the construction of gas plants and renewal of existing plants, not least the transmission grid system for electricity. A higher level of electricity prices has boosted electricity companies' profits and expecta-

tions of relatively high electricity prices ahead suggest that it would be rational to invest in the renewal of existing installations. The estimates for investment in the electricity production industry in 2006 have increased again since the previous investment intentions survey. It should be stressed that the estimates for 2006 are highly uncertain, in particular as to whether previously awarded licences for plant development projects will be realized.

As mentioned, the investment upswing in private services is continuing, and vacancy rates for commercial property have edged down. Investment is also expanding in distributive trades and the transport industry. Investment growth in the banking and insurance industry has moderated this year, but growth is projected to be somewhat strong in 2006. Overall, gross mainland business investment is projected to expand at about the same rate in 2006 as in 2005. This is slightly higher than projected in the previous *Report*. However, weaker cyclical developments in 2007 and into 2008 are expected to curb the need for capacity increases, with little change in the investment level in these two years. When growth in the Norwegian economy picks up somewhat in 2009, investment is also projected to show a moderate increase. On balance, the impulses from gross business investment are expected to continue to be modest in the years ahead. Against this background, business cycle fluctuations are expected to be very moderate in the next few years.

Lower export growth

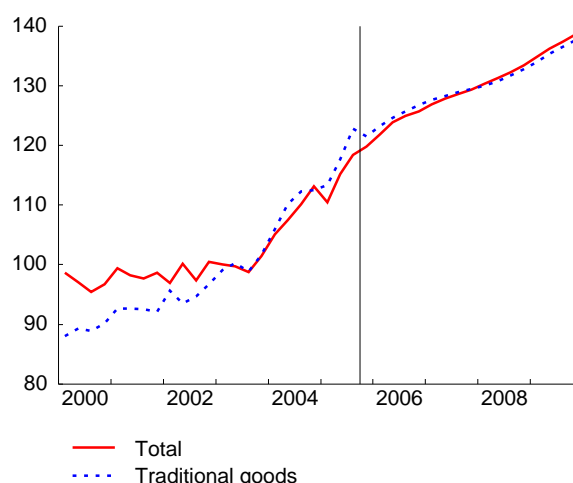
Exports of traditional goods increased by 3.4 per cent in 2004 and are estimated to increase by 5-6 per cent in 2005. The increase primarily reflects growth through 2004 as growth has been virtually unchanged so far this year compared with the fourth quarter of last year. Exports of engineering products are the main driving force behind the strong rate of growth in exports. Exports of electricity show the highest percentage growth. In the first three quarters of this year, exports have been about four times higher than during the same period one year earlier.

Growth in traditional goods exports is projected to slow to around 2 per cent in each of the next three years. A sharp decline in electricity exports is the main factor behind the slowdown in growth in 2006, while weaker global developments will also push down growth further ahead. Export growth is projected to pick up again in 2009 in line with the assumption of a renewed global upturn in the latter part of the projection period. Growth in the volume of exports will be somewhat lower than market growth during the projection period, which implies a reduction in export industries' market shares.

Prices for traditional export goods rose by 8.4 per cent between 2003 and 2004. The rise in prices must be seen in connection with the expansion in the global

Imports

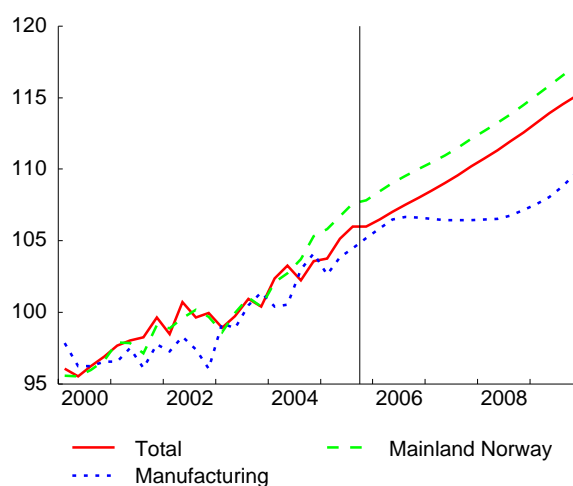
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Gross domestic product

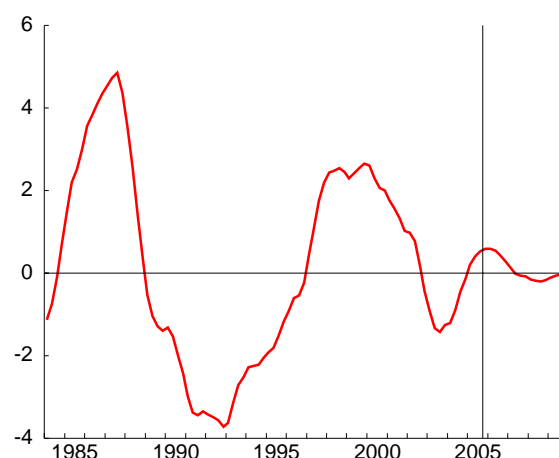
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Output gap, Mainland Norway

Deviation from trend, per cent



Source: Statistics Norway.

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

	Accounts 2004*	Forecasts										
		2005			2006			2007		2008		2009
		SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB	SN
Demand and output												
Consumption in households etc.	4.7	4.2	3.7	3 3/4	3.9	3.1	3 1/2	3.4	2 3/4	2.5	2	2.7
General government consumption	2.2	1.7	2.3	1 3/4	1.9	1.9	2	2.4	1 3/4	4.0	3	3.4
Gross fixed investment	7.8	8.8	9.0	..	6.2	2.7	..	-2.8	..	-0.6	..	0.2
Extraction and transport via pipelines ¹	7.8	19.5	20.0	20	5.1	0.0	2 1/2	-2.8	-2 1/2	-2.0	-5	-3.0
Mainland Norway	7.2	5.3	5.7	7 3/4	6.5	3.6	6	-2.1	3 1/4	-0.1	2 1/2	1.3
Industries	6.7	6.8	4.3	..	7.7	6.0	..	1.3	..	0.4	..	2.5
Housing	12.3	9.3	13.5	..	-2.0	0.9	..	-4.8	..	-4.3	..	-3.0
General government	1.9	-3.5	-1.1	..	16.6	1.6	..	-6.3	..	3.9	..	3.8
Demand from Mainland Norway ²	4.4	3.7	3.6	3 3/4	3.8	2.9	3 3/4	2.2	2 1/2	2.5	2 1/4	2.7
Stockbuilding ³	0.7	0.3	..	..	0.0	..	..	0.0	..	0.0	..	0.0
Exports	0.8	0.4	-0.1	..	2.5	2.7	..	3.1	..	2.6	..	3.8
Crude oil and natural gas	-0.7	-2.2	-3.2	..	1.0	1.3	..	2.7	..	2.8	..	3.0
Traditional goods	3.4	5.5	3.9	3 1/2	2.4	3.6	3 1/4	2.1	3 1/2	1.5	3 1/4	4.4
Imports	8.9	7.0	6.8	7 1/4	7.8	4.5	4 1/4	2.8	2 1/4	2.7	1 3/4	3.9
Traditional goods	10.2	8.0	7.4	..	5.6	5.1	..	2.8	..	2.0	..	3.7
Gross domestic product	2.8	2.4	2.5	2 1/2	2.1	2.1	2 3/4	1.9	2 1/4	2.2	2 1/4	2.4
Mainland Norway	3.4	3.4	3.6	3 3/4	2.4	2.5	3 1/4	1.7	2 1/2	2.1	2 1/4	2.4
Labour market												
Employed persons	0.4	0.6	0.5	3/4	1.6	1.0	1 1/2	0.6	1	0.5	3/4	1.1
Unemployment rate (level)	4.5	4.6	4.6	4 1/2	3.9	4.1	4	3.9	4	3.8	4	3.5
Prices and wages												
Wages per standard man-year	4.3	3.9	3 1/4	3 1/2	3.7	3 1/2	4 1/4	3.9	4 1/2	3.9	4 1/2	3.7
Consumer price index (CPI)	0.4	1.6	1 1/2	1 1/2	2.3	1 3/4	2	2.0	2	1.9	2 1/2	1.9
CPI-ATE ⁴	0.3	1.1	1	1	1.7	1 1/2	1 3/4	2.0	2	1.9	2 1/2	1.9
Export prices, traditional goods	8.4	2.5	..	..	0.3	..	..	-0.7	..	-0.5	..	2.5
Import prices, traditional goods	4.5	0.2	..	..	0.1	..	..	0.1	..	-1.0	..	0.3
Housing prices ⁵	10.1	7.8	..	..	1.2	..	..	0.4	..	-1.1	..	-0.6
Balance of payment												
Current balance (bill. NOK)	231.4	290.8	..	..	275.1	..	..	283.1	..	288.0	..	297.9
Current balance (per cent of GDP)	13.5	15.3	16.0	..	13.8	15.3	..	13.8	..	13.5	..	13.4
Memorandum items:												
Household savings ratio (level)	10.1	10.7	10.9	..	2.4	5.0	..	1.1	..	1.4	..	1.5
Money market rate (level)	2.0	2.2	2.2	2 1/4	2.9	3.0	3	3.0	3 3/4	3.0	4 1/4	3.2
Lending rate, banks (level) ⁶	4.2	4.0	..	..	4.4	..	..	4.7	..	4.7	..	4.8
Crude oil price NOK (level) ⁷	257	351	350	..	340	350	..	334	..	332	..	332
Export markets indicator	6.1	4.1	..	..	3.6	..	..	1.9	..	2.2	..	5.6
Importweighted krone exchange rate (44 countries) ⁸	3.0	-3.9	..	-4	-0.6	..	-3/4	0.6	1/2	-0.5	1/2	-0.2

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.

Sources: 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).

economy and a depreciation of the krone in the same period. Prices for mining and quarrying product and refined petroleum products showed the sharpest increase, while export prices for electricity showed the steepest decline in the same period. Since the beginning of 2004, the krone has appreciated markedly, which has contributed to curbing the rise in export prices recently. In the third quarter, traditional export prices were 2.6 per cent higher than in the same quarter one year earlier. A sustained brisk rise in prices for refined petroleum products explains the positive rise

in prices. Export prices for traditional goods, excluding refined petroleum products, were 1.2 per cent lower in the third quarter 2005 than in the same quarter one year earlier.

Commodity prices, particularly chemical and metal prices, will fall in line with the slowdown in the world economy in 2007 and 2008. Prices for refined petroleum products, such as petrol, diesel and heating oil, are projected to remain relatively high during the international downturn, but show some decline from

the end of next year in pace with a moderate decline in oil prices between this year and next.

Import growth slows from high level

Import growth was very high in 2004 and 2005. This must be seen in connection with the cyclical upturn. The composition of demand impulses with strong investment growth and an increase in travel activity have also made a contribution. In 2005, import growth is projected at 7.0 per cent and even somewhat higher for traditional goods.

Import growth will slow in the years ahead in line with lower and then declining investment and generally weaker cyclical trends. In 2006, growth in traditional goods imports is put at 5.6 per cent, while growth is projected to slow to about 2 per cent in 2008. Growth in total imports will be somewhat higher, particularly in 2006 when import growth is projected at 7.8 per cent, which primarily reflects military investment. In 2006, two frigates will be delivered, while one new frigate will be delivered in each of the following three years. The total cost of the five frigates amounts to NOK 16.7 billion, i.e. close to NOK 3.5 billion per frigate.

Cyclical turnaround in 2006

According to seasonally adjusted QNA figures, mainland GDP grew by about 0.8 per cent in the second and third quarter of 2005 compared with the previous quarter, which corresponds to annualized growth of around 3.4 per cent. Growth in private services production, which accounts for over half of mainland GDP, had accelerated and manufacturing has also shown a clear expansion over the past two quarters. On the other hand, it appears that activity growth in other goods production has come to a halt and shifted to a downswing in the third quarter following very strong growth through the first six months of the year. Activity in the building and construction industry, which dominates developments in this group, now appears to be falling. Production in the general government sector seems to have been very stable so far this year, and has made little contribution to growth.

The cyclical expansion has now spanned two and a half years. Activity growth is expected to slow in the period ahead according to our projections, and can be described as a moderate cyclical downturn further into next year. Activity in the building and construction industry is expected to edge down in the coming years, while activity growth in private service industry is expected to fall. Mainland GDP growth is projected at 2.4 per cent in 2006 against 3.4 per cent this year. However, when excluding the electricity production sector, the decline in the growth rate is more than halved. Over the past 12 months, inflows to water reservoirs have been about 17 per cent above normal, which has been matched by an increase in production so far in 2005 compared with the previous year. Water

reservoir levels are now slightly below normal. With normal inflow levels in 2006, a sharp decline in production must be expected in 2006 compared with 2005.

Growth in manufacturing production has been slightly less than 2.0 per cent in recent years, and manufacturing production will expand by 2.3 per cent next year. Higher petroleum investment and sustained market buoyancy are among the factors supporting solid growth in manufacturing production.

In 2007, however, manufacturing production is projected to show a modest decline, partly owing to lower export growth as a result of the projected slowdown in the international economy in 2007 and 2008. Lower petroleum investment will also push down manufacturing production. In 2009, manufacturing production is projected to show renewed growth as a result of a cyclical turnaround in the global economy. A pronounced shift towards a more expansionary fiscal policy in 2008 and 2009 will bring an end to the cyclical downturn in Norway, and the next cyclical trough in Norway is expected in mid-2008.

Stronger employment growth

According to seasonally adjusted QNA figures, employment increased by 14 000 between the first and third quarter of this year, i.e. growth of 0.6 per cent. Since the third quarter of 2003, employment has increased by 27 000. The working age population increased by 56 000 during the same period. This implies a decline of 0.4 percentage point in employment measured as a percentage of the working age population in this period. Such a decline during a cyclical expansion may seem unusual, but reflects changes in population composition with an increase in age groups where labour participation is lowest (young and older). Adjusted for this, the labour force participation figures have remained broadly unchanged in the period. Seasonally adjusted, employment stood at 69.9 per cent of the working age population in the third quarter of this year.

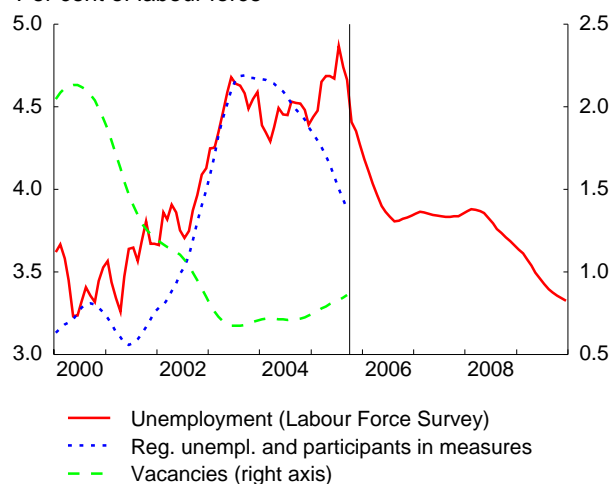
The number of unemployed registered with the Directorate of Labour and the number of unemployed according to Statistics Norway's Labour Force Survey (LFS) have shown some divergence over the past year. While the number of registered unemployed fell by about 9 000 between the third quarter of last year to the third quarter of this year, LFS unemployment rose by 6 000 in the same period. In order to identify the causes of this deviation, the data in the LFS register and the register of the Directorate of Labour have been collated. This has enabled us to study differences in the classification of each individual in the two registers, and the reasons behind this. In the analysis, the first six months of 2005 are compared with the first six months of 2004. The study showed that in the first six months of 2005 only 55 per cent of those regis-

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



Source: Statistics Norway.

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



Sources: The Directorate of Labour and Statistics Norway.

tered as unemployed with the Directorate of Labour were also registered in the LFS, while 20 per cent were defined as employed and 26 per cent outside the labour force. The decline in unemployment according to the Directorate of Labour mainly comprises those who are defined as employed according to the LFS, and the increase in LFS unemployment mainly comprises those who are registered as occupationally disabled with the Directorate of Labour. In the first six months of 2005, 12 per cent of persons registered as occupationally disabled with the Directorate of Labour responded in a way that placed them in the category unemployed according to the LFS. The occupationally disabled are not registered as unemployed by the Directorate of Labour.

It is difficult to determine the unemployment measure that best reflects the situation in the labour market, but other indicators point to improved labour market

conditions. For example, the number of person-hours worked has increased markedly and the number of new job vacancies advertised in the media or the Directorate of Labour has shown a clear increase. In addition, the increase in the number of persons participating in occupational rehabilitation programmes must be seen in connection with a tightening of disability benefit requirements. Moreover, retraining shall now be considered at an earlier stage of illness. The increase in LFS unemployment is thus not due to a real decline in employment, but rather to real increase in the supply of labour.

So far in the cyclical upturn, the increase in labour demand has been met by an increase in average working hours. Overtime work has increased, sickness absence has declined and part-time employees have on average increased their part-time fractions. In addition, foreign labour inflows have increased. Even though the cyclical peak will probably be reached around the turn of the year, the expansion will continue into early 2007, and there is reason to believe that a further rise in labour demand will lead to higher employment. Measured as an annual average, employment is projected to rise by 35 000 between 2005 and 2006, reducing LFS unemployment from 4.6 per cent in 2005 to 3.9 per cent in 2006.

A moderate downturn in the global economy and lower household demand in Norway will contribute to keeping unemployment broadly unchanged in 2007 and 2008 in spite of steady growth in public sector employment. A renewed international upturn, coupled with an expansionary fiscal policy, will then push up employment in 2009 when unemployment is projected at an average 3.5 per cent.

Moderate wage growth

According to the quarterly index of agreed wages, which includes most private industries, disbursed wages in the first three quarters of 2005 were 3.1 per cent higher than in the same period one year earlier. In most service industries, i.e. building and construction, distributive trades, commercial services and the hotel and restaurant industry, growth was 3 per cent. In manufacturing, growth was 3.6 per cent.

Employees in financial services and the public sector are not included in the quarterly wage index, but 2005 figures for employees in financial services are published in annual structural statistics. The figures show that growth in disbursed, agreed wages from September 2004 to September 2005 was 3.9 per cent. Since bonus payments in financial services more than doubled, overall monthly earnings rose by as much as 8.4 per cent in the same period. In 2005, bonus payments have been especially high in financial services other than banking and insurance.

Between 2004 and 2005, growth in wages per normal person-year was pushed up by the decline in long-term sickness absence through 2004. The contribution from the decline in absence to our growth estimate of 3.9 per cent is put at about $\frac{1}{2}$ percentage point.

In spite of a decline in unemployment in 2006, employee organizations will probably continue to look upon the unemployment rate as high. Combined with steadily higher inflows of foreign labour from the new EU member states, this is restraining wage demands ahead of the main settlement in 2006. Moreover, a persistently strong krone, moderate inflation and higher labour costs as a result of the introduction of the compulsory occupational pension scheme from 1 January 2006 point to moderate wage growth in the years ahead. On the other hand, persistently high petroleum investment points in the opposite direction, which may mean that many manufacturing firms will experience labour skills shortages as a real capacity constraint. This may lead to higher wage drift. Growth in wages per normal person-year is projected remain steady at a little less than 4 per cent throughout the projection period.

With an average rise in prices of about 2 per cent, our projections imply annual real wage growth of a little less than 2 per cent in the period 2006-2009, i.e. real wage growth near average growth in gross production per person-hour in private mainland industries in the same period. This illustrates the relatively balanced scenario projected for the Norwegian economy in the years ahead.

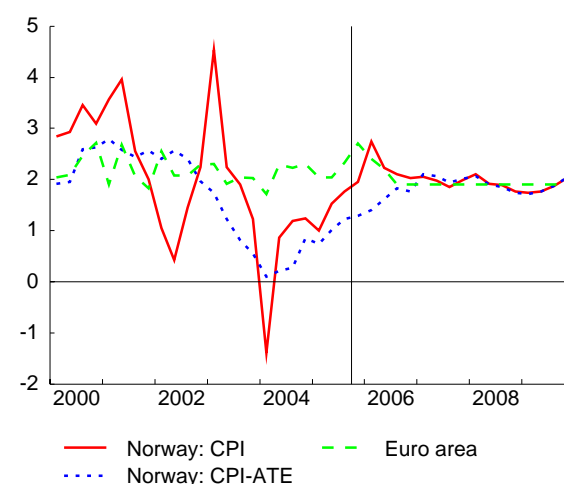
Continued low inflation

The underlying rise in prices has been very low over the past three years. In the past year, the year-on-year rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has hovered around 1 per cent and stood at 1.1 per cent in November 2005. Increases in excise duties in excess of the rise in prices will push up total CPI inflation by about 0.4 percentage points for 2005 as a whole. Both electricity and petrol prices are now higher than one year earlier, bringing the year-on-year rise in the CPI to 1.8 per cent in November. This is relatively low in an international context. The rate of increase in the harmonized index of consumer prices (HICP) for the euro area was 0.6 percentage point higher than in Norway in October.

The figures for the year-on-year rise in the CPI-ATE by supplier sector show that the rise in prices for services and agricultural products was markedly higher than the average rise, while the rise in prices for other domestically produced goods was slightly below the average and imported consumer goods clearly below the average. In relation to comparable figures for November 2004, the rise in prices for services and agricultural products has moved up, but edged down for other

Consumer price indices

Percentage growth from the same quarter previous year



Sources: Norges Bank and Statistics Norway.

domestically produced goods and imported consumer goods.

The krone exchange rate appreciated by 10 per cent between February 2004 and September 2005. Coupled with an increase in imports from low-cost countries, this has contributed to the subdued rate of increase in prices for imported consumer goods. The krone depreciated somewhat during autumn and the krone is assumed to depreciate somewhat further in the period ahead. This will push up prices for imported consumer goods. The movement in the exchange rate is thus a factor that is expected to contribute to pushing up underlying inflation somewhat in the period ahead. Growth in hourly labour costs in Norway, partly owing to the introduction of compulsory occupational pension, is expected to increase from 2004 to 2005, with a further increase in 2006. This is expected to contribute to somewhat higher domestic inflation.

An increase in VAT on food from 11 to 13 per cent and a number of other indirect tax increases from the beginning of next year are projected to have the combined effect of pushing up CPI inflation by 0.4 percentage point in 2006. As a result, CPI inflation may exceed 2.5 per cent in the first quarter of 2006. In line with forward electricity prices, electricity prices are expected to fall during spring, unlike the situation this year where electricity prices rose between the first and second quarter. CPI inflation is thus projected to fall further into spring 2006. Falling oil prices will have the same effect. On an annual basis, CPI inflation is projected at 2.3 per cent in 2006, while CPI-ATE inflation is projected at 1.7 per cent.

Underlying inflation is expected to peak in the first six months of 2007. Indirect inflationary impulses from earlier energy price increases will recede to some extent, and the moderate inflationary effects of a krone

depreciation in 2006 and into 2007 will be followed by inverse impulses from a somewhat stronger krone. Oil prices are expected to fall in dollar terms in the first six months of 2006 and are thereafter assumed to remain unchanged in nominal terms. As from 2008, electricity prices are expected to increase at a slightly faster pace than overall inflation which, combined with the oil price assumption and the assumption of inflation-adjusted indirect taxes, will result in an approximately parallel rate of increase in CPI and CPI-ATE inflation. Against this background, the projection for CPI inflation is 2.0 in 2007 and somewhat lower in the following year. A depreciation of the krone towards the very end of the projection period will push up inflation somewhat through 2009.

Continued balance-of-payments surpluses

Preliminary accounts figures for the third quarter 2005 show a current account surplus of as high as NOK 82 billion, of which the goods and services surplus represents NOK 80 billion. Owing to high oil prices, the value of oil and gas exports accounts for a rising share of goods exports, reaching a (temporary) peak of 66 per cent in the third quarter of this year. The total current account surplus for the first three quarters of 2005 stands at NOK 212 billion, i.e. an increase of 28 per cent compared with the surplus of NOK 165 billion for the same period in 2004. For 2005 as a whole, the current account surplus is estimated at close to NOK 300 billion compared with NOK 231 billion in 2004. The surplus on the goods and services balance is estimated to exceed NOK 300 billion for the first time in history.

In the third quarter of 2005, the figures for total exports and total imports reached all-time high. Export and import volumes are expected to increase in the next few years. Developments in export and import prices are likely to offset the small increase in the volume difference which implies a sustained and fairly stable trade surplus of a little more than NOK 300 billion in the years ahead. This is clearly somewhat lower than previously projected and is attributable to several adjustments of previous estimates such as lower oil prices in 2006, higher import volumes and import prices, lower export prices in 2006 and 2007 and purchases of frigates in the next few years.

The interest and transfers balance varies by many billions of NOK from one year to the next. In addition, the data collection method has been changed this year, which entails greater uncertainty as to the figures during a transitional period ahead. The deficit of NOK 10 billion in 2004 is expected to increase to more than NOK 30 billion in 2005. Higher interest expenses and share dividends paid out to non-resident shareholders are the main components behind this increase. In 2007, the deficit is estimated to fall, and will thereafter hover slightly above NOK 20 billion.

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

	Unadjusted		Seasonally adjusted						
	2003	2004	04.1	04.2	04.3	04.4	05.1	05.2	05.3
Final consumption expenditure of households and NPISHs	720 025	753 924	186 854	186 546	187 931	191 322	191 968	195 256	197 061
Household final consumption expenditure	690 353	722 765	179 079	178 866	180 134	183 405	183 860	186 869	188 603
Goods	373 918	394 044	97 975	97 308	97 883	99 753	99 475	101 516	101 917
Services	303 164	313 188	77 433	77 838	78 402	79 305	79 470	80 093	80 924
Direct purchases abroad by resident households	32 046	35 984	8 724	8 857	8 920	9 554	10 109	10 442	10 869
Direct purchases by non-residents	-18 775	-20 451	-5 052	-5 137	-5 071	-5 207	-5 194	-5 182	-5 107
Final consumption expenditure of NPISHs	29 672	31 159	7 774	7 680	7 797	7 917	8 108	8 386	8 459
Final consumption expenditure of general government	354 220	362 156	89 396	90 540	90 877	91 334	91 339	91 741	91 543
Final consumption expenditure of central government	187 102	192 592	47 815	48 185	48 230	48 363	48 679	48 650	48 524
Central government, civilian	157 116	163 012	40 375	40 765	40 877	40 996	41 849	41 912	41 884
Central government, defence	29 986	29 580	7 440	7 420	7 353	7 366	6 830	6 738	6 640
Final consumption expenditure of local government	167 118	169 564	41 582	42 355	42 647	42 972	42 660	43 090	43 018
Gross fixed capital formation	276 609	298 291	67 426	71 743	75 158	83 966	75 975	82 481	79 724
Extraction and transport via pipelines	63 597	68 568	14 878	17 019	17 388	19 284	17 471	21 202	20 088
Service activities incidental to extraction	383	840	34	100	40	667	106	65	58
Ocean transport	8 753	10 398	1 997	1 327	2 257	4 818	3 768	4 068	2 143
Mainland Norway	203 876	218 485	50 516	53 298	55 474	59 198	54 630	57 146	57 434
Mainland Norway excluding general government	156 351	170 043	39 607	41 654	43 725	45 212	44 368	45 783	46 396
Industries	98 726	105 305	24 758	25 793	27 003	27 817	26 488	27 918	28 861
Manufacturing and mining	18 230	19 562	4 593	4 746	5 116	5 110	4 555	5 149	5 269
Production of other goods	18 978	20 857	4 932	5 400	5 453	5 103	5 128	5 681	5 902
Services	61 518	64 886	15 234	15 646	16 434	17 603	16 805	17 088	17 689
Dwellings (households)	57 625	64 738	14 849	15 862	16 722	17 395	17 880	17 865	17 535
General government	47 525	48 441	10 909	11 644	11 750	13 987	10 262	11 363	11 038
Changes in stocks and statistical discrepancies	14 277	28 190	8 043	10 502	6 180	2 198	9 061	7 984	11 690
Gross capital formation	290 886	326 482	75 469	82 245	81 339	86 164	85 036	90 466	91 413
Final domestic use of goods and services	1 365 131	1 442 561	351 719	359 331	360 146	368 820	368 343	377 462	380 017
Final demand from Mainland Norway	1 278 121	1 334 564	326 766	330 384	334 281	341 855	337 937	344 142	346 038
Final demand from general government	401 745	410 597	100 305	102 184	102 626	105 321	101 600	103 103	102 581
Total exports	637 373	642 290	163 074	161 485	159 304	158 878	157 482	158 932	162 947
Traditional goods	187 109	193 477	47 462	46 549	48 694	50 849	50 225	49 248	51 848
Crude oil and natural gas	280 800	278 867	72 904	71 385	69 075	65 837	66 920	68 241	67 872
Ships and oil platforms	15 487	9 936	2 893	3 437	2 000	1 607	854	1 858	2 189
Services	153 977	160 010	39 816	40 114	39 535	40 586	39 483	39 586	41 039
Total use of goods and services	2 002 504	2 084 852	514 793	520 817	519 450	527 699	525 824	536 394	542 964
Total imports	425 758	463 798	111 845	114 394	117 181	120 373	117 501	122 546	125 958
Traditional goods	280 401	309 040	74 249	77 158	78 676	78 822	79 421	82 474	86 092
Crude oil and natural gas	1 823	1 511	193	397	590	383	544	443	424
Ships and oil platforms	10 192	11 673	2 894	2 364	2 825	3 589	1 328	1 675	954
Services	133 342	141 574	34 509	34 474	35 089	37 579	36 209	37 955	38 488
Gross domestic product	1 576 745	1 621 054	402 817	406 391	402 269	407 496	408 304	413 690	417 009
Mainland Norway (market prices)	1 257 592	1 300 778	320 377	322 318	325 363	330 457	332 031	334 852	337 628
Petroleum activities and ocean transport	319 153	320 276	82 439	84 073	76 906	77 039	76 274	78 838	79 382
Mainland Norway (basic prices)	1 108 114	1 143 100	282 208	283 612	286 484	289 968	292 631	295 294	297 816
Mainland Norway excluding general government	852 493	881 942	218 087	218 498	220 759	223 783	226 584	229 243	231 631
Manufacturing and mining	156 701	159 800	39 316	39 369	40 334	40 754	40 192	40 652	40 895
Production of other goods	120 318	124 202	31 080	30 900	30 946	31 124	32 801	33 712	33 232
Services	575 474	597 940	147 691	148 229	149 479	151 905	153 591	154 880	157 505
General government	255 621	261 158	64 121	65 114	65 725	66 185	66 047	66 051	66 185
Correction items	149 478	157 678	38 169	38 706	38 879	40 489	39 399	39 558	39 812

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2003	2004	04.1	04.2	04.3	04.4	05.1	05.2	05.3
Final consumption expenditure of households and NPISHs	2.9	4.7	2.4	-0.2	0.7	1.8	0.3	1.7	0.9
Household final consumption expenditure	3.0	4.7	2.4	-0.1	0.7	1.8	0.2	1.6	0.9
Goods	3.2	5.4	3.3	-0.7	0.6	1.9	-0.3	2.1	0.4
Services	2.1	3.3	1.0	0.5	0.7	1.2	0.2	0.8	1.0
Direct purchases abroad by resident households	8.2	12.3	5.8	1.5	0.7	7.1	5.8	3.3	4.1
Direct purchases by non-residents	1.0	8.9	4.6	1.7	-1.3	2.7	-0.3	-0.2	-1.4
Final consumption expenditure of NPISHs	1.8	5.0	3.0	-1.2	1.5	1.5	2.4	3.4	0.9
Final consumption expenditure of general government	1.3	2.2	1.3	1.3	0.4	0.5	0.0	0.4	-0.2
Final consumption expenditure of central government	0.7	2.9	2.8	0.8	0.1	0.3	0.7	-0.1	-0.3
Central government, civilian	1.3	3.8	3.4	1.0	0.3	0.3	2.1	0.2	-0.1
Central government, defence	-2.1	-1.4	-0.6	-0.3	-0.9	0.2	-7.3	-1.3	-1.5
Final consumption expenditure of local government	2.0	1.5	-0.4	1.9	0.7	0.8	-0.7	1.0	-0.2
Gross fixed capital formation	0.2	7.8	0.2	6.4	4.8	11.7	-9.5	8.6	-3.3
Extraction and transport via pipelines	16.1	7.8	-5.1	14.4	2.2	10.9	-9.4	21.4	-5.3
Service activities incidental to extraction	-91.6	119.3	-102.5	192.6	-60.1	..	-84.1	-38.4	-11.5
Ocean transport	135.5	18.8	444.2	-33.6	70.1	113.4	-21.8	8.0	-47.3
Mainland Norway	-3.7	7.2	-3.9	5.5	4.1	6.7	-7.7	4.6	0.5
Mainland Norway excluding general government	-7.2	8.8	-1.7	5.2	5.0	3.4	-1.9	3.2	1.3
Industries	-11.7	6.7	-3.7	4.2	4.7	3.0	-4.8	5.4	3.4
Manufacturing and mining	-15.8	7.3	-1.7	3.3	7.8	-0.1	-10.9	13.0	2.3
Production of other goods	2.8	9.9	4.0	9.5	1.0	-6.4	0.5	10.8	3.9
Services	-14.1	5.5	-6.5	2.7	5.0	7.1	-4.5	1.7	3.5
Dwellings (households)	2.0	12.3	1.8	6.8	5.4	4.0	2.8	-0.1	-1.9
General government	10.5	1.9	-11.3	6.7	0.9	19.0	-26.6	10.7	-2.9
Changes in stocks and statistical discrepancies	-26.6	97.5	791.8	30.6	-41.1	-64.4	312.3	-11.9	46.4
Gross capital formation	-1.4	12.2	10.7	9.0	-1.1	5.9	-1.3	6.4	1.0
Final domestic use of goods and services	1.5	5.7	3.8	2.2	0.2	2.4	-0.1	2.5	0.7
Final demand from Mainland Norway	1.4	4.4	1.1	1.1	1.2	2.3	-1.1	1.8	0.6
Final demand from general government	2.3	2.2	-0.3	1.9	0.4	2.6	-3.5	1.5	-0.5
Total exports	0.2	0.8	-0.6	-1.0	-1.4	-0.3	-0.9	0.9	2.5
Traditional goods	4.4	3.4	-1.1	-1.9	4.6	4.4	-1.2	-1.9	5.3
Crude oil and natural gas	-0.7	-0.7	4.7	-2.1	-3.2	-4.7	1.6	2.0	-0.5
Ships and oil platforms	19.5	-35.8	-53.7	18.8	-41.8	-19.7	-46.8	117.5	17.8
Services	-4.5	3.9	-0.7	0.8	-1.4	2.7	-2.7	0.3	3.7
Total use of goods and services	1.1	4.1	2.4	1.2	-0.3	1.6	-0.4	2.0	1.2
Total imports	1.1	8.9	3.6	2.3	2.4	2.7	-2.4	4.3	2.8
Traditional goods	5.1	10.2	4.2	3.9	2.0	0.2	0.8	3.8	4.4
Crude oil and natural gas	9.9	-17.1	-49.1	106.2	48.6	-35.1	42.1	-18.7	-4.1
Ships and oil platforms	-26.3	14.5	45.7	-18.3	19.5	27.0	-63.0	26.2	-43.1
Services	-3.9	6.2	0.4	-0.1	1.8	7.1	-3.6	4.8	1.4
Gross domestic product	1.1	2.8	2.0	0.9	-1.0	1.3	0.2	1.3	0.8
Mainland Norway (market prices)	1.4	3.4	1.7	0.6	0.9	1.6	0.5	0.8	0.8
Petroleum activities and ocean transport	0.0	0.4	3.0	2.0	-8.5	0.2	-1.0	3.4	0.7
Mainland Norway (basic prices)	1.3	3.2	1.5	0.5	1.0	1.2	0.9	0.9	0.9
Mainland Norway excluding general government	1.6	3.5	1.9	0.2	1.0	1.4	1.3	1.2	1.0
Manufacturing and mining	2.9	2.0	-0.9	0.1	2.4	1.0	-1.4	1.1	0.6
Production of other goods	-3.2	3.2	5.6	-0.6	0.1	0.6	5.4	2.8	-1.4
Services	2.3	3.9	1.9	0.4	0.8	1.6	1.1	0.8	1.7
General government	0.1	2.2	0.1	1.5	0.9	0.7	-0.2	0.0	0.2
Correction items	2.5	5.5	3.2	1.4	0.4	4.1	-2.7	0.4	0.6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2003	2004	04.1	04.2	04.3	04.4	05.1	05.2	05.3
Final consumption expenditure of households and NPISHs	100.0	100.9	100.4	100.9	100.9	101.7	101.1	101.6	102.8
Final consumption expenditure of general government	100.0	102.4	100.9	101.9	103.1	103.6	104.4	105.2	106.0
Gross fixed capital formation	100.0	104.1	102.0	103.2	105.0	105.6	106.1	106.7	106.5
Mainland Norway	100.0	103.9	102.2	103.3	104.8	104.8	105.6	105.4	105.4
Final domestic use of goods and services	100.0	101.8	101.3	101.6	102.8	102.1	101.7	105.1	104.9
Final demand from Mainland Norway	100.0	101.8	100.8	101.6	102.1	102.8	102.7	103.2	104.1
Total exports	100.0	113.8	107.1	109.9	116.0	122.3	124.4	128.4	135.7
Traditional goods	100.0	108.4	106.8	107.0	110.3	109.4	109.7	111.2	112.9
Total use of goods and services	100.0	105.5	103.2	104.2	106.9	108.2	108.5	112.0	114.1
Total imports	100.0	105.6	104.7	104.3	106.0	107.0	107.0	106.3	106.8
Traditional goods	100.0	104.5	104.2	103.9	105.0	104.9	105.0	104.7	104.7
Gross domestic product	100.0	105.5	102.7	104.1	107.1	108.5	108.9	113.7	116.3
Mainland Norway (market prices)	100.0	102.0	100.8	101.9	102.9	103.1	101.4	105.4	104.3

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2003	2004	04.1	04.2	04.3	04.4	05.1	05.2	05.3
Final consumption expenditure of households and NPISHs	2.8	0.9	0.3	0.4	0.0	0.9	-0.6	0.5	1.2
Final consumption expenditure of general government	3.3	2.4	0.0	1.1	1.2	0.4	0.8	0.8	0.7
Gross fixed capital formation	0.5	4.1	2.0	1.2	1.8	0.6	0.5	0.5	-0.2
Mainland Norway	0.0	3.9	2.6	1.2	1.4	0.0	0.8	-0.2	0.0
Final domestic use of goods and services	2.5	1.8	1.4	0.2	1.2	-0.7	-0.4	3.3	-0.2
Final demand from Mainland Norway	2.5	1.8	0.6	0.7	0.6	0.6	0.0	0.5	0.8
Total exports	1.8	13.8	2.7	2.7	5.5	5.4	1.8	3.2	5.7
Traditional goods	-2.3	8.4	4.9	0.2	3.0	-0.8	0.3	1.3	1.6
Total use of goods and services	2.3	5.5	1.8	1.0	2.6	1.2	0.3	3.2	1.9
Total imports	1.0	5.6	1.9	-0.3	1.6	1.0	-0.1	-0.6	0.4
Traditional goods	-0.3	4.5	1.9	-0.3	1.0	-0.1	0.2	-0.4	0.0
Gross domestic product	2.6	5.5	1.7	1.3	2.9	1.4	0.4	4.4	2.3
Mainland Norway (market prices)	2.3	2.0	0.1	1.0	1.0	0.2	-1.7	3.9	-1.0

Source: Statistics Norway.