Economic trends

The global cyclical upturn, high oil investment and record-low interest rates have provided momentum to the Norwegian economy over the past year. Between the second quarter of 2003 and the second quarter of this year, mainland GDP expanded at a rate of 3.4 per cent, calculated on the previous quarter and as an annual rate. Growth in overall demand has been even stronger, but imports have either directly or indirectly accounted for a large share of demand. Employment picked up markedly in the second quarter of this year, and with continued solid growth in the economy ahead, unemployment will fall to 3.8 per cent in 2006.

Output in Norway is projected to continue to grow at a strong pace in spite of an expected global cyclical downturn towards the end of 2005 and into 2006. The reasons are that oil investment appears to continue to grow and in particular that low after-tax interest rates will stimulate domestic demand through high growth in household consumption and housing investment. This implies a marked fall in the household saving ratio and increased financial vulnerability. Admittedly, interest rates are expected to edge up over the next year, in pace with a rise in interest rates in the euro area. However, a rise in Norwegian interest rates relative to other countries is not likely if the inflation target is to be reached within the three-year horizon that Norges Bank now applies in the conduct of monetary policy.

The low level of consumer price inflation partly reflects high productivity growth combined with more moderate wage growth, but in particular the direct negative price impulses from imports as a result of the economic integration of low-cost countries into the world economy. So far, this has had a particularly strong impact on inflation in Norway, as Norway is a very open economy, with low tariff rates and a relatively small consumer goods industry. Over time, this phenomenon is also expected to have an impact on inflation - and hence interest-rate setting - in the euro area, but this is not the case so far. Low price impulses from imports imply that an important assumption underlying the introduction of the guidelines for fiscal and monetary policy in 2001 has changed.

This situation gives rise to a dilemma for monetary policy. Norges Bank has responded by extending the horizon for reaching the inflation target to three years, while increasing the weight given to the effects of the interest rate on the real economy. But monetary policy will not be able to resolve the dilemma. With a lower inflation target, the interest rate could in effect be raised in isolation, but hardly to the extent that the real after-tax interest rate would increase considerably without any negative effects as a result of a krone appreciation. This means that either the inflationary impulses to the Norwegian economy will have to pick up and move into line with those of our main trading partners, or we have to take measures to prevent monetary policy through low interest rates from engendering imbalances in the real economy in the longer term.

The cut off date for information used in this issue was 14 September 2004.

Norwegian economy

A marked turnaround has occurred in the Norwegian economy over the past year and a half. According to seasonally adjusted, preliminary quarterly national accounts (QNA) figures, mainland GDP has on average expanded at an annual rate of 3.4 per cent since the second quarter of 2003, after shrinking by an annual rate of 2.4 per cent in the preceding two quarters. Growth in the preceding years was also below trend growth, which means that the entire period from 1998 to the first quarter of 2003 was marked by a cyclical downturn.

The economic upturn is broad-based, and has broadened to include most main GDP components, both on the supply and demand side. The recovery started with a sharp pickup in oil investment in the latter half of 2002, following a considerable fall from the peak level in 1998. In the first quarter of 2003, general government consumption gained momentum at the same time as general government investment picked up sharply. In addition, traditional goods exports showed renewed growth after contracting appreciably in the latter half of 2002. As from the second quarter

Macroeconomic indicators 2002-2004. Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	2002	2003	03.3	03.4	04.1	04.2
Demand and output						
Consumption in households and non-profit organizations	3.6	3.8	1.1	1.1	1.6	0.2
General government consumption	3.1	1.4	0.2	0.9	0.3	1.5
Gross fixed investment	-3.4	-3.7	0.0	-7.9	10.4	2.2
Mainland Norway	-2.5	-4.7	-1.0	2.6	0.1	3.9
Extraction and transport via pipelines	-3.6	15.8	2.9	-6.8	8.7	1.3
Service activities incidential to extraction	..	..	..	..	..	..
Final domestic demand from Mainland Norway[1]	2.4	1.7	0.5	1.3	1.0	1.1
Exports	0.1	1.2	-2.5	4.9	-1.3	0.2
Crude oil and natural gas	2.2	-0.2	-7.1	0.5	8.2	-1.1
Traditional goods	1.6	2.6	0.7	1.8	-1.3	-1.3
Imports	2.3	2.2	0.4	2.1	3.2	1.3
Traditional goods	3.8	4.0	0.6	1.5	4.5	3.5
Gross domestic product	1.4	0.4	1.0	0.6	1.2	1.2
Mainland Norway	1.7	0.6	1.3	0.7	0.9	0.8
Labour market						
Man-hours worked	-0.9	-1.2	0.4	0.0	0.9	-0.1
Employed persons	0.3	-0.6	0.1	0.0	-0.3	0.5
Labour force[2]	0.7	0.0	0.1	-0.1	-0.6	0.7
Unemployment rate, level[3]	3.9	4.5	4.6	4.6	4.3	4.5
Prices and wages						
Wages per standard man-year[4]	5.3	3.9	3.2	2.8	2.8	3.7
Consumer price index (CPI)[4]	1.3	2.5	1.9	1.2	-1.4	0.9
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	2.3	1.1	0.8	0.6	0.1	0.2
Export prices, traditional goods	-8.6	-1.2	0.6	1.9	4.1	-1.3
Import prices, traditional goods	-7.4	0.7	1.7	1.9	1.0	0.2
Balance of payment						
Current balance, bill. NOK	196.1	201.2	49.6	55.4	53.0	52.2
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	6.9	4.1	3.1	2.8	2.0	2.0
Lending rate, banks[5]	8.5	6.6	5.2	4.7	4.4	4.0
Crude oil price NOK[6]	197.5	204.7	209.0	203.2	221.0	242.5
Importweighted krone exchange rate, 44 countries. 1995=100	91.6	92.8	95.7	94.7	98.2	94.9
NOK per euro	7.51	8.00	8.25	8.22	8.63	8.26

[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.

of 2003, growth in household consumption exhibited a marked increase, following weak growth in the previous quarter. In the third quarter, service exports started to expand, after declining over several years. In the fourth quarter, housing investment and investment in service industries followed the same pattern, and service imports increased sharply. In the first quarter of this year, growth in traditional goods imports surged.

However, the upturn has so far had little impact on unemployment and the number of employed. Unemployment stopped rising in the second quarter of 2003, but the decline has since been moderate. This is because it has taken time for employment growth to pick up as output growth has been supported by an increase in labour productivity and the average number of person-hours worked has increased. Moreover, the improvement in employment, combined with high real wage growth, has translated into a rising supply of labour, following several years of stagnating supply. These features are common reactions to increased growth in output and employment.

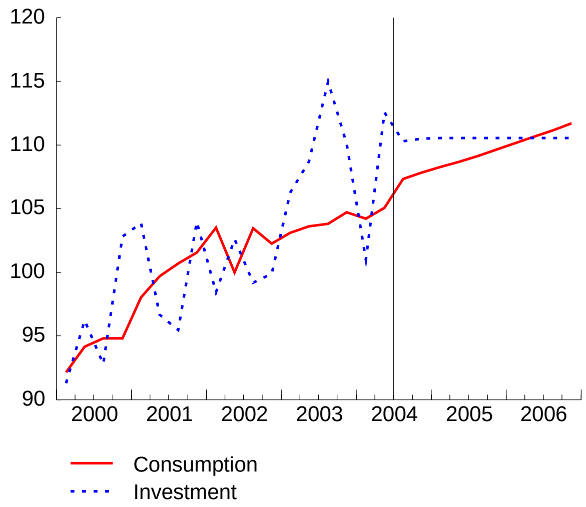
Even though oil investment, fiscal policy and the global upturn have in turn made their contribution to the turnaround, monetary policy made the most important contribution. The increase in interest rates and the interest rate differential against other countries through 2002 contributed to a slowdown in domestic demand and a sharp appreciation of the krone, with an attendant loss of market shares for Norwegian enterprises. With the pronounced decline in interest rates from the end of 2002 to the beginning of 2004, the situation was more than reversed. Money market rates in Norway are now record-low and lower than interest rates in the euro area. Over the past year, the import-weighted exchange rate has hovered around the level prevailing before the krone appreciated in 2002, while the krone exchange rate against the euro has not been at the current level since the winter of 1998-1999.

The background for the low interest rate is that high productivity growth, moderate wage growth and direct, negative price impulses from imports have pushed down inflation markedly in Norway. As measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), underlying inflation has been zero over the past year in Norway. Tax changes and energy prices pushed up total CPI inflation by 1 percentage point in the same period, however. Even though employment picked up in the second quarter of this year and is expected to improve in the period ahead, it will take time for a tighter labour market to translate into higher wage growth. With the prospect of a renewed cyclical downturn internationally, world commodity prices are unlikely to show any significant increase in the years ahead. Oil prices are assumed to fall to around USD 32.5. Low prices for finished goods from China may gradually have a stronger price impact on imports from other countries as well. On the other hand, the depreciation of the krone over the past year and a half may continue to make a positive contribution to inflation.

Against this background, inflation is projected to pick up gradually ahead and to reach the inflation target of 2.5 per cent towards the end of 2007, i.e. within the three-year horizon now applied by Norges Bank in interest-rate setting. The projection is based on the assumption that the krone remains constant at the current level of a little more than 8.30 against the euro through 2005 and 2006, and then depreciates somewhat through 2007 as inflation in Norway moves to a higher level than in the euro area. This exchange rate path is base on the assumption of a small increase in the interest rate in the euro area to 2.5 per cent through 2005, with the interest rate in Norway following suit, and then reduced by a half percentage point during the expected cyclical downturn in 2006. In an alternative calculation, we look at the effects of a more pronounced interest rate increase.

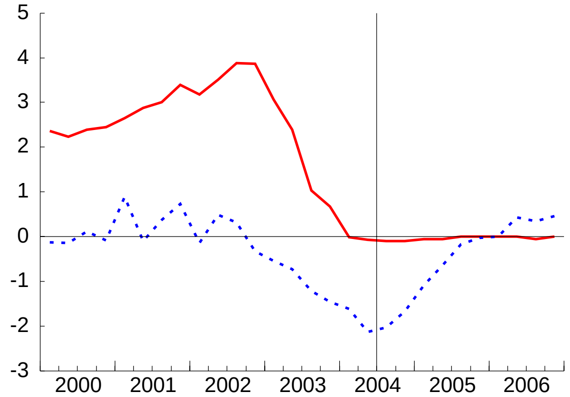
Given these projections, the general upturn in the Norwegian economy is expected to continue, but gradually lose momentum. Growth is being fuelled by high growth in oil investment, household consumption and mainland investment. In 2005, exports will also make a contribution, but the growth impulses from exports will weaken through the year and into 2006 given the assumption that a renewed global cyclical downturn will then be under way. Growth in oil investment is also projected to slow during 2006. Imports will still either directly or indirectly account for a large share of demand growth. Output growth will thus be clearly weaker than demand growth. Mainland GDP is projected to increase by 3.9 per cent

General government
Seasonally adjusted volume indices, 2001=100



Source: Statistics Norway.

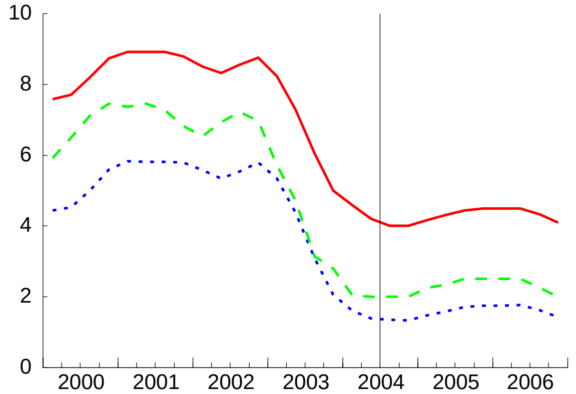
Interest rate and inflation differential between NOK and the euro
Percentage points



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

Sources: Norges Bank and Statistics Norway.

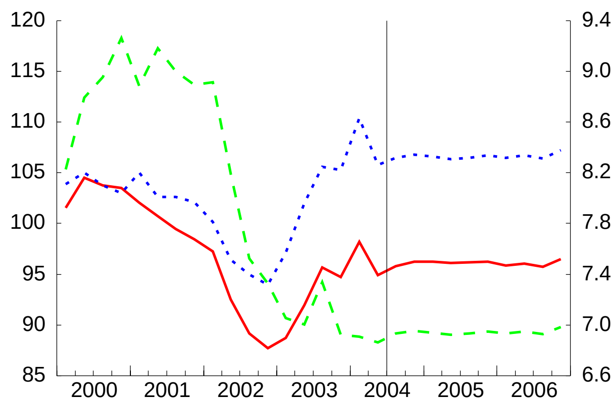
Norwegian interest rates
Per cent



Lending rate, banks
Deposit rate, banks
Money market rate

Source: Norges Bank.

Exchange rates



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

Source: Norges Bank.

in 2004, 2.9 per cent in 2005 and 2.8 per cent in 2006. By comparison, overall imports are projected to grow by 7.1 per cent in 2004, 5.1 per cent in 2005 and 5.3 per cent in 2006. For traditional goods imports, the growth rates are almost 2 percentage points higher. While the level of imports in 2004 corresponds to 40 per cent of mainland GDP growth, the increase in imports over the next two years will represent a good 70 per cent of mainland GDP growth.

Moderate fiscal impulses

Preliminary QNA figures show that general government consumption increased by about 3 per cent in the first half of 2004 compared with the same period one year earlier, while the level of investment remained virtually unchanged. Consumption growth is higher than the annual estimate for 2004 in the Revised National Budget (RNB), and also somewhat higher than projected in our previous report. Growth in general government consumption is now estimated at a good 3 per cent in 2004, while gross investment is still expected to show little change. Furthermore, the estimates imply that growth in general government purchases of goods and services is higher than growth in person-hours worked in line with that of recent years. Some of this difference in 2004 and 2005 is attributable to the introduction of maximum rates for day-care places, which implies an increase in government purchases of private services on the one hand, and a reduction in government fees charged to households on the other.

In the spring, the Government presented a white paper on the tax system, proposing a number of changes to the system for direct personal and company taxation. Some of the changes might be implemented from 2005 and 2006. However, it is difficult to predict the outcome of the Storting deliberations, as a majority compromise has still not been reached. Consequently, the assumption underlying our baseline scenario is unchanged real direct and indirect tax rates in 2005 and further ahead. In isolation, there is no room for tax relief in connection with the tax reform if the fiscal rule is adhered to in 2005. The budget deficit (structural and excluding oil) is clearly larger than implied by the fiscal rule in 2004. If our projections for the real economy prove to be fairly close to the mark, the Norwegian economy will not experience a downturn in 2005. Hence, there are no cyclical policy reasons for an expansionary contribution from fiscal policy in 2005, particularly given the persistence of monetary policy stimulus. This situation is the opposite of that prevailing at the time of the 1992 tax reform when the Norwegian economy was in deep recession, which made it easier to implement a tax reform that provided tax relief for many groups.

Given a crude oil price ahead of USD 32.5 per barrel, the fiscal rule will be satisfied as from 2008, if the Government's structural deficit estimate in RNB 2004

Norges Bank's challenge

Nominal interest rates are currently at a historically low level. This particularly applies to Norway and the US. The low nominal interest rates are especially unusual as these two countries are now experiencing a period of relatively strong economic growth. However, the real interest rate, i.e. the nominal interest rate minus inflation, is not particularly low in Norway. This is because inflation is so low. But if inflation rises from the current level of around 1 per cent to a level closer to 2.5 per cent and Norges Bank keeps its interest rates unchanged, as we have largely assumed in the baseline scenario, real interest rates in Norway will fall to a historically low level. Low real interest rates, particularly in combination with strong economic growth, may create instability in the real economy. Low real interest rates give households' an incentive to reduce their investment in financial assets and increase consumption or invest in dwellings instead. If this shift is too marked, households may be in a vulnerable position if the real interest rate, as must be expected, should rise again in the future. It should therefore be expected that Norges Bank will have to focus on real interest rates in the period ahead.

We assume nonetheless that Norges Bank will keep nominal interest rates virtually unchanged in the years ahead, in spite of any rise in inflation. Even if interest rates remain at the current level in the period ahead, inflation in our baseline scenario does not rise to 2.5 per cent until 2007. Nor is there evidence to indicate that inflation will appreciably exceed 2.5 per cent in the period following 2007. It is therefore difficult for Norges Bank to use expectations of high inflation as a reason for raising interest rates.

Given the flexibility inherent in Norges Bank's interpretation of its mandate, it is nonetheless conceivable that the Bank could raise its interest rates on the basis of a concern about financial stability. However, this is not without difficulties as long as interest rates abroad remain at the current low level. If Norway alone raises its interest rates, a substantial appreciation of the Norwegian krone must be expected as a result, which will contribute further to dampening inflation in Norway. Such an appreciation may also have negative effects on the real economy by creating a difficult situation for internationally exposed enterprises in Norway, as witnessed in 2002 and 2003.

What can contribute to easing the Bank's position? On the one hand, interest rates abroad may rise more rapidly than we envisage today. If so, Norges Bank will have more scope to change interest rates without having a corresponding impact on the exchange rate. An example showing higher interest rates in Norway and abroad is illustrated in our alternative scenario in this report. On the other hand, oil prices may fall below the level we now envisage. This will ease pressures in the Norwegian economy, and contribute to reducing instability related to low real interest rates. The third alternative is that the authorities, directly or indirectly, adopt a tighter policy that changes the real interest rate after taxes. One example of an indirect measure might be to raise property taxes. Direct measures, such as reducing or abolishing the income deduction for debt interest, are also possible. The conclusion in any case must be that if Norges Bank is to do anything about the real interest rate without risking a substantial krone appreciation, it must have help from others.

is maintained. According to our calculations, the Government Petroleum Fund will have reached about NOK 1600 billion at the end of 2007, but it should be emphasized that this estimate is highly uncertain given possible changes in oil prices, exchange rates, international equity prices, interest rates and prices.

Continued low interest rates?

In line with expectations, Norges Bank has not changed its official policy rates since the June edition of Economic Survey. However, the Bank has changed its wording with respect to the inflation target. Earlier, Norges Bank's formulation referred to expected inflation two years ahead. This formulation has now been deleted and replaced by a broader analysis where it is pointed out that the objective is now to reach the inflation target within a reasonable time horizon, but that the horizon must be seen in connection with the effects of interest-rate setting on the real economy. To quote Norges Bank's June 2004 *Inflation Report*:

«Norges Bank sets the interest rate with a view to stabilizing inflation at the target within a reasonable time horizon, normally 1-3 years. The more precise horizon will depend on disturbances to which the economy is exposed, and how they will affect the path for inflation and the real economy ahead.»

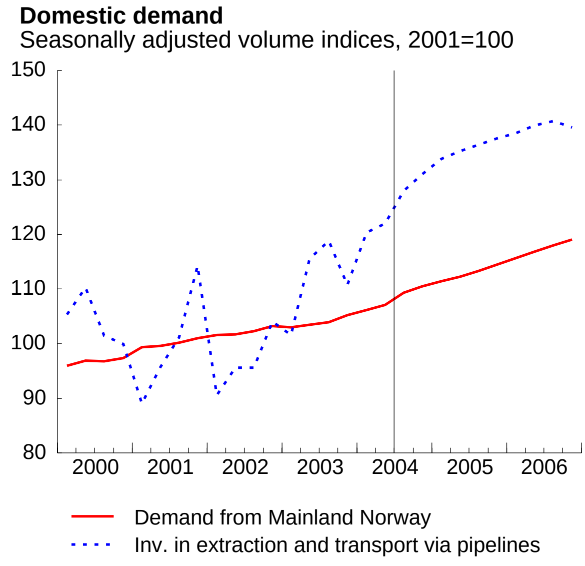
In practice, this means that Norges Bank expresses more explicitly a policy that it has already applied in its interest-rate setting. The new formulation underlines more strongly than earlier Norges Bank's flexible interpretation of the inflation target. This has contributed to clarifying the premises for monetary policy.

In the current situation, increased flexibility points to higher interest rates than would have been the case if the objective were to bring inflation up to 2.5 per cent two years ahead. Greater flexibility makes it possible for the Bank not to reduce interest rates further, even if expected inflation is low, should the Bank judge that lower interest rates might jeopardize stability in the real economy. Greater flexibility also makes it possible for Norges Bank to increase the interest rate even if inflation several years ahead is lower than the inflation target, should the Bank judge that a higher interest rate is necessary to ensure stability in the real economy.

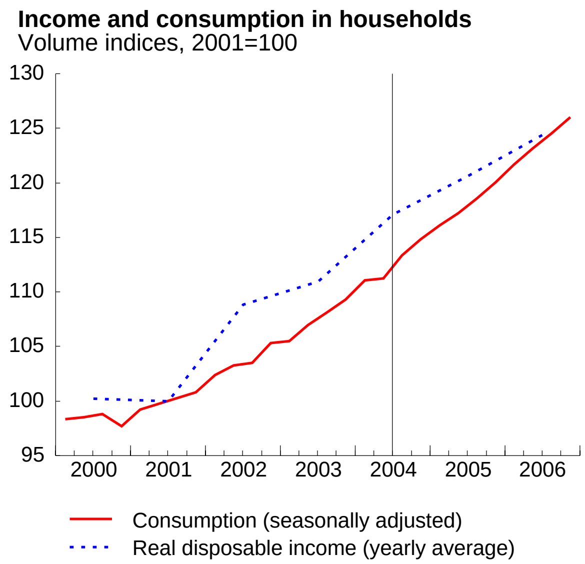
Our projections are based on the assumption that Norges Bank will keep its official policy rates at the current level. A modest increase is expected in 2005, partly owing to expectations of a corresponding interest rate increase abroad. The general picture is still low interest rates. With some increase in inflation through 2005, however, this implies falling real interest rates in Norway (see box for further discussion).

Uncertainty surrounding the krone exchange rate

The krone has fluctuated between 8.20 and 8.50 against the euro over the past six months. Within this interval, the krone is influenced by a number of factors. Both oil prices and interest rate expectations – as



Source: Statistics Norway.



Source: Statistics Norway.

to the latter not least expectations of how closely Norges Bank will follow the European Central Bank's interest-rate setting – seem to have an impact on the krone.

There is reason to believe that the krone exchange rate against the euro is closely linked to expectations concerning Norges Bank's interest-rate setting ahead. Market expectations, as reflected in forward interest rates, imply that interest rates in Norway will move up to a higher level than in the euro area in the course of one to two years. We have already seen (in 2002) that the exchange rate may appreciate very rapidly if interest rates are expected to be higher in Norway than in the euro area. The krone exchange rate may also depreciate very rapidly (as was the case in the beginning of 2004) if the market expects Norges Bank to set interest rates at a lower level than that of the European Central Bank. Under a normalisation of the interest rate differential, the exchange rate seems to tend towards around 8.30. This is close to the exchange rate band that was applied in the conduct of monetary policy in Norway in the period 1994 to 2001.

It is difficult to determine the equilibrium exchange rate based on historical experience. Such estimates tend to approach pure speculation. However, movements in the Norwegian krone against the euro over the past two years, from 7.30 to 8.90, may indicate that market perceptions of the exchange rate are highly sensitive to changes in interest rate expectations. In practice, this means that relatively small changes in the interest rate differential against other countries may have a considerable impact on the exchange rate. It can obviously be argued that this provides Norges Bank with a strong weapon. Traditionally, a change in the exchange rate has fed through to the Norwegian economy more rapidly than an interest rate change. But the exchange rate is an «unreliable» variable to play on. It is difficult to control the magnitude of the impact, and it is difficult to determine whether it is possible to stabilise the exchange rate at a given level.

In our analysis, the interest rate differential and the relative price level drive the exchange rate. The latter is reflected in an assumption of purchasing power parity. Purchasing power parity implies that the equilibrium exchange rate is determined over time by the relative price level. Our estimated exchange rate thus provides an indication of the direction in which equilibrium exchange rate is moving. For the period up to 2007, there is no indication of any significant changes, given the interest rate path and the inflation expectations presented in this report. We expect only small changes in relation to the current level. However, in line with other observers, we hardly have a clear picture of the short-term dynamic in the exchange rate.

Oil investment increases – again

According to seasonally adjusted, preliminary QNA figures, investment in extraction and pipeline transport increased by close to 3 per cent between the first and second quarter of this year, to about NOK 17.5 billion (at constant 2001 prices). This is the highest investment level recorded in single quarter since 1999, and implies that the rising trend prevailing since the beginning of the millennium is continuing. Investment in the second quarter was somewhat higher than anticipated in the June report, and primarily reflects higher investment in on-shore installations.

Seasonally adjusted, preliminary QNA figures show that oil and gas production – in spite of a short-lived strike – rose by close to 2 per cent between the first and second quarter of this year. There is a general perception that the production loss was offset after the strike so that the strike only had marginal effect on production. As a result, production has shown a positive tendency over the past four quarters, after declining in the first half of 2003. In the period to the end of this year, the production level for both oil and gas is assumed to remain virtually unchanged in relation to the second quarter of this year. Oil production is expected to show a moderate rise in 2005, and to fall somewhat in 2006. Gas production is expected to expand sharply through 2005 and 2006. These estimates are broadly in line with the estimates in the Revised National Budget for 2004.

Since late winter 2003, when the price of Brent Blend was as low as USD 23 per barrel, the price has fluctuated around a rising trend, peaking at about the double on 20 August of this year. In recent weeks, prices have been a little higher than USD 40. Oil futures prices are also high, including long-term futures prices. Our projections are based on the assumption of a decline in oil prices to USD 32.5 during the first quarter of 2005, and a steady level thereafter. This implies an average oil price of over USD 35 in 2004. Given our exchange rate assumptions, this implies an oil price in NOK of close to 250 per barrel in 2004, and about NOK 225 in 2005 and 2006.

We have chosen to apply oil investment estimates that are somewhat higher than in Statistic Norway's investment intentions survey (which is based on oil companies' reported investment plans). One reason for this is that oil companies seem to have a positive attitude towards the new exploration licenses that were awarded in the 18th licensing round in May of this year. As a result, exploration activity is expected to increase during the projection period. Another factor is linked to the oil price: When oil companies assess the profitability of investment projects, the oil and gas price applied in cost estimations is fundamental. With today's high oil prices, and not least expectation of persistently high oil prices, companies have most likely increased the price in their cost estimations so that more projects become profitable. Within a time horizon of 2-3 years, it is reasonable to assume that investment will primarily be increased in connection with exploration and haul production. The latter may also fairly rapidly result in an increase in production. A higher price in cost estimations will also prompt companies to accelerate the implementation of ongoing projects.

Investment in 2004 is expected to be close to 12 per cent higher than in 2003. This is higher than projected in our previous report, primarily reflecting the upward adjustment in the survey. Among other things, we assume a larger share of the investments in connection with Ormen Lange to be made this year. For 2005, investment is projected to increase by a further 7 per cent, with the main growth contributions coming from investment in fields in operation, pipelines and exploration. Investment in on-shore installations is expected to show a marked decline, partly owing to the near completion of the Snøhvit project. In 2006, investment is estimated to increase by 4 per cent, with investment in fields in operation and exploration making a positive contribution to growth.

Strong growth in consumption ahead

Seasonally adjusted QNA figures show that consumption for households and non-profit institutions grew by a modest 0.2 per cent between the first and second quarter of this year, measured at constant prices. The strong growth in household consumption, which has prevailed since the end of 2002, thus seems to have come to a halt. However, developments between the first and second quarter of this year can to some extent be explained by the transport strike in the spring and the introduction of maximum rates for day-care. The strike's contribution to weak consumption growth is supported by development in goods consumption, which grew by a mere 0.4 per cent in the second quarter of this year. A clear decline in food consumption was the main factor behind sluggish growth in goods Consumption. Increased government transfers and lower parental day-care fees are looked upon in the national accounts as an increase in personal consumption (volume and value) in the local government sector and a corresponding reduction in household consumption.

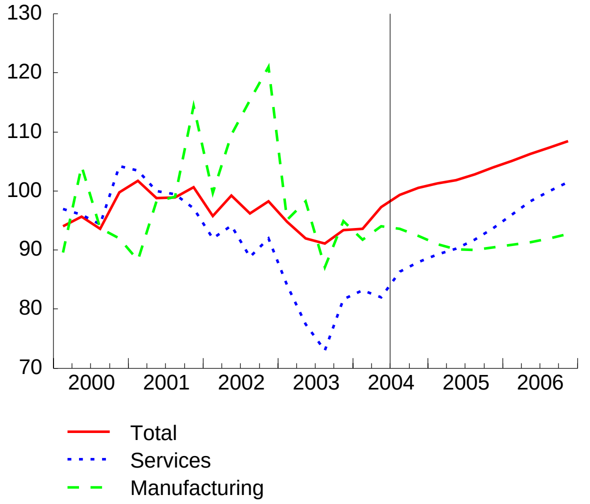
Growth in household real disposable income is estimated at as a high as 5.5 per cent this year, compared with about 2 per cent in 2003. Our projection is base on wage growth on a par with last year, combined with some increase in employment. This implies stronger growth in wage income in 2004 than in 2003, when employment declined. The assumed rise in net capital income will push up household income. As households are in a net debt position, excluding insurance claims and claims other than bank deposits, the interest rate cuts will reduce income from bank deposits to a lesser extent than debt expenses, which implies an increase in net capital income. A tax-motivated increase in dividend payments may amplify the increase in capital income. Consumer price inflation is expected to be very low this year, which also pushes up growth in household real disposable income. Growth in household real disposable income is projected at around 3 per cent in both 2005 and 2006. Real income growth is reduced in relation to 2004, partly as a result of higher interest rates, reduced dividends, lower growth in government transfers and higher consumer price inflation.

Growth in consumption for households and non-profit institutions, measured at constant prices, is projected at about 5 per cent in 2004, 2005 and 2006. With real disposable income estimated to grow at the same rate in 2004, the saving ratio of 7.8 per cent in 2003 will remain virtually unchanged this year. The strong rate

Residential market
Left axis adj. indices, 2001=100, right axis per cent

Source: Statistics Norway.

Investment, Mainland Norway
Seasonally adjusted volume indices, 2001=100



Source: Statistics Norway.

of growth in consumption in the years ahead can largely be explained by developments in the real after-tax interest rate. Even though the nominal interest rate level is assumed to be somewhat higher ahead, the real after-tax interest rate will show a clear fall through 2005 and 2006 as a result of higher consumer price inflation. A decline in real interest rates imply in isolation that consumption will be relatively cheaper in the current period than in the next period, inducing households to increase consumption in the current period at the expense of consumption in subsequent periods. Given these estimates, the saving ratio may fall to almost 6 per cent in 2005 and reach a little more than 4 per cent in 2006. The fall in the saving ratio, in conjunction with brisk growth in housing investment, will be reflected in a marked decline in household net lending from a good NOK 32 billion in 2003 to around NOK 5 billion in 2006.

Sharp growth in housing investment

After declining over several years, housing investment picked up in the fourth quarter of last year, and now seems to be expanding sharply. According to seasonally adjusted figures, housing starts were 12.3 per cent higher in June than in May this year, and 40 per cent higher in the second quarter of this year than in the fourth quarter of last year. Seasonally adjusted QNA figures show that housing investment, measured at constant prices, rose by as much as 7.1 per cent between the first and second quarter of this year. The prospect of high income growth, low real after-tax interest rates, falling unemployment and a clear increase in real prices for resale homes are the main factors behind developments in the housing market and are likely to sustain the current trend. Annual growth in housing investment is now projected at as high as 12 per cent in 2004. Annual growth in housing investment is projected at around 6 per cent in 2005 and 4 per cent in 2006. Resale home prices are also projected to increase by about 5 per cent in 2005 and 3 per cent in 2006, i.e. a sustained clear rise in real prices.

Renewed upswing in mainland business investment

Mainland gross business investment fell by 10 per cent between 2002 and 2003, with investment in manufacturing and service industries (excl. household services) showing the sharpest decline. Preliminary QNA figures show that the decline in mainland business investment may have come to a halt towards the end of 2003, expanding moderately thereafter. The moderate upswing is expected to continue through autumn 2004 and further ahead. On an annual basis, mainland business investment is projected to increase by about 5 per cent in 2004.

Statistics Norway's investment intentions survey for manufacturing and electricity production show that enterprises in these industries intend to increase their investments somewhat in 2004. Manufacturing investment is expected to show a small increase, while investment in electricity production is expected to show a pronounced increase. In the latter industry, investment also shows brisk growth after 2004 if plans to build gas power plants are realized. Nevertheless, investments in electricity production are assumed to remain unchanged from 2005, following growth of a good 5 per cent in 2004. Manufacturing expects a moderate decline in investment in 2005, but favourable cyclical and profitability developments may induce manufacturing enterprises to adjust their investment plans upwards for 2005 and particularly for 2006 in line with a more normal cyclical pattern. There are signs of an upswing in investment in service industries, although the increase is moderate. Non-residential vacancy rates remain high and building activity is not expected to show any significant increase in the

Main economic indicators 2003-2006. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts 2003	Forecasts 2004			Forecasts 2005			Forecasts 2006	
		SN	MoF	NB	SN	MoF	NB	SN	NB
Demand and output									
Consumption in househ. and non-profit organizations	3.8	5.0	4.5	5 1/4	4.7	3.7	4	5.1	2 3/4
General government consumption	1.4	3.1	1.8	2	1.7	1.3	1 1/2	1.8	1 1/2
Gross fixed investment	-3.7	8.4	4.9	..	4.7	5.0	..	4.4	..
Extraction and transport via pipelines[1]	15.8	12.2	11.0	10	6.8	7.1	5	4.0	5
Mainland Norway	-4.7	5.7	3.6	3 3/4	3.5	4.1	4	4.5	4
Firms	-10.1	5.0	3.5	..	3.3	5.1	..	6.6	..
Housing	-5.2	12.2	4.0	..	6.5	5.5	..	4.3	..
General government	10.1	-0.1	3.5	..	0.3	0.1	..	0.0	..
Demand from Mainland Norway[2]	1.7	4.6	3.7	4 1/4	3.7	3.3	3 1/4	4.1	2 3/4
Stockbuilding[3]	-0.3	0.4	..	..	0.0		..	0.0	..
Exports	1.2	1.5	1.6	..	3.5	3.0	..	2.2	..
Crude oil and natural gas	-0.2	1.3	-0.4	..	3.3	2.1	..	1.8	..
Traditional goods	2.6	3.1	4.8	5 1/4	4.8	5.6	3 1/2	1.4	3
Imports	2.2	7.1	4.7	7 1/2	5.1	4.2	3 3/4	5.3	2 1/2
Traditional goods	4.0	8.8	5.2	..	6.9	4.1	..	6.1	..
Gross domestic product	0.4	3.3	2.4	2 3/4	3.3	2.9	3	2.8	2 3/4
Mainland Norway	0.6	3.9	3.2	3 1/2	2.9	3.1	3	2.8	2 1/2
Labour market									
Employed persons	-0.6	0.3	0.2	1/2	0.7	0.8	1 1/4	1.0	3/4
Unemployment rate (level)	4.5	4.3	4.3	4 1/4	4	4.1	4	3.8	4
Prices and wages									
Wages per standard man-year	3.9	3.8	3 3/4	3 3/4	3.7	4.0	4 1/2	4.2	4 3/4
Consumer price index (CPI)	2.5	0.4	1/2	1/2	1.1	2.0	1 3/4	1.6	2
CPI adjusted for tax changes and excluding energy products (CPI-ATE)	1.1	0.2	3/4	1/2	1.3	2 1/4	1 1/2	2.0	2
Export prices, traditional goods	-1.2	6.8	..	..	1.1	..	..	-1.8	..
Import prices, traditional goods	0.7	3.9	1.9	..	0.4	..	..	-0.7	..
Housing prices[4]	1.6	9.0	..	..	5.5	..	..	3.4	..
Balance of payment									
Current balance (bill. NOK)	201.2	249.2	181.1	..	253.3	165.4	..	241.5	..
Current balance (per cent of GDP)	12.9	14.7	..	..	14.3		..	13.1	..
Memorandum items:									
Household savings ratio (level)	7.8	7.7	6.3	..	6.2	5.7	..	4.4	..
Money market rate (level)	4.1	2.0	2.1	2 1/4	2.4	3.4	3	2.3	4 1/4
Lending rate, banks (level)[5]	6.6	4.2	..	..	4.4	..	..	4.4	..
Crude oil price NOK (level)[6]	205	246	200	..	225	183	..	226	..
Export markets indicator	3.9	4.8	..	..	5.1	..	..	2.8	..
Importweighted krone exchange rate (44 countries)[7]	1.3	3.8	..	2 3/4	-0.1	..	-3/4	-0.1	- 1/4

[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Freeholder.
[5] Households' borrowing rate in private financial institutions. Yearly average.
[6] Average spot price, Brent Blend.
[7] Increasing index implies depreciation.
Sources: Statistics Norway (SN), Ministry of Finance, St.meld. nr.2 (2003-2004), (MoF), Norges Bank, forecasts based on forward interest and exchange rates, Inflasjons-rapport 2/2004 (NB).

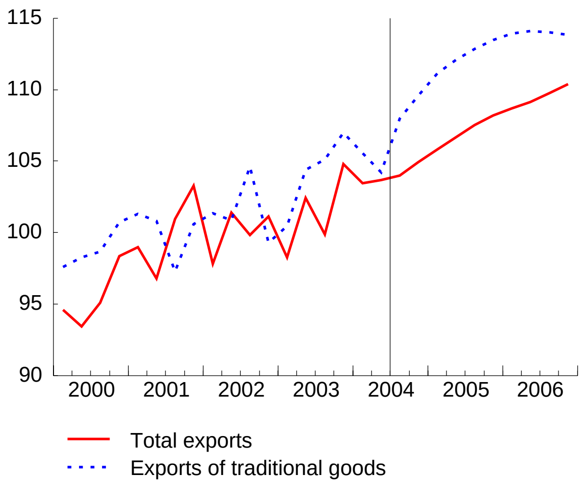
years ahead. On the other hand, investment in machinery in service industries is rising.

The low interest rate level (both nominal and real), which is assumed to prevail ahead, will most probably stimulate business investment even though it has been difficult to establish a clear correlation between the interest rate level and business investment, unlike the relationship that exists between household consumption and housing investment. Increased activity in the Norwegian economy will nevertheless contribute to an increase in mainland business investment, which will typically occur with a lag in relation to growth in household demand. Our projections imply that mainland business investment will expand by 3 per cent in 2005, but at a somewhat faster pace in 2006. Investment in retail trade is expected to show particularly strong growth.

Export growth will gradually slow

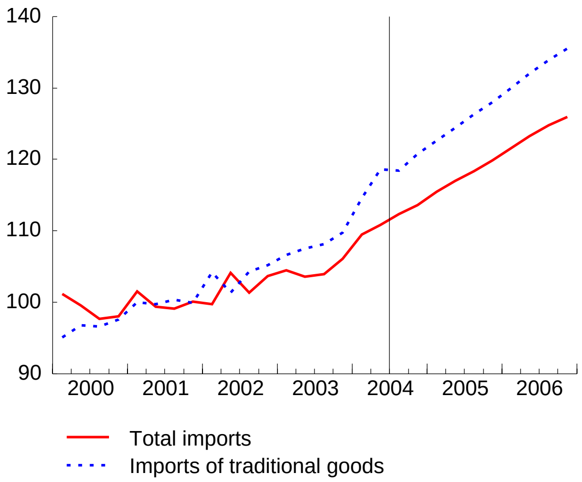
Following a sluggish trend in 2001 and 2002, the volume of traditional merchandise exports – according to

Exports
Seasonally adjusted volume indices, 2001=100



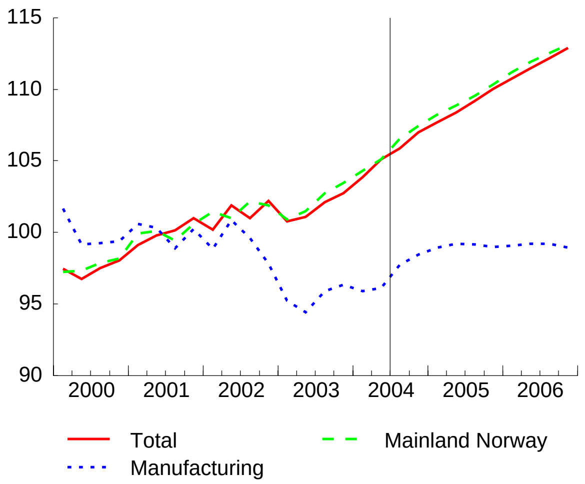
Source: Statistics Norway.

Imports
Seasonally adjusted volume indices, 2001=100



Source: Statistics Norway.

Gross domestic product
Seasonally adjusted volume indices, 2001=100



Source: Statistics Norway.

seasonally adjusted, preliminary QNA figures – showed clear growth through 2003 and then slowed during the first and second quarter of this year. The decline may, however, be ascribable to a reduction in exports of refined oil products over these two quarters, primarily as a result of extraordinary refinery maintenance. Excluding refined products, traditional merchandise exports expanded by an average 1 per cent during these two quarters. For the past five quarters as a whole, exports of this group of goods grew by 4.3 per cent on an annual basis. This is in line with projected growth in exports markets for these goods.

However, developments have varied widely across the different main groups of goods. Metal exports showed the strongest growth rate (annual rate of 9.7 per cent), followed by intermediate and investment goods (6.6 per cent), paper and pulp (6.1 per cent) and chemicals (4.0 per cent). Exports of engineering products showed weak growth (2.4 per cent), and consumer goods a straight contraction (-6.3 per cent annualised). Strong growth in exports of cyclically sensitive commodities reflects the impetus from the current global cyclical upturn and to some extent increased capacity (metals). A weaker trend for more processed goods is ascribable to the continued weak competitive position of labour-intensive Norwegian enterprises – in spite of a marked depreciation of the krone over the past year and a half – as a result of many years of high cost growth since the mid-1990s.

The difference in the competitive situation across industries is reflected in price developments. The krone was strongest in the fourth quarter of 2002, and prices for traditional export goods in NOK reach a trough in the following quarter, according to seasonally adjusted QNA figures. From the first quarter of 2003 to the second quarter of 2004, the krone depreciated by 7.8 per cent, as measured by the trade-weighted exchange rate index. In the same period, the price index for traditional goods exports increased by 7.6 per cent, but the differences across groups of goods are considerable. For important groups of goods such as metals, the rise in prices during the period was as high as 20.2 per cent, while the price increase for engineering products was only 2.6 per cent.

We assume that the global cyclical upturn will move into a downturn in the course of 2005, followed by renewed upturn in 2007. This scenario implies that growth in our export markets will remain strong up to autumn next year, compared with growth in the preceding year, and will then fall to around zero in early 2007. On an annual basis, market growth is estimated at 4.8 per cent in 2004, 5.1 per cent in 2005 and 2.8 per cent in 2006. Excluding refined oil products, export growth is projected at 4.4 per cent in 2004, 3.7 per cent in 2005 and 1.3 per cent in 2006. Even though export growth in all three years is lower than market growth, Norwegian enterprises will not necessarily lose market shares, as a result of weak competitiveness, at the same pace in the years ahead. The decline in the growth rate (compared with the previous year) in 2006 primarily reflects the cyclically sensitive commodities. For many of the more labour-intensive manufactured goods, the loss of market shares is expected to subside gradually.

Very high import growth

After moderating somewhat in the first quarters of 2003, strong growth in overall imports resumed from the fourth quarter of last year. In the three preceding quarters, total imports expanded by an annual rate of 9 per cent, according to seasonally adjusted, preliminary QNA figures. In comparison, total use and total domestic use of goods and services grew by 5.2 per cent, while mainland GDP grew by 3.2 per cent. Imports of crude oil, ships, platforms, aircraft and services made the largest contribution to the slowdown in growth in 2003, while traditional goods imports continued to grow at a sustained pace. For this group of goods, growth gained even further momentum in the fourth quarter of last year. In the past three quarters, traditional goods imports have expanded by an annual rate of as high as 13.1 per cent, and by 13.5 per cent when excluding refined oil products.

The strong growth rate for traditional goods imports can be explained by household demand for products with a high import content, which accounts for the largest share of the increase in demand in this sector. Car imports increased at an annual rate of 19.8 per cent, while textiles, clothing and footwear rose by 14 per cent. High demand for consumer goods that are only to a limited extent produced in Norway (white and brown goods, consumer electronics, etc.), combined with increased mainland business investment, explains a share of the strong import growth of 14 per cent for engineering products, which is the predominant goods component on the import side. For the sub-component office and computer equipment, the growth rate was as high as 30 per cent. Finally, brisk growth in metal production contributed to a 15.6 per cent increase in imports of raw materials to the metal industry.

Even though the composition of demand probably explains a large share of import growth, it is also likely that a loss of market shares at detailed level is fuelling import growth. This applies in particular to engineering products, where price for Norwegian products seem to be rising at a considerably faster pace than import prices, at the same time as the import share is increasing at a fast rate. The increase in the import share for tech products appears to be considerably more moderate, even though for these goods as well prices for Norwegian products have risen markedly relative to imported goods.

Imports are expected to continue growing at a brisk pace in the years ahead, albeit at a somewhat slower pace. Growth in traditional merchandise imports is projected at 8.8 per cent in 2004, 6.9 per cent in 2005 and 6.1 per cent in 2006. In 2005 and 2006, growth will be restrained by some goods components in particular, however. These includes electricity import in 2005, as a result of a more normal level of electricity production in Norway, an expected markedly slower rate of growth in car imports in 2005 and 2006 and considerably lower growth in imports of raw materials to the metal industry as a result of the expected international cyclical downturn. These three goods components push down the rate of growth in traditional imports by a half percentage point in both 2005 and 2006.

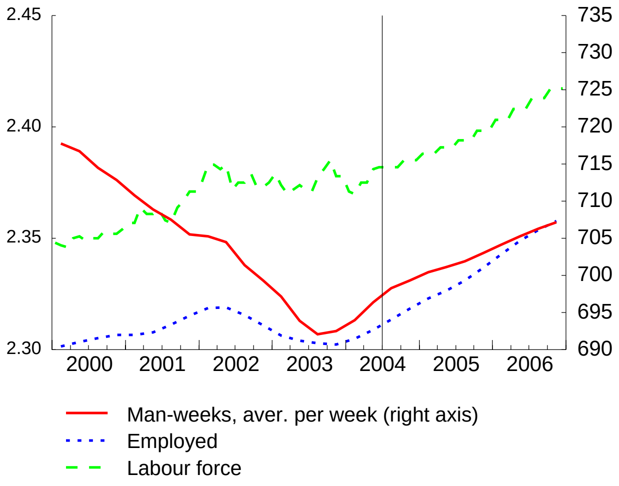
Production upswing continues

According to seasonally adjusted, preliminary QNA figures, mainland GDP expanded by an annualized 3.4 per cent in the first six months of this year. The clear upswing in production since the cyclical trough in the second quarter of last year thus seems to have continued through the first and second quarter of this year, with growth rates well above what is considered as trend growth for the Norwegian economy. Strong growth in the extraction of crude oil and natural gas contributed to growth in total GDP of 4.8 per cent, annualized, in the first six months of the year.

Output growth over the past year has also been particularly strong in the construction industry, retail trade and private services. Production in the general government sector moved on a very weak trend last year, and was also weaker than growth for private mainland industries through the first six months of this year. Manufacturing output remained unchanged when adjusted for normal seasonal variations. Partly because of composition and partly owing to weak competitiveness, a large share of demand growth in Norway is channeled towards import goods. Norwegian manufacturing enterprises are still losing market shares at home and abroad.

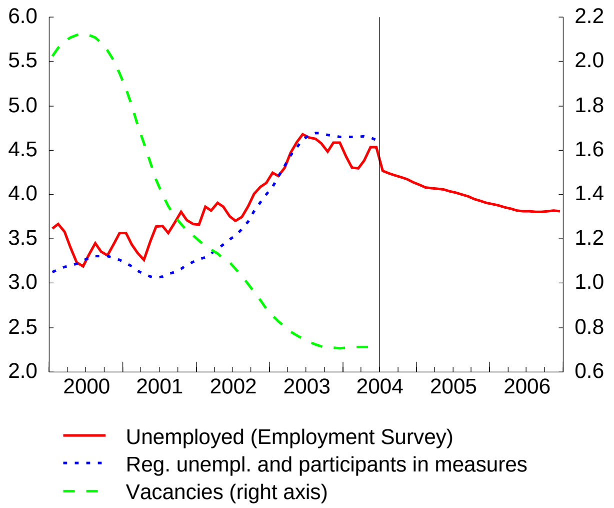
In recent months, however, manufacturing output seems to be picking up. Seasonally adjusted manufacturing production increased by 1 per cent in July on the level recorded in the second quarter. Moderate nominal wage growth and a weakening of the krone exchange rate ahead could improve profitability somewhat for many manufacturing enterprises, and in conjunction with continued high oil investment, manufacturing production is expected to show satisfactory growth next year. Expectations of weaker growth in the world economy in 2006 will, however, lead to a renewed slowdown in growth in manufacturing production in the same year.

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



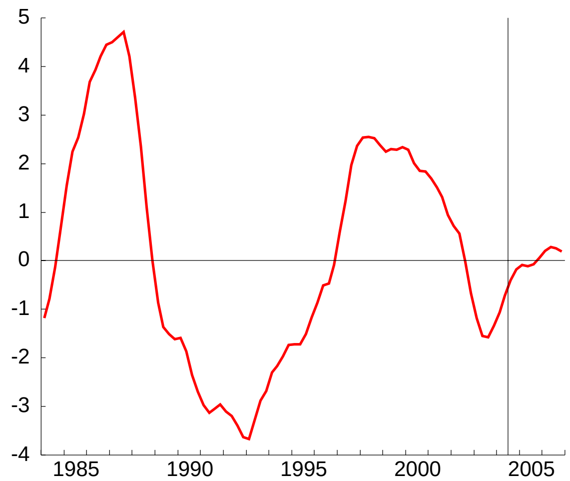
Source: Statistics Norway.

Unemployed and number of vacancies
Per cent of labour force. Seasonally adj. and smoothed



Sources: The Directorate of Labour and Statistics Norway.

Output gap, Mainland Norway
Deviation from trend, per cent



Source: Statistics Norway.

Owing to high growth in household demand, GDP growth is likely to be higher than trend growth in the years ahead. Imports account for a large share of the increase in household consumption, but a continued upswing in housing investment and strong growth in oil investment and mainland business investment are the main factors behind our mainland GDP growth projections of 3.9 per cent in 2004, 2.9 per cent in 2005 and 2.8 per cent in 2006. The high growth rate for this year partly reflects an increase of three days in the number of working days between 2003 and 2004. According to our projections, the Norwegian economy will move out of a contractionary phase and into a renewed expansionary phase in the course of 2005.

Employment finally increases

Seasonally adjusted national accounts figures show that employment rose by 0.5 per cent between the first and second quarter of this year, implying an increase of 10 000 persons. With the exception of a small rise in employment in the third quarter last year, seasonally adjusted employment declined in each quarter from the first quarter of 2002 to the first quarter of 2004. QNA figures thus indicate a turnaround in the labour market in the second quarter of this year – around one year after the cyclical trough, as measured by mainland GDP, was reached.

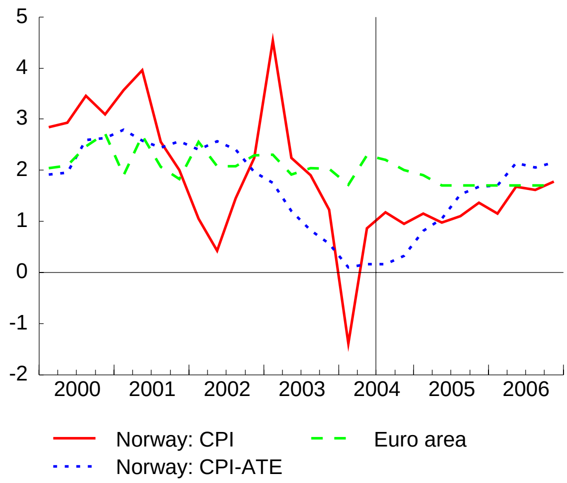
Relatively weak employment developments in the early phase of the cyclical upturn indicate that enterprises had idle capacity following the period of weak output growth. Productivity growth has thus been high over the past year. The increase in employment in the second quarter shows that enterprises now have less idle internal resources, and productivity growth has thus been considerably lower in the second quarter of this year compared with the preceding quarters.

Both the number of registered unemployed (Directorate of Labour) and LFS unemployment (Statistic Norway's Labour Force Survey) have edged down so far this year, but the decline has been modest. Seasonally adjusted, the number of registered unemployed declined by 5000 from the end of last year to the end of August this year, while the decline in LFS unemployment was only 1000 from the fourth quarter of last year to the second quarter of this year. According to LFS figures, the unemployment rate stood at 4.5 per cent in the second quarter of this year, down from 4.6 per cent in the second quarter of last year.

A weak labour market discourages many unemployed from actively seeking jobs. Among other things to avoid the discomfort of having their job applications rejected, many unemployed choose to be only passive job seekers. The LFS for the third quarter of 2003 showed that 119 000 persons wanted a job, but had not actively sought employment. As a result, they were excluded from the labour force. In the same quarter, 112 000 unemployed and 120 000 part-time unemployed wanted longer working hours. Moreover, many potential job seekers will choose to pursue other activities, which implies that they will no longer be included in the labour force. Some unemployed who are not eligible for unemployment benefits also choose not to be registered with Directorate of Labour. Consequently, there are many unemployed who are not included in the unemployment statistics from the Directorate of Labour and the LFS. When the labour market is improving, a rising number of unemployed again become more active job seekers. As a result of hidden unemployment, neither registered unemployment nor LFS unemployment falls at the same pace as employment growth.

Employment growth is projected to continue to rise in the projection period, at a rate of 0.3 per cent from 2003 to 2004 to 0.7 per cent in 2005 and 1.0 per cent in 2006. Unemployment is projected to show a moderate decline from 4.5 per cent last year to an average 4.3 per cent this year. A further fall is then expected, with LFS unemployment at an average 4.0 per cent in 2005 and 3.8 per cent in 2006. The improvement in the labour market and high real wage growth imply that the labour supply will increase more than population growth would imply in isolation. As a result of changes in the population's age composition, the average labour force participation rate will nevertheless decline throughout the projection period.

Consumer price indices
Percentage growth from the same quarter previous year



Sources: Statistics Norway and Norges Bank.

Moderate wage growth in the cyclical upturn

Wage agreements in Norway are normally revised in the main negotiations every other year, most recently this spring. The negotiations were formally carried out at industry level, although the central organizations, both for employees and employers, were also involved in the process as usual. There was broad consensus across all groups on the limits for wage increases, and the social partners in virtually all sectors expect average annual wage growth, as defined by the Technical Reporting Committee on income settlements, of about 3.5 per cent in 2004.

We use another wage concept, i.e. wages per standard person-year, which also includes overtime. Growth in wages per standard person-year in 2004 is expected to be about 3.8 per cent. The use of overtime in manufacturing, the construction industry, retail trade and other service industries showed a marked decline in 2003. For the economy as a whole, the decrease in the use of overtime contributed to reducing average annual wage growth per standard person-year by about 0.4 percentage point. In our wage estimates, we have assumed that the use of overtime will rise to a more normal level this year.

Wage growth from 2003 to 2004 will nonetheless be relatively moderate, partly due to the problems in the Norwegian business sector from autumn 2002 and through 2003, in particular a sharp decline in manufacturing output. Interest rates were kept high until Norges Bank in December 2002 saw the need for lower interest rates in Norway. Interest rates in Norway were therefore reduced one to two years later than in other countries. The Norwegian krone appreciated as a result of the interest rate differential, which widened by 15 per cent through 2002, resulting in a rapid and sharp deterioration in manufacturing competitiveness. The krone is again somewhat weaker now, although it has not fallen as low as the level in 2001. Manufacturing profitability must still be considered weak, also partly due to high wage levels and strong competition in the international product markets. Historical experience of wage formation in Norway implies that continued weak competitiveness and relatively high unemployment in recent months will generate weak impulses to wage growth for several years ahead.

In other words, it takes time for the turnaround in the economy to have a pronounced effect on wage growth. The possibility of stabilizing the economy and wage growth at the same time is therefore limited. To stabilize consumer price inflation, Norges Bank is thus dependent on controlling import price inflation via the effect of the interest rate on the exchange rate. This also has an impact on competitiveness, however, which then affects wage growth with a considerable lag. Thus, wage growth will often be low in the initial phase of an upturn and high in the initial phase of a downturn.

In keeping with this, nominal wage growth in the current phase of the upturn is expected to be relatively moderate. Due to low consumer price inflation, however, real wage growth will nonetheless be high. Even though the Norwegian economy is expected to enter a period of strong expansion in 2005, nominal wage growth will probably also be relatively moderate in 2005 and 2006. Growth in wages per standard person-year is estimated at 3.8 per cent in 2005 and 4.2 per cent in 2006. With gradually increasing consumer price inflation in the years ahead, real wage growth will then decline somewhat, but remain around 2 per cent in 2006, according to our estimates.

Stable, low inflation

Moderate wage growth, relatively high productivity gains, moderate capacity utilization and the marked fall in import prices through 2001 and 2002 have contributed to low inflation in Norway over the past two years. Underlying inflation, measured by the year-on-year rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 0.1 per cent in August, after hovering around the interval -0.1 to 0.3 in the seven preceding months. The very high electricity prices in winter 2002/2003 have dominated the year-on-year rise in the consumer price index (CPI) for some time: From 5.0 per cent in January 2003, the rise in prices reached a record low of -1.8 per cent in January 2004, gradually rising to 1.5 per cent in July. Over the past year, electricity prices have generally developed more normally and are now generating more modest impulses to overall inflation. A strong – and atypical – rise in electricity prices from July to August 2003, however, contributed to a decline in the year-on-year rise in the CPI in August 2004 to 1.0 per cent.

A strong Norwegian krone, low global price inflation and changes in trading patterns with increased imports from low-cost countries, combined with weak developments in profit margins in retail trade, led to negative price inflation for imported consumer goods over the past two to three years. Price inflation for these goods troughed in June 2003 at -4.5 per cent compared with the same month one year earlier. With a weight in the CPI of a good 25 per cent, this resulted in a negative contribution to the CPI of 1.2 per cent. In line with a partial reversal of the krone appreciation through 2003, the negative price impulse was then reduced. In august 2004, the year-on-year rise in prices was -1.9 per cent, contributing about -0.5 percentage point to CPI inflation, i.e. a difference in the contribution to CPI inflation between these two periods of 0.7 percentage point.

Developments in prices for domestically produced agricultural and fisheries products and house rents have to a large extent neutralized the impulses from imported consumer goods: Consumer prices for agricultural products showed a year-on-year rise of 4.5 per cent in June 2003 and have thereafter gradually decreased to 1.8 per cent in July 2004. The weight for these goods in the CPI is 6.0 per cent and the contribution to price inflation has therefore been reduced by 0.2-percentage point in the course of just over a year. Fisheries products have followed a similar trend, and prices for these products showed a year-on-year decline of 1.6 per cent in July 2004. The CPI weight of fisheries products is, however, small.

House rents, including rental rates for holiday homes, have a weight in the CPI of 17 per cent. In June 2003, this subindex was 3.9 per cent above the level 12 months earlier, and the rate of price increases has thereafter generally fallen, reaching 1.6 per cent in August 2004, resulting in a reduction in the contribution to inflation of about 0.4 percentage point. Services other than rents have a weight of as much as 26 per cent in the CPI. Over the past two years, the rate of price increases for other services has generally been relatively low, albeit unstable. Prices for day-care places and air travel have contributed to this to a considerable extent. In August, the year-on-year rise was 3.6 per cent, which is slightly lower than the average for the past five years.

The price index for domestically produced consumer goods other than primary industry products is dominated by the weights assigned to electricity and refined petroleum products. Prices in these product groups have also fluctuated widely over the past few years. As tobacco prices also increased sharply as a result of the tax increase from 1 January, it is difficult to use this index as an indication of developments in underlying price inflation. In spite of the increase in tax on tobacco, 2.4 per cent higher electricity prices than at the same time last year and as much as 8.3 per cent higher prices for fuel and lubricants, overall price inflation for this group was only 0.8 per cent. This means that prices for many other domestically produced goods have shown a marked decline in this period.

In the price statistics, there is still no indication that underlying inflation measured by the CPI-ATE is on the increase. Inflation through the summer of 2004 has been equal to or slightly lower than in the same period in the previous four years. Growth in labour productivity is expected to be reduced in the years ahead, while wage growth is expected to increase gradually. Capacity utilization in the economy will probably increase, pointing towards higher price inflation in the period ahead. The exchange rate shows little change in the calculations and, combined with low inflation in the OECD area and a continued rise in imports from low-cost countries, this will contribute to approximately unchanged prices for traditional. In our calculations, the underlying rate of price increases picks up very modestly in the remaining months of 2004, but somewhat more in the following years. Towards the end of 2006, the year-on-year rise in the CPI-ATE is 2.2 per cent. Lower oil and electricity prices ahead contribute in the calculations to slightly lower overall CPI inflation than CPI-ATE inflation. Towards the end of 2006, the calculations show a year-on-year rate of CPI inflation of 1.8 per cent, against 0.4 per cent as an annual average in 2004 and 0.9 per cent in 2005.

Effects of a "normalization" of money market rates

In the *baseline scenario* for cyclical developments in the coming years, we have assumed that the level of nominal interest rates in both the euro area and in Norway remains at a historically low level. An *alternative scenario* shows the estimated effects on the Norwegian economy of higher interest rates in both the euro area and in Norway from the end of 2005 and throughout 2006 that subsequently remain unchanged in nominal terms at 4 per cent until 2010.

In the baseline scenario, interest rates rise slightly through the first half of 2005, before falling again to 2 per cent through the second half of 2006 in response to clearer evidence of a global slowdown. The baseline scenario is extended to 2010, with a gradual increase in interest rates in the euro area and in Norway in line with a new and clear cyclical upturn as from 2008. Money market rates in Norway are increased steadily from 2.0 per cent in the first quarter of 2008 to 4 per cent as from the fourth quarter of 2009, resulting in a zero interest rate differential against the euro. As noted, this parallel interest rate increase takes place as early as 2005 and 2006 in the alternative scenario, with interest rates remaining nominally unchanged to the end of the simulation period. The table below shows money market rates in the two scenarios as an annual average.

Our analyses (and the KVARTS model) imply that the euro-krone exchange rate remains fairly stable in both nominal and real terms throughout the period from 2004 to 2010 in both scenarios. Some effects on variables in the real economy, inflation and not least the household saving ratio in the alternative scenario are shown in the table below.

Effects of a more rapid "normalization" of key interest rates. Rise in per cent/percentage point

	2006	2007	2008	2009	2010
Money market rates in Norway					
Baseline scenario	2.3	2.0	2.6	3.6	4.0
Alternative scenario	3.4	4.0	4.0	4.0	4.0
Household consumption					
Baseline scenario	5.1	4.7	4.2	3.0	2.2
Alternative scenario	4.7	3.6	3.1	3.0	3.1
Household saving ratio					
Baseline scenario	4.4	3.1	2.0	1.6	2.5
Alternative scenario	4.1	3.1	3.2	3.4	3.9
Mainland GDP					
Baseline scenario	2.8	2.1	2.7	2.4	1.8
Alternative scenario	2.6	1.5	2.2	2.5	2.2
LFS unemployment (level)					
Baseline scenario	3.8	3.8	3.9	3.8	3.8
Alternative scenario	3.8	4.0	4.2	4.0	3.9
CPI-ATE					
Baseline scenario	2.0	2.2	2.4	2.2	2.3
Alternative scenario	2.0	2.3	2.3	2.1	2.1

In the baseline scenario, which in the period to end 2006 is discussed in greater detail above, we have extended most of the model-independent variables more or less in line with trend as from 2007, with the exception of an assumed international upturn in 2008 and 2009 that slows through 2010. In line with the upturn abroad, we have assumed a rate of inflation in the euro area of 2.0 per cent in the period 2008 to 2010. Some decline in petroleum investment in Norway from 2007 has also been assumed, although to a fairly high level compared to earlier assumptions. From an economic stabilization point of view, there is scope for a slightly more expansionary fiscal policy in keeping with the fiscal rule as from 2008 because of falling petroleum investment and higher interest rates, i.e. a weaker monetary policy stimulus. We assume this will largely take place through slightly higher growth in general government consumption than in the period 2005-2007.

As the figures in the table show, growth in the real economy slows somewhat according to the baseline scenario, particularly in 2007, picking up again as a result of the upturn abroad, with a slight decline thereafter in line with weaker growth in household consumption. Growth in housing investment, which is not shown here, comes to a halt after 2008. There is little change in the level of unemployment, apart from a slight rise following the downturn in 2007, and inflation is within the target zone for monetary policy. All in all, the baseline scenario is a balanced growth path with a large degree of economic policy coordination aimed at a steady level of capacity utilisation. The objection might be raised, however, that the interest rate increase comes at a late stage, since the household saving ratio, for example, sinks to a very low level in 2008 and 2009 before interest rates increase and the household sector responds by increasing its saving ratio.

In the alternative scenario, where interest rates increase through 2005 and 2006, growth in household demand is reduced somewhat in 2006, but particularly in 2007 and 2008, compared with the baseline scenario. Growth in the mainland economy is reduced somewhat and we see a clearer cyclical downturn in 2007. This brings unemployment up again, but only marginally, even compared with the moderate slowdown we have experienced in 2002-2004. The household saving ratio is gradually noticeably higher than in the baseline scenario, and inflation somewhat lower after a period, although not the first two years, because interest rate increases initially also entail increased costs and thereby higher prices.

An obvious objection to the alternative scenario is that monetary policy has a procyclical effect here; interest rates are raised in a downturn. This may conflict with the monetary policy guidelines, but in the interests of financial stability interest rates may be increased to prevent an excessive decline in household saving.

Should interest rates in Norway be raised without interest rates being increased in the euro area at the same time, GDP growth would be even lower than in the alternative scenario. The krone would appreciate and inflation would fall in relation to the alternative scenario, and would therefore not even be close to the inflation target. In addition, the internationally exposed sector would feel the adverse effects more than the sheltered sector. If interest rates were to be raised in the euro area and Norwegian interest rates were not raised at the same time, on the other hand, the krone would depreciate, inflation would rise above the inflation target while the household saving ratio would sink further in relation to the baseline scenario.

Sizeable current account surpluses

Revised figures show that Norway recorded a current account surplus of about NOK 200 billion in 2003, or close to 13 per cent of GDP, which is on a par with the figure for 2002. In the first half of 2004, the current account surplus came to NOK 105 billion. High oil prices in the third quarter of 2004 will result in a particularly large current account surplus for that quarter. For 2004 as a whole, traditional merchandise exports will show a substantial increase in value terms,

Moving towards the inflation target – also in the work on models

In the 1990s, Statistics Norway's macroeconometric quarterly model KVARTS (and the corresponding model for annual data, MODAG) were tailored to the monetary policy regime that applied at that time, with an exchange rate target and market-driven money market rates. When monetary policy was changed to inflation targeting, the model also had to be changed, This was primarily accomplished by expanding the model with an exchange rate equation, and then with an interest rate rule that reflects how the interest rate is set.[1]

As shown earlier (see box in Economic Survey 3/2003), the effect via the exchange rate is important for the impact of the interest rate on the economy, and particularly on inflation. We now have an exchange rate equation for Norwegian krone against the euro (see Bjørnland and Hungnes, 2003), where both Norwegian prices and interest rates relative to the euro area are included. The exchange rate relationship is used to generate the path for the euro exchange rate in this report. Such a relationship cannot be expected to provide correct estimates for the exchange rate ahead, but it should provide a sound indication, given the main trends in the Norwegian and global economies.

Once this relationship is in place, we can begin to test how various interest rate rules will affect developments in the Norwegian economy. Such simulations – compared with actual interest rate developments – can also give an indication of which interest rate rules Norges Bank follows in practice.

Such simulations from 2002 to 2008 are presented below, with two different, but very simple rules for interest-rate setting, with the interest rate adjusted in proportion to how much observed or expected inflation deviates from the inflation target of 2.5 %. Inflation in a given quarter refers to the rise in the CPI-ATE from the same quarter one year earlier. In the simulation with a backward-looking interest rate rule, the interest rate is determined by the following equation:

*Change in interest rate this quarter = 0.2 * (Observed inflation this quarter - 2.5 %)*

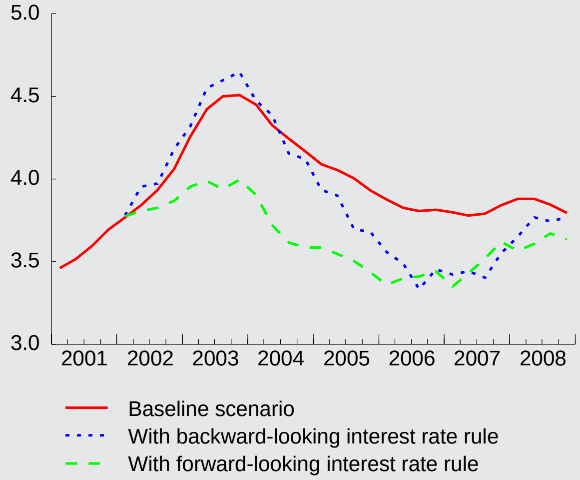
In the simulation with a forward-looking interest rate rule, the interest rate is determined by the following equation:

*Change in interest rate this quarter = 0.2 * (Expected inflation 8 quarters ahead - 2.5 %)*

Expectations are model-consistent, and expected inflation is thus equal to estimated inflation. The adjustment parameter 0.2 has been randomly chosen, but provides simulated paths with reasonable developments. It has been taken into account that the nominal interest rate cannot be negative.

The simulations have been made as a shift calculation on the baseline scenario for the Norwegian economy that is presented in this report, and in the figures we compare the result of the simulations with baseline scenario estimates. It should be noted that these figures are partly historical (statistics) and partly our forecasts. The main features of this baseline scenario for the years 2007 and 2008 are presented in the box that discusses a "normalization" of the interest rate ahead. In particular, we would point out that our inflation path up to 2007 is on a par with Norges Bank's expectations from August 2004 (speech by Svein Gjedrem, Governor of Norges Bank, on 26 August), with the exception that inflation in our path does not pick up in earnest until 2005, and not as early as 2004.

Unemployment
Per cent of labour force



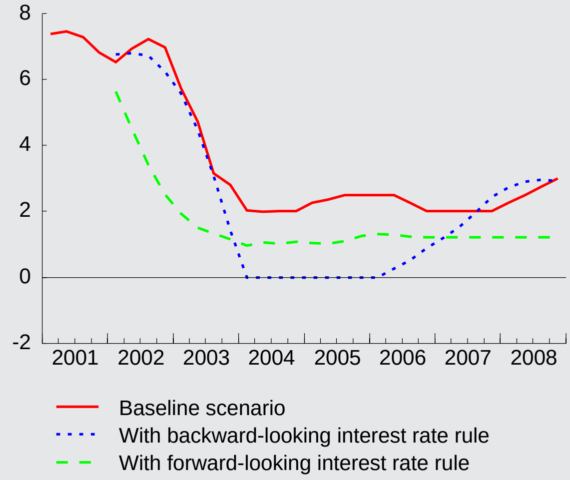
Source: Statistics Norway.

We see that interest rate developments in 2002 and 2003 – even though intended to be forward-looking – have in practice been in close accord with our backward-looking interest rate rule. A reasonable interpretation of this is not that Norges Bank actually intended to be backward-looking, but that the low rate of inflation was unexpected and the Bank then adjusted its inflation forecasts as new statistics emerged. It should be noted that our inflation projections have not proved to be accurate either. From February 2002 to December 2003, we revised down our projections for CPI-ATE inflation in 2003 from 2.3 to 1.1 per cent. For 2004, we have so far revised our projection downwards from 2.2 per cent in June 2002 to 0.2 per cent in this report.

We also see from the figure that even though the interest rate through 2002 and up to autumn 2003 followed our path for backward-looking interest-rate setting, the two paths have since diverged. In the actual path, the interest rate decrease eventually came to a halt, while the interest rate with pure backward-looking interest-rate setting would have been reduced to zero in the first quarter of 2004 and then kept at this level until the beginning of 2006. The fact that Norges Bank did not actually reduce the interest rate to a greater extent, despite the continued low level of inflation, may indicate that that the Bank gradually had to place considerable weight on considerations other than achieving the inflation target, for example financial stability or stabilising the real economy, cf. the figure showing the unemployment rate. We see that the path with backward-looking interest rates would have resulted in considerably wider fluctuations in unemployment than we have assumed in our projected path, where the interest rate is kept virtually unchanged from the end of 2003 and up to 2008.

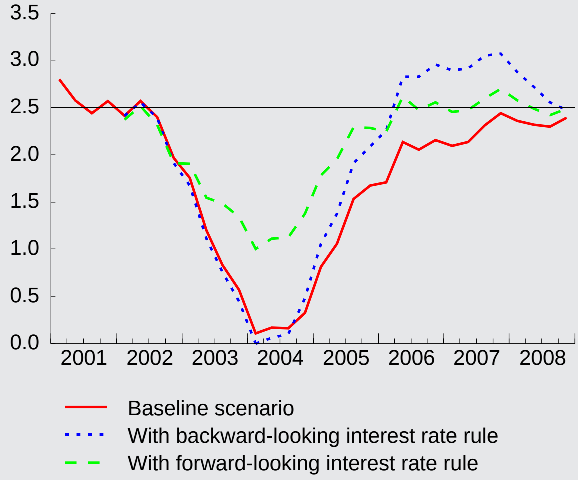
[1] It may be the case that the introduction of an inflation target will eventually also necessitate changes in the model in other areas. It is conceivable, for example, that an inflation target will change both price and wage formation, and expected inflation – and possibly the target of 2.5 % – may have to be included specifically in the corresponding model relationships. On the other hand, Norges Bank's more flexible interpretation and application in practice of the inflation target in recent months, with increased weight given to the exchange rate and developments in the real economy, may reduce the importance of the inflation target. This notwithstanding, we do not as yet have the statistical basis for changing the model in these areas.

Money market rate
Annual interest rate in per cent



Source: Statistics Norway.

Inflation
Percentage growth in the CPI-ATE from the same quarter previous year



Source: Statistics Norway.

With our rule for forward-looking interest-rate setting, the path would have been clearly different. The interest rate is adjusted more quickly and inflation fluctuates less widely around the target with forward-looking than with backward-looking interest-rate setting. The rule implies that the interest rate should have been sharply reduced as early as in 2002 and kept at over 1 per cent from the end of 2003 and to the end of the projection period, a good 1 percentage point lower than in the baseline scenario. This would have resulted in inflation this year of around 1¼ per cent, and inflation would have stabilised at 2.5 per cent in the years 2006-2008. The level of unemployment would have fluctuated between 4.0 and 3.4 per cent, i.e. noticeably lower than the baseline scenario, and to a certain extent with less variability.

In other words, the calculations show that if the model provides an exactly correct description of the functioning of the Norwegian economy and Norges Bank had based its projections on a similar understanding of its functioning, and the Bank had made the right forecasts for the assumptions underlying the model-based calculations for what is now history, and otherwise applied the same assumptions for the years ahead on which the calculations are based, the forward-looking interest rate rule we have used would not have resulted in a rate of inflation for 2004 – two years ahead from the time the calculations start – within the margin of fluctuation of +/- 1 per cent around the inflation target. On the other hand, inflation is stabilised at the target four years ahead, calculated from the start of the simulation. Even though it cannot be ruled out that other forms of the interest rate rule might have resulted in a more rapid achievement of the target, it indicates that the objective of a specific inflation rate two years ahead is perhaps overambitious. It is possible that this recognition – in addition to the need to give more weight to objectives other than inflation – may lie behind the decision to extend the time horizon for the inflation target to three years.

Bjørnland, H.C. and H. Hungnes (2003): The importance of interest rates for forecasting the exchange rate. Discussion Papers 340, Statistics Norway.

according to our calculations. Moreover, petroleum exports in value terms will increase even if oil prices should fall somewhat from today's high level, as we have assumed. Imports have also increased sharply in the first half of 2004 and will increase substantially this year as a result of higher domestic demand. The surplus on the goods and services balance is now estimated at NOK 247 billion in 2004, which is NOK 35 billion higher than the surplus for 2003. The increase in the surplus will, however, be amplified by the improvement on the interest and transfer balance as a result of the considerable surpluses that are being accumulated as steadily higher net foreign assets. In total, the surplus on the current account is estimated at NOK 249 billion in 2004, or a good 14.5 per cent of estimated nominal GDP.

For 2005 and 2006, our estimates show a gradual fall in the surplus on the balance of goods and services, owing to continued low volume growth in oil and gas exports combined with falling nominal prices for these products through the last months of 2004. Traditional merchandise exports will expand somewhat more slowly than market growth in these years as a result of the expected slowdown in the world economy. Relatively strong growth in the Norwegian economy will be accompanied by very strong growth in imports in both years. Even with modest import price inflation, the value of imports will nevertheless increase at a markedly faster pace than the value of exports. The goods and services balance is expected to run a surplus of NOK 220 billion in 2006. This is higher than previously estimated, and is mainly due to the assumption of somewhat higher oil prices. These estimates are therefore very uncertain. Higher net foreign assets will contribute to an estimated surplus on the interest and transfer balance, bringing the current account surplus to a good NOK 240 billion in 2006, or 13 per cent of GDP.

National accounts: Final expenditure and gross domestic product. At fixed 2001 prices. Million kroner

	Unadjusted		Seasonally adjusted							
	2002	2003	02.3	02.4	03.1	03.2	03.3	03.4	04.1	04.2
Final consumption exp. of households and NPISHs	674 867	700 258	168 439	171 669	171 869	173 936	175 986	178 148	180 842	181 127
Household final consumption expenditure	646 090	668 881	161 276	164 251	164 130	166 215	168 108	170 086	172 642	172 931
Goods	359 552	374 436	89 340	91 763	90 876	93 282	94 374	95 530	97 025	97 430
Services	276 042	282 721	68 819	69 700	69 993	70 181	70 762	71 794	72 098	72 392
Direct purchases abroad by resident households	28 596	30 227	7 447	7 282	7 608	7 382	7 567	7 696	8 544	8 235
Direct purchases by non-residents	-18 100	-18 503	-4 330	-4 494	-4 347	-4 630	-4 596	-4 934	-5 026	-5 126
Final consumption expenditure of NPISHs	28 777	31 378	7 163	7 419	7 740	7 720	7 878	8 062	8 200	8 196
Final consumption exp. of general government	324 406	329 098	81 367	80 594	81 672	82 988	82 078	82 328	83 280	84 522
Final consumption exp. of central government	171 130	174 119	43 201	42 752	43 179	43 394	43 505	44 020	44 260	45 213
Central government, civilian	141 875	145 394	35 873	35 493	35 987	36 187	36 343	36 855	36 935	37 860
Central government, defence	29 255	28 725	7 328	7 259	7 192	7 207	7 162	7 165	7 325	7 353
Final consumption exp. of local government	153 275	154 979	38 166	37 842	38 493	39 595	38 573	38 308	39 020	39 309
Gross fixed capital formation	269 519	259 519	65 191	69 552	66 984	65 226	65 594	61 769	66 945	68 415
Extraction and transport via pipelines	54 521	63 158	13 514	14 703	14 362	16 334	16 803	15 658	17 014	17 243
Service activities incidential to extraction	5 572	-1 616	122	1 089	502	-437	-139	-1 526	99	163
Ocean transport	7 139	5 096	1 510	2 874	3 044	1 159	1 594	-700	1 223	497
Mainland Norway	202 287	192 880	50 045	50 886	49 076	48 169	47 336	48 337	48 609	50 512
Mainland Norway excl. general government	160 556	146 937	39 689	40 474	37 983	36 710	35 334	36 871	38 056	38 750
Manufacturing and mining	21 823	18 298	5 659	5 853	4 573	5 002	4 257	4 558	4 501	4 613
Production of other goods	16 971	19 125	4 210	4 438	4 940	4 744	4 940	4 405	4 852	4 732
Dwelling services	52 999	50 231	13 136	12 952	12 687	12 522	12 424	12 603	13 113	14 041
Other services	68 764	59 284	16 684	17 231	15 782	14 443	13 713	15 305	15 589	15 364
General government	41 731	45 943	10 356	10 412	11 093	11 459	12 002	11 466	10 553	11 762
Changes in stocks and statistical discrepancies	27 409	14 803	7 354	5 790	5 934	-1 517	5 899	3 703	4 893	7 816
Gross capital formation	296 928	274 322	72 545	75 342	72 918	63 709	71 493	65 473	71 838	76 231
Final domestic use of goods and services	1 296 200	1 303 678	322 351	327 606	326 460	320 633	329 558	325 948	335 961	341 881
Final demand from Mainland Norway	1 201 560	1 222 237	299 851	303 149	302 618	305 094	305 400	308 812	312 731	316 162
Final demand from general government	366 137	375 041	91 723	91 006	92 765	94 447	94 080	93 793	93 833	96 284
Total exports	697 866	706 501	173 986	175 881	171 967	178 476	174 044	182 128	180 368	180 799
Traditional goods	203 832	209 179	52 558	49 775	50 587	52 202	52 804	53 597	52 990	52 316
Crude oil and natural gas	320 893	320 189	79 085	83 034	80 348	83 823	77 884	78 163	84 857	83 964
Ships and oil platforms	13 439	18 233	2 746	2 398	2 547	3 686	3 524	8 475	1 451	2 847
Services	159 701	158 900	39 597	40 674	38 485	38 766	39 833	41 893	41 070	41 672
Total use of goods and services	1 994 066	2 010 179	496 337	503 487	498 427	499 109	503 602	508 076	516 329	522 679
Total imports	446 819	456 462	110 711	113 224	113 782	113 433	113 479	115 868	119 571	121 071
Traditional goods	290 400	302 142	72 987	73 553	74 352	75 538	75 629	76 695	80 182	82 955
Crude oil and natural gas	1 807	1 998	472	395	891	435	345	334	293	433
Ships and oil platforms	16 368	13 831	2 446	3 855	4 443	3 216	3 400	2 772	2 532	1 946
Services	138 244	138 491	34 806	35 421	34 096	34 244	34 105	36 068	36 565	35 737
Gross domestic product	1 547 246	1 553 717	385 626	390 263	384 645	385 676	390 123	392 208	396 758	401 609
Mainland Norway (market prices)	1 186 716	1 194 109	298 240	297 586	294 485	296 118	300 339	302 153	304 737	307 213
Petroleum activities and ocean transport	360 531	359 609	87 386	92 677	90 160	89 558	89 784	90 055	92 020	94 396
Mainland Norway (basic prices)	1 032 496	1 039 488	259 384	258 491	256 598	258 043	261 627	262 839	265 139	267 690
Mainland Norway excl. general government	799 137	807 287	200 547	200 337	198 762	199 809	203 476	204 714	206 417	208 661
Manufacturing and mining	150 079	144 359	37 667	36 925	35 939	35 713	36 277	36 350	36 239	36 312
Production of other goods	109 395	106 361	27 722	26 944	26 179	26 396	26 837	26 815	27 501	27 843
Service industries	539 662	556 566	135 157	136 468	136 644	137 700	140 363	141 549	142 678	144 507
General government	233 360	232 201	58 838	58 153	57 836	58 234	58 150	58 125	58 721	59 029
Correction items	154 219	154 621	38 855	39 095	37 887	38 075	38 712	39 314	39 599	39 522

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. At fixed 2001 prices. Percentage change from the previous period

	Unadjusted		Seasonally adjusted							
	2002	2003	02.3	02.4	03.1	03.2	03.3	03.4	04.1	04.2
Final consumption exp. of households and NPISHs	3.6	3.8	0.3	1.9	0.1	1.2	1.2	1.2	1.6	0.2
Household final consumption expenditure	3.5	3.5	0.3	1.8	-0.1	1.3	1.1	1.2	1.6	0.2
Goods	4.2	4.1	0.0	2.7	-1.0	2.6	1.2	1.2	1.7	0.4
Services	1.7	2.4	0.0	1.3	0.4	0.3	0.8	1.5	0.5	0.4
Direct purchases abroad by resident households	6.6	5.7	3.5	-2.2	4.5	-3.0	2.5	1.7	11.3	-3.6
Direct purchases by non-residents	-2.8	2.2	-7.1	3.8	-3.3	6.5	-0.7	7.4	1.2	2.0
Final consumption expenditure of NPISHs	7.0	9.0	-1.0	3.6	4.3	-0.2	2.0	2.3	1.8	0.0
Final consumption exp. of general government	3.1	1.4	2.4	-0.9	1.3	1.6	-1.1	0.3	0.3	1.5
Final consumption exp. of central government	40.0	1.7	2.4	-1.0	1.0	0.5	0.3	1.2	0.4	2.2
Central government, civilian	51.0	2.5	2.8	-1.1	1.4	0.6	0.4	1.4	0.0	2.5
Central government, defence	3.4	-1.8	0.4	-0.9	-0.9	0.2	-0.6	0.0	2.2	0.4
Final consumption exp. of local government	-20.4	1.1	2.4	-0.8	1.7	2.9	-2.6	-0.7	0.3	0.7
Gross fixed capital formation	-3.4	-3.7	-8.9	6.7	-3.7	-2.6	0.6	-5.8	10.4	2.2
Extraction and transport via pipelines	-3.6	15.8	0.0	8.8	-2.3	13.7	2.9	-6.8	8.7	1.3
Service activities incidential to extraction	69.2	-129.0	-93.0	-154.6	-417.2	-21.5	-78.5	..	-103.5	64.6
Ocean transport	-38.2	-28.6	-19.8	90.4	5.9	-61.9	37.6	-143.9	-274.9	-59.3
Mainland Norway	-2.5	-4.7	-3.4	1.7	-3.6	-1.8	-1.7	2.1	0.1	3.9
Mainland Norway excluding general government	-3.2	-8.5	-3.2	2.0	-6.2	-3.4	-3.7	4.3	2.8	1.8
Manufacturing and mining	11.5	-16.2	2.1	3.4	-21.9	9.4	-14.9	7.1	-3.3	2.5
Production of other goods	-1.7	12.7	-2.5	5.4	11.3	-4.0	4.1	-10.8	10.0	-2.5
Dwelling services	-2.3	-5.2	-3.4	-1.4	-2.0	-1.3	-0.8	1.4	3.6	7.1
Other services	-8.1	-13.8	-5.0	3.3	-8.4	-8.5	-5.1	11.6	1.8	-1.4
General government	0.1	10.1	-4.0	0.5	6.5	3.3	4.7	-4.5	-8.3	11.5
Changes in stocks and statistical discrepancies	32.6	-46.0	1.2	-21.3	2.5	-125.6	-488.8	-37.2	30.4	59.7
Gross capital formation	-0.9	-7.6	-7.9	3.9	-3.2	-12.6	12.2	-8.4	11.6	6.1
Final domestic use of goods and services	2.4	0.6	-1.2	1.6	-0.3	-1.8	2.8	-1.1	3.3	1.8
Final demand from Mainland Norway	2.4	1.7	0.2	1.1	-0.2	0.8	0.1	1.1	1.0	1.1
Final demand from general government	2.7	2.4	1.6	-0.8	1.9	1.8	-0.4	-0.3	-0.7	2.6
Total exports	0.1	1.2	-1.5	1.1	-2.2	3.8	-2.5	4.6	-1.3	0.2
Traditional goods	1.6	2.6	4.1	-5.3	1.6	3.2	1.2	1.5	-1.3	-1.3
Crude oil and natural gas	2.2	-0.2	-4.3	5.0	-3.2	4.3	-7.1	0.4	8.2	-1.1
Ships and oil platforms	-24.2	35.7	-29.2	-12.7	6.2	44.7	-4.4	140.5	-82.9	96.2
Services	-3.1	-0.5	-0.1	2.7	-5.4	0.7	2.8	5.2	-2.4	1.5
Total use of goods and services	1.6	0.8	-1.3	1.4	-1.0	0.1	0.9	0.9	1.6	1.2
Total imports	2.3	2.2	-2.7	2.3	0.5	-0.3	0.0	2.1	3.2	1.3
Traditional goods	3.8	4.0	2.8	0.8	1.1	1.6	0.1	1.4	4.5	3.5
Crude oil and natural gas	-21.3	10.6	-2.1	-16.4	125.6	-51.2	-20.7	-3.2	-16.1	47.7
Ships and oil platforms	-9.6	-15.5	-69.4	57.6	15.3	-27.6	5.7	-18.5	-8.7	-23.1
Services	1.1	0.2	1.4	1.8	-3.7	0.4	-0.4	5.8	1.5	-2.3
Gross domestic product	1.4	0.4	-0.9	1.2	-1.4	0.3	1.2	0.5	1.2	1.2
Mainland Norway (market prices)	1.7	0.6	1.1	-0.2	-1.0	0.6	1.4	0.6	0.9	0.8
Petroleum activities and ocean transport	0.4	-0.3	-7.1	6.1	-2.7	-0.7	0.3	0.3	2.2	2.6
Mainland Norway (basic prices)	1.4	0.7	1.0	-0.3	-0.7	0.6	1.4	0.5	0.9	1.0
Mainland Norway excluding general government	1.8	1.0	0.4	-0.1	-0.8	0.5	1.8	0.6	0.9	1.1
Manufacturing and mining	-0.8	-3.8	-1.3	-2.0	-2.7	-0.6	1.6	0.2	-0.4	0.2
Production of other goods	1.1	-2.8	2.1	-2.8	-2.8	0.8	1.7	-0.1	2.6	1.2
Service industries	2.6	3.1	0.6	1.0	0.1	0.8	1.9	0.8	0.9	1.3
General government	0.1	-0.5	2.9	-1.2	-0.5	0.7	-0.1	0.0	0.9	0.5
Correction items	3.6	0.3	1.7	0.6	-3.1	0.5	1.7	1.6	0.8	-0.2

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. Price indices. 2001=100

	Unadjusted		Seasonally adjusted							
	2002	2003	02.3	02.4	03.1	03.2	03.3	03.4	04.1	04.2
Final consumption exp. of households and NPISHs	100.8	103.1	101.1	101.4	103.5	102.5	102.9	103.0	103.0	104.0
Final consumption exp. of general government	103.8	107.3	105.3	105.3	106.7	107.4	107.8	107.5	107.3	109.6
Gross fixed capital formation	99.9	100.7	101.9	96.9	97.9	102.5	102.3	100.8	101.0	102.3
Mainland Norway	100.6	100.8	102.3	99.2	98.4	101.4	102.1	102.5	101.2	102.6
Final domestic use of goods and services	101.3	103.6	101.2	102.2	103.6	102.9	103.1	104.7	104.7	105.9
Final demand from Mainland Norway	101.6	103.9	102.4	102.1	103.5	103.6	104.1	104.1	103.9	105.3
Total exports	89.8	91.5	89.7	89.4	91.0	88.6	92.9	93.8	96.1	98.1
Traditional goods	91.4	90.2	88.7	90.0	87.8	90.3	90.4	92.4	96.0	94.8
Total use of goods and services	97.2	99.4	97.2	97.8	99.3	97.8	99.5	100.8	101.7	103.2
Total imports	93.3	95.0	92.2	92.2	92.0	93.2	96.3	97.9	99.6	100.3
Traditional goods	92.6	93.2	91.4	91.5	91.9	91.6	93.8	95.4	96.3	96.5
Gross domestic product	98.4	100.6	98.6	99.4	101.4	99.1	100.5	101.6	102.3	104.0
Mainland Norway (market prices)	102.3	104.4	102.4	103.4	103.6	105.0	104.0	104.8	104.1	105.7

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2002	2003	02.3	02.4	03.1	03.2	03.3	03.4	04.1	04.2
Final consumption exp. of households and NPISHs	0.8	2.3	0.9	0.3	2.1	-1.0	0.4	0.1	0.0	0.9
Final consumption expenditure of general government	3.8	3.4	1.4	0.0	1.3	0.7	0.4	-0.3	-0.4	2.1
Gross fixed capital formation	-0.1	0.8	0.8	-4.9	1.1	4.7	-0.3	-1.4	-1.7	1.3
Mainland Norway	0.6	0.2	1.0	-3.0	-0.8	3.1	0.6	0.5	-0.9	1.4
Final domestic use of goods and services	1.3	2.3	-0.2	1.1	1.4	-0.8	0.2	1.6	1.1	1.1
Final demand from Mainland Norway	1.6	2.3	1.1	-0.4	1.4	0.1	0.4	0.0	-0.2	1.3
Total exports	-10.2	1.9	-2.0	-0.3	1.7	-2.6	4.8	1.0	0.2	2.0
Traditional goods	-8.6	-1.2	-5.0	1.5	-2.5	2.9	0.1	2.2	4.1	-1.3
Total use of goods and services	-2.8	2.2	-0.8	0.6	1.5	-1.5	1.8	1.2	0.9	1.5
Total imports	-6.7	1.8	-2.0	0.0	-0.2	1.3	3.3	1.6	1.7	0.7
Traditional goods	-7.4	0.7	-2.1	0.2	0.4	-0.3	2.3	1.7	1.0	0.2
Gross domestic product	-1.6	2.3	-0.5	0.8	2.0	-2.3	1.4	1.1	0.7	1.7
Mainland Norway (market prices)	2.3	2.0	-1.2	0.9	0.2	1.3	-0.9	0.8	-0.6	1.5

Source: Statistics Norway.