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Economic Survey

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Economic developments in Norway

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Economic developments in Norway

Norway's economic growth has been modest for two and a half years. High inflation and consequent interest rate hikes have had the effect of dampening activity. At the same time, unemployment has risen from a low level. It is currently around 4 per cent, in line with the average for the 2010s. Inflation measured as the 12-month rise in prices has fallen substantially since October 2022, when it peaked at 7.5 per cent, and in February this year it was 3.6 per cent. Domestic factors, such as higher real wage growth, lower interest rates and increased public demand, are expected to boost activity in the Norwegian economy in the years ahead. At the same time, stronger trade tensions, higher tariffs and the prospect of more fragmented global trade are creating great uncertainty as to how the Norwegian economy will develop.

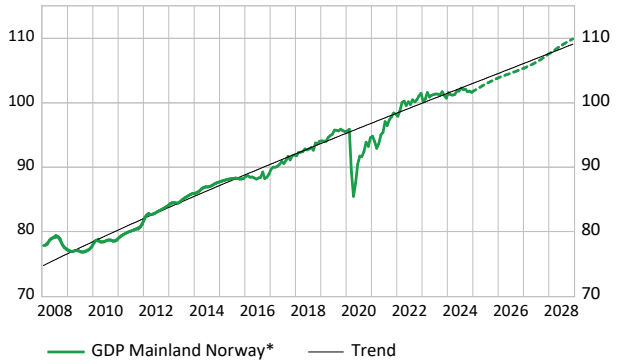
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Per cent

	2023	2024	Seasonally adjusted			
			24:1	24:2	24:3	24:4
Demand and output						
Consumption in households etc.	-1.2	1.2	-0.5	1.9	-0.1	-0.0
General government consumption	3.4	2.4	0.4	0.4	0.6	0.3
Gross fixed investment	-1.5	-1.9	-6.3	2.7	1.6	0.2
Extraction and transport via pipelines	10.2	9.6	-8.0	8.9	-0.1	6.6
Mainland Norway	-2.6	-4.9	-5.9	0.8	1.0	-0.9
Final domestic demand from Mainland Norway[1]	-0.3	0.2	-1.4	1.2	0.4	-0.1
Exports	0.4	5.7	-0.0	5.5	-3.2	0.1
Traditional goods	5.3	1.9	-1.8	3.5	-1.1	3.1
Crude oil and natural gas	-1.8	7.5	0.6	7.3	-6.0	-1.5
Imports	-1.5	3.7	-0.3	3.3	3.5	-0.7
Traditional goods	-6.2	3.6	1.1	4.2	1.4	-2.3
Gross domestic product	0.1	2.1	0.3	1.8	-1.6	-0.6
Mainland Norway	0.7	0.6	0.1	0.3	0.5	-0.4
Labour market						
Total hours worked. Mainland Norway	0.6	0.3	0.0	-0.3	0.0	0.1
Employed persons	1.3	0.6	0.3	-0.0	0.1	0.2
Labour force[2]	1.3	0.9	0.2	0.6	0.2	0.0
Unemployment rate. level[2]	3.6	4.0	3.9	4.1	4.0	4.0
Prices and wages						
Annual earnings	5.2	5.6	..	..	..	..
Consumer price index (CPI)[3]	5.5	3.1	0.9	0.3	0.4	0.9
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	6.2	3.7	0.7	0.8	0.5	0.8
Export prices. traditional goods	0.0	-1.5	-1.0	-1.0	0.5	1.0
Import prices. traditional goods	5.5	0.7	-1.2	2.0	-1.3	1.8
Balance of payment						
Current balance. bill. NOK[4]	887	890	245	226	208	211
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	3.5	4.5	4.5	4.5	4.5	4.5
Lending rate. credit loans[5]	1.3	1.5	6.0	6.1	6.0	6.0
Crude oil price NOK[6]	867	856	857	911	843	813
Importweighted krone exchange rate. 44 countries. 1995=100	119.4	120.3	118.6	119.7	121.1	121.8
NOK per euro	11.42	11.63	11.41	11.57	11.76	11.76

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway's labour force survey (LFS).
[3] Percentage change from the same period the previous year.
[4] Current account not adjusted for saving in pension funds.
[5] Period averages.
[6] Average spot price. Brent Blend.
Source: Statistics Norway and Norges Bank

Figure 1. GDP Mainland Norway and estimated trend

Seasonally adjusted, index 2022 = 100

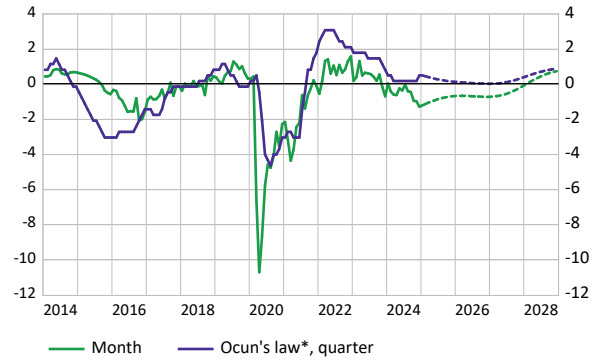


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021.

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

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

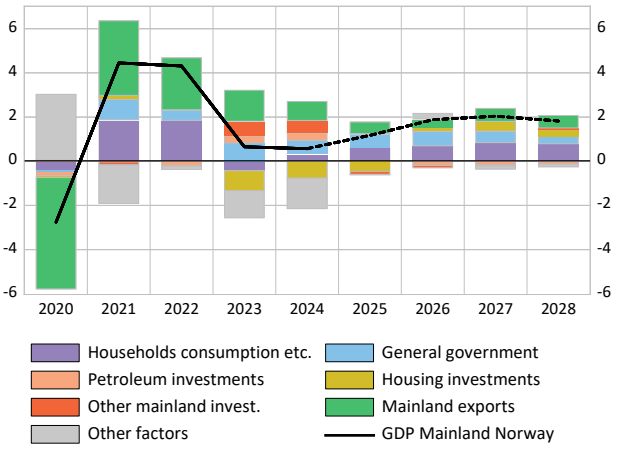


* The series «Okun's law» is based on a correspondence between the rate of unemployment and the output gap, cf. box 2.1 i Economic surveys 4/2022. The rate of unemployment is measured relative to the historical average 2010-2020.

Source: Statistics Norway

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

Change from previous year in percent



Source: Statistics Norway

The demand contributions are calculated by finding the change in each variable. extracting the direct and indirect import shares. and then dividing by the mainland GDP level for the previous period. The import shares used are documented in Box 2. All figures are seasonally adjusted and in constant prices.

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

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

How much the Norwegian economy is impacted by changes in policy in the US depends in part on the intensity and duration of the trade conflict. Trump's policy since January 2025 is to challenge trade agreements and multilateral institutions by ramping up tariffs against a number of America's trading partners. European countries, including Norway, will probably strengthen their own defences as a result, and introduce partially or fully reciprocal tariffs. In our projections, the trade restrictions are assumed to last through the whole projection period, until the end of 2028. The US change in course also implies increased political risk for the Government Pension Fund Global (the petroleum fund), as almost half of the fund's resources are invested in US securities and properties. This may impact the return on the petroleum fund, and hence in due course the Norwegian economy, but we assume in our projections that the expected real return is 3 per cent.

Greater uncertainty has often been reflected in a weaker krone. The policy changes create downside risk for the krone exchange rate, which is already at a historically low level. Since our previous economic report, however, the import-weighted exchange rate has strengthened by around 1 per cent. Fluctuations in the krone have an important effect on inflation, causing changes in prices for imported goods, and changes in competitiveness which affect the wage level. We assume that the exchange rate will remain at its mid-March level in the years ahead.

Inflation measured in terms of the consumer price index (CPI) was historically high in 2022 and 2023, but fell appreciably in 2024. The annual rise in the CPI ended at 3.1 per cent in 2024, 2.4 percentage points down on the previous year. The decline in energy prices since 2022 has slowed the rise in both producer and consumer prices. In 2024, developments in prices for imported goods in particular exerted downward pressure on inflation, while a continued high rise in prices for Norwegian goods and services, especially rents, curbed the fall in inflation. We assume a reduction in grid charges coupled with the introduction of a "Norway Price" - whereby households are offered a fixed price for electricity - or a similar scheme. This is expected to contribute to lower overall inflation in 2025. The CPI and CPI-ATE are expected to rise by 2.7 and 3.1 per cent, respectively, in 2025. In isolation, ris-

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

	QNA				Projection			
	2021	2022	2023	2024	2025	2026	2027	2028
GDP Mainland Norway	4.5	4.3	0.7	0.6	1.2	1.9	2.0	1.8
with contributions from:								
Consumption by households and non-profit organisations	1.7	1.4	-0.6	0.2	0.6	0.7	0.8	0.8
General government consumption and investment	0.8	0.5	1.0	0.8	0.6	0.7	0.5	0.3
Petroleum investment	-0.0	-0.2	0.3	0.3	0.0	-0.2	-0.2	-0.1
Housing investment	0.2	0.0	-0.9	-0.8	-0.5	0.2	0.4	0.3
Other mainland investment	0.2	0.2	0.2	-0.2	-0.1	-0.1	-0.0	0.1
Exports from mainland Norway[1]	3.4	2.3	1.4	0.9	0.5	0.4	0.6	0.6
Other factors etc.[1]	-1.8	0.0	-0.8	-0.7	-0.0	0.3	-0.1	-0.1

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

ing productivity growth helps to reduce the need for price increases. However, it is likely that pronounced nominal wage growth, the knock-on effects of the weak krone, and higher global inflation will result in inflation remaining slightly higher than the target of 2 per cent in the years ahead.

Since December 2023 the key policy rate has been 4.5 per cent, the highest since December 2008. Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent, and to ensure financial stability. The central bank also takes into account that a higher interest rate impacts activity in the Norwegian economy. Norges Bank's December Monetary Policy Report forecast a 0.75 percentage point reduction in the key policy rate in 2025. The high inflation in February points to a higher interest rate, as do labour market developments. We forecast a total of two interest rate cuts this year, and cuts totalling a further 0.75 percentage point in the course of 2026. Given this scenario, the money market rate will fall from the current level of around 4.5 per cent to about 3.5 per cent in 2026 and 2027.

Public investment and consumption account for approximately a third of the mainland economy, and these demand components grew appreciably more than trend growth in the economy through 2023 and 2024. Fiscal policy also influences economic activity through transfers to households and businesses. In the National Budget for 2025 (NB25), the structural non-oil budget deficit is forecast to be NOK 460 billion in 2025. The use of resources based on the proposals in NB25, other proposed measures and an increase of NOK 85 billion in support for Ukraine implies a withdrawal from the petroleum fund that is well within the fiscal rule's limit of 3 per cent. Significant spending on defence will add to a continued increase in public investment. The annual growth in general government consumption is expected to be 1–2 per cent further out in the projection period. If extraordinary supplementary support to Ukraine is excluded, the percentage withdrawn is expected to remain lower than 2.7 per cent. The future funding requirement ensuing from an ageing population points to such an adjustment of fiscal policy.

Household consumption, which accounts for around half of mainland GDP, has begun to pick up somewhat following sluggish developments through much of 2023 and 2024. Consumption has remained roughly unchanged for the past two years, but increased by around 1 per cent in 2024. [[By way of comparison, average consumption growth in the period 2010–2019 was just over 2 per cent. The weak consumption developments must be viewed against the backdrop of a higher cost of living and high interest rates. Electricity consumption made a substantial contribution to goods consumption, increasing by around 1 per cent last year. Consumption of services rose by about 1.5 per cent. The rise in consumption last year was partly driven by the increase in household real disposable income, which grew by just under 4.0 per cent. Given fairly strong growth in both real disposable income and real wealth, consumption growth will rise to around 2.0 per cent this year and to an annual average of around 2.5 per cent for the years 2026–2028. Our projections are based on the assumption that the saving ratio excluding share dividends will be about 3.5 per cent as an annual average in the projection period, about half a percentage point higher than the average for the ten-year period 2010–2019. The saving ratio is expected to remain high because greater uncertainty normally leads to more precautionary saving.

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

	Acco-unts 2024	Forecasts										
		2025			2026			2027			2028	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	1.2	2.1	2.6	2.6	2.3	1.8	2.5	2.6	1.7	..	2.3	..
General government consumption	2.4	1.7	2.4	2.1	1.8	1.8	1.2	1.6	1.7	..	1.0	..
Gross fixed investment	-1.9	-1.6	..	1.9	0.5	..	1.8	1.5	..	..	1.7	..
Extraction and transport via pipelines	9.6	1.0	4.0	-1.0	-5.0	-6.0	-7.0	-5.0	-5.0	..	-4.0	..
Industries	-3.3	-2.4	2.6	0.9	-1.8	2.7	0.8	-0.8	2.1	..	1.0	..
Housing	-19.1	-14.1	-2.5	12.1	6.5	10.3	13.7	15.2	8.2	..	10.0	..
General government	3.5	3.2	..	-0.3	3.8	..	2.3	2.4	..	..	1.8	..
Demand from Mainland Norway[1]	0.2	1.0	2.3	2.5	2.0	2.2	2.4	2.4	2.0	..	2.1	..
Exports	5.7	-1.7	..	2.5	1.4	..	1.0	0.7	..	..	-1.5	
Traditional goods[2]	1.9	2.8	2.5	3.4	2.6	2.1	4.4	3.3	2.5	..	2.8	..
Crude oil and natural gas	7.5	-4.0	..	1.5	0.6	..	-2.3	-1.2	..	..	-4.9	..
Imports	3.7	0.9	2.3	3.0	1.7	2.4	2.9	2.5	2.5	..	2.4	..
Gross domestic product	2.1	-0.4	2.4	2.1	1.5	0.1	1.2	1.1	0.0	..	-0.3	..
Mainland Norway	0.6	1.2	1.4	2.3	1.9	1.4	2.1	2.0	1.4	..	1.8	..
Labour market												
Employed persons	0.6	0.4	0.7	0.7	0.5	0.7	0.6	0.3	0.7	..	0.5	..
Unemployment rate (level)	4.0	4.0	..	4.1	4.1	..	4.1	4.0	..	..	3.9	..
Prices and wages												
Annual earnings	5.6	4.2	4.2	4.5	3.8	3.7	4.3	3.8	3.3	..	3.4	..
Consumer price index (CPI)	3.1	2.7	2.6	3.0	2.6	2.8	2.5	2.6	2.4	..	2.5	..
CPI-ATE[3]	3.7	3.1	2.7	3.2	2.8	2.7	2.7	2.6	2.4	..	2.5	..
Housing prices[4]	2.7	7.0	6.2	..	5.5	8.5	..	3.2	6.5	..	2.3	..
Balance of payment												
Current balance (bill. NOK)[5]	890	778	..	899	719	..	..	641	..	..	567	..
Current account (per cent of GDP)	17.1	14.3	..	16.5	13.0	..	..	11.3	..	..	9.8	..
Memorandum items:												
Money market rate (level)	4.7	4.4	..	11.5	3.8	..	9.7	3.5	..	..	3.5	..
Crude oil price NOK (level)[6]	80	69	..	79	66	..	75	66	..	..	66	..
Import weighted krone exchange rate (44 countries)[7]	0.8	0.6	0.7	4.3	-0.2	0.0	3.5	0.0	0.0	..	0.0	..

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Norges Bank forecasts exports of traditional goods and services from Mainland Norway. Ministry of Finance forecasts exports of goods exclusive of oil and natural gas.
[3] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[4] Norges Bank forecasts the housing price index published by Eiendom Norge.
[5] Current account not adjusted for saving in pension funds.
[6] Average spot price. Brent Blend.
[7] Increasing index implies depreciation.
Source: Statistics Norway (SN). Ministry of Finance. Nasjonalbudsjettet 2025 (MoF). Norges Bank. Pengepolitisk rapport 4/2024 (NB).

Overall, business investment accounts for about 10 per cent of mainland GDP, but because it is relatively volatile, it normally contributes more to economic developments than this share would suggest. Investment was high in terms of volume in 2023, but fell slightly in 2024. Measured as a share of wealth creation, however, business investment in recent years was slightly higher than average from 2000 to 2024. Businesses report increased investment in manufacturing and power supply and lower investment in services this year. On balance, we expect a decline in business investment in both 2025 and 2026, with a somewhat sharper fall in 2025. Greater global economic uncertainty, particularly associated with global demand and trade conflicts, will dampen investment activity going forward. This will be countered by increasing domestic activity and expected interest rate cuts. The investment level as a share of value added is expected to fall throughout the projection period.

The preliminary national accounts show an annual fall in housing investment of almost 20 per cent for two consecutive years. Such a steep fall has not been seen since the 1990s housing crisis. Housing investment accounts for about 20 per cent of mainland investment. The sharp fall has thus had the effect of depressing activity in the Norwegian economy as a whole. The most recent figures from the Norwegian Homebuilder Association show that sales of new dwellings, a leading indicator of housing starts, are continuing to rise. Sales of new homes in January 2025 were 52 per cent higher than in January 2024. We expect housing investment to pick up in the second half of 2025. This turnaround must be viewed in light of the expectation that house prices will rise markedly in the years ahead. The most recent figures published by Real Estate Norway reveal a very strong rise in prices for resale homes so far this year. We expect an average annualised rise in house prices of around 7 per cent this year, and that the price rise will then slow gradually to between 2 and 3 per cent towards the end of the projection period.

Petroleum investment appears likely to peak this year, after increasing by around 10 per cent in both 2023 and 2024. In 2024 growth was driven largely by higher investment in oil production platforms, drilling rigs and modules. The oil companies' reporting to the most recent investment intentions survey implies virtually unchanged petroleum investment this year. The volume of investment is being buoyed up by increased investment in fields in operation. Although some new investment projects are expected in the years ahead, for example the Wisting project, these will not be sufficient to replace the development projects that were launched in 2022 and 2023, and which will gradually be completed. Petroleum investment therefore seems likely to fall in the years ahead. Although almost half of the deliveries of capital goods for the petroleum industry are imported from abroad, the deliveries also involve considerable demand directed at mainland Norway. The fall in petroleum investment in the years ahead will thus also have a dampening effect on mainland economic growth.

There are prospects of clear growth in real wages this year. Last year real wages increased by 2.4 per cent, which is the highest rate since 2012 and the first year with an increase in average real wages since 2020. Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to wage earners, is estimated to be around 72 per cent for manufacturing in 2024. This is up from 71 per cent in 2023 but still lower than the average of round 80 per cent for manufacturing in the period 2010–2024. The labour share in manufacturing is expected to pick up gradually from a historically low level and to approach the average for the last 20 years in 2028. Given this scenario, growth in real wages will gradually edge down from just under 2 per cent this year to around 1 per cent in 2028.

Unemployment measured by the Labour Force Survey (LFS) rose from a low level of 3.2 per cent in 2022 to 4.0 per cent towards the end of 2024. There are now several signs that the rise in unemployment has come to a halt. Although there is considerable variation in monthly figures, the trend LFS figures show that unemployment fell to 3.9 per cent in January this year. The unemployment figures registered by the Norwegian Labour and Welfare Administration (NAV) have also shown a decline, with a rate of 2.0 per cent in the first two months of 2025, down from 2.1 per cent in the last four months of 2024. The number of vacancies remains at a high level in a historical perspective, and more people are expected to register in the labour market in the time ahead. Although mainland economic activity is picking up and employment is increasing, unemployment is therefore likely to remain at close to the current level in the years ahead.

Compared with the potential consequences for Norway of the shift in policy in the US, the revisions of our December projections appear modest. Increased tariffs subdue global economic activity, which also impacts Norwegian export businesses through lower demand and higher trade barriers. More fragmented global trade detracts from overall wealth creation, and although the socioeconomic costs may be significant in the long term, we consider that the direct consequences will be limited within our projection horizon (see Box 1 in Economic Survey 4/2024). We are revising down our projection for mainland GDP by just over 1 per cent over the next three years combined compared with our December report (see Box 1). This reflects both increased trade barriers and a more uncertain global economic situation. We also assume

Box 1. Changes in projections for mainland GDP growth and contributions from final deliveries adjusted for imports

The preliminary national accounts figures show mainland GDP growth of 0.6 per cent in 2024. In our December 2024 projections we forecast that growth would be 0.9 per cent, so the forecast error was 0.3 percentage point. Our projections for public consumption and investment both prove to be too high compared to what the national accounts figures show. The surprisingly low growth in public consumption and investment pushed down mainland GDP growth by 0.2 percentage point. Mainland exports and petroleum investment were also lower than forecast last time, and pushed down mainland GDP, while in the national accounts mainland investment is estimated to be somewhat higher than forecast in December 2024, and pushed up mainland value added.

Private consumption (consumption by households and non-profit organisations) was a little higher in 2024 than we forecast in December. Nonetheless, this upward revision of consumption pushed mainland GDP down a little. This is because the consumption composition also differed from what we foresaw in our previous report. Norwegians' consumption abroad, which does not contribute to wealth creation in Norway, as everything is imported, grew by over 14 per cent in 2024, well over what we forecast in December. Consumption of services by Norwegian households – which has a small import share – was lower than envisaged in December. See also the section on forecast error for a more detailed review of the accuracy of our projections for 2024, and Box 2 for a review of import shares.

Our projection for mainland GDP growth in 2025 is 0.6 percentage point lower now than last time. Much of the downward revision is due to lower forecasts for growth in both private consumption and housing investment. Reduced petroleum investment also contributes a little. However, the upward revision of public consumption and investment and mainland exports lifts wealth creation this year. We also see that the simplified model used here to explain the contributions fails to explain the whole revision of mainland GDP growth. In the simplified model, we have assumed that the growth in exports of oil and gas is approximately equal to the growth in value added in the petroleum industry - which is not a part of mainland GDP. Our new projections, however, assume a larger downward revision of the forecast for oil and gas exports than of the forecast for value added in the industry, which largely consists of the contribution from the item "Other factors".

The projections for mainland GDP growth in 2026 and 2027 have also been revised down. The reason for 2026 is that we have revised down the growth projections for private consumption and mainland investment. The downward revision of growth in wealth creation in 2027 is due to lower forecasts for both private and public consumption.

Changes in projections for mainland GDP growth and contributions from final deliveries adjusted for imports. Percentage points

	2024	2025	2026	2027
Mainland GDP	-0.3	-0.6	-0.4	-0.2
Of which contributions from:				
Consumption by households and non-profit organisations	-0.1	-0.3	-0.3	-0.2
General government consumption and investment	-0.2	0.1	0.1	-0.2
Petroleum investment	-0.1	-0.1	0.0	0.0
Housing investment	0.0	-0.2	0.0	0.0
Other mainland investment	0.1	0.0	-0.2	0.0
Mainland exports[1]	-0.1	0.2	0.1	0.1
Other factors	0.1	-0.3	-0.1	0.1

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

that Norway will not be directly affected by the protective measures introduced by the EU.

The role of the US as a guarantor of security through NATO and as a key agent for stability in the global financial system has been crucial for Norway's security and economic stability. A reduced American commitment in these areas could have substantial socioeconomic consequences for Norway extending far beyond the impact of higher tariffs. The Government has pointed out that Norway is now in the most serious security situation since World War II. This is reflected in our projections in the form of reduced economic activity due to increased uncertainty and through increasing defence investment and support for Ukraine. We are not assuming any other consequences of security policy of significance for economic activity in Norway.

Despite increased global trade barriers, we expect a clear upturn in the Norwegian economy, driven by domestic factors. Sound profitability in the wage leader segment is buoying up wage and income growth, thereby stimulating household consumption. Consumption will also be boosted by a lower

key policy rate. At the same time, the fiscal space provides a basis for continued growth in public consumption, investment and transfers. In due course there will be a turnaround in residential construction. We therefore expect mainland GDP to approach what we regard as a cyclically neutral situation in 2027.

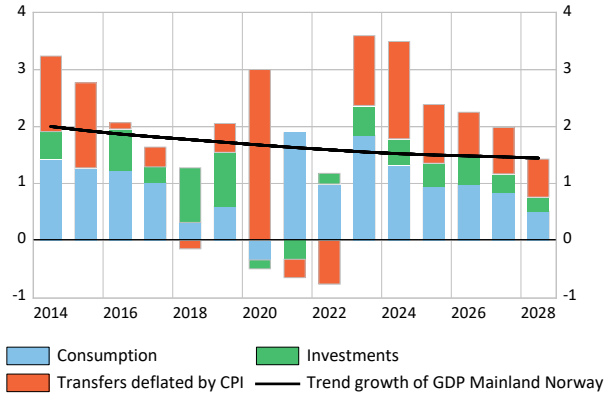
Increased focus on defence

In 2024, growth in public consumption and investment was considerably higher than mainland economic growth. General government consumption grew by 0.3 per cent in 2024 Q4. Central government consumption grew by 0.9 per cent, while defence consumption grew 2 per cent. Local government consumption fell by 0.3 per cent. In 2024 Q4, general government gross investment dipped 0.1 per cent following strong growth in Q3. Such variations from one quarter to the next are not abnormal. The level of general government investment is high in a historical perspective.

In the National Budget for 2025 (NB25), spending of petroleum revenue in 2025, measured as the structural, non-oil budget deficit, is forecast to be NOK 460.1 billion. According to NB25, this is equivalent to 10.9 per cent of trend mainland GDP, an increase from 10.4 per cent in 2024. The budget for 2025 and the budgets of previous years are expected to have an expansionary effect on the economy in 2025. According to NB25, this expansionary fiscal policy must be viewed in light of the strengthening of the Defence Forces and the required additional expenditure associated with refugees from Ukraine. The Government also proposes NOK 5 billion extra to municipal and county councils in 2025, and through the settlement with the Socialist Left party, use of petroleum revenue will be increased by about NOK 7 billion in 2025. The parties in the Storting agree to increase support for Ukraine from NOK 15 billion, as laid down in NB25, to first NOK 35 billion and then further to NOK 85 billion. The Government has signalled increased investment in defence in the time ahead, and has launched a "Norway Price" for electricity from October 2025. Households will be able to choose between this fixed price of 40 øre per kilowatt hour, excluding VAT, and the existing energy support scheme. The Government has also proposed reducing the value-added tax on grid charges from 25 to 15 per cent from 1 July 2025, and abolishing VAT entirely from 2026.

Figure 4. Contributions to growth in government expenditure

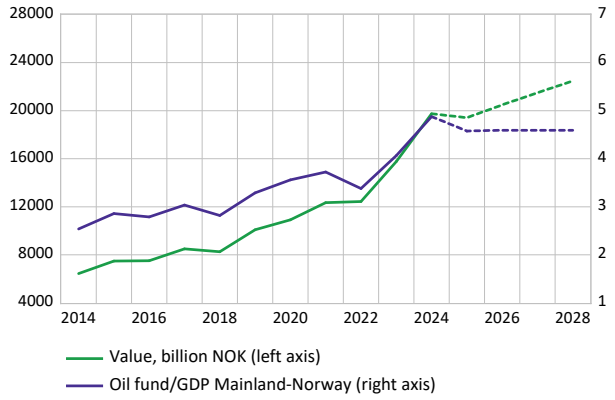
Change from previous year in percent



Source: Statistics Norway

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

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



Source: NBIM and Statistics Norway

The proposals in NB25 for use of petroleum fund capital involved withdrawing the equivalent of about 2.5 per cent of the value of the fund at the start of 2025. The draft budget assumes a fund value at the start of 2025 of NOK 18 500 billion, which is about NOK 2 700 billion more than at the beginning of 2024. The fund's value at the beginning of 2025 was about NOK 19 700 billion, which implies a withdrawal equivalent to roughly 2.8 per cent when the proposed additions are included.

In recent years the value of the fund has increased significantly as a result of favourable developments in global financial markets, the depreciation of the krone and large inflows of capital. Recently, however, the value of the fund has dipped as a result of falling stock exchange prices and a somewhat stronger krone. The value of the fund in mid-March was about NOK 18 800 billion. There is still considerable fiscal room for manoeuvre in the period ahead. However, geopolitical uncertainty and the possibility of further fluctuations in financial and

currency markets create a risk, which implies a gradual adjustment of the use of petroleum revenue. We assume that the real return on the fund will be 3 per cent, and that inflows will be based on oil and gas prices that track forward prices.

We assume that in our projection period the defence programme will entail extensive investment. Three F-35 fighter aircraft were delivered in February 2025 and the last three are expected by the end of 2025. Our previous projection was based on the assumption that the NATO target of spending at least 2 per cent of GDP on defence would be met in 2024 already, and that the long-term plan to strengthen defence would be adhered to going forward. In this projection we assume a further strengthening of defence as a consequence of the security situation that has arisen in Europe. Imports of military defence materiel and support for Ukraine will have little impact on activity in the Norwegian economy. However, purchases of materiel produced in Norway, as well as investment in and upgrading of the defence infrastructure in Norway, will boost economic activity. A gradually expanding health and care sector will also stimulate economic activity in the period ahead. The percentage withdrawn, excluding extraordinary supplementary support to Ukraine, is expected to remain below 2.7 per cent further out in the projection period despite the increased investment in defence.

NB25 forecasts that growth in general government consumption and gross investment will be 2.1 and -0.3 per cent, respectively, in 2025. The Goverment's updated projections in connection with the budget conference in March 2025 are almost identical. We forecast growth in general government consumption and gross investment of 1.7 and 3.2 per cent, respectively, in 2025. These levels are somewhat higher than in our previous report, and the change can be largely attributed to new accounting data on the historic developments through 2023 and 2024. Public consumption is forecast to grow by 1–2 per cent annually further out in the projection period. This is somewhat lower than forecast in our previous report and is partly a result of a switch in priorities in favour of increased defence investment. The real value of transfers, measured by the consumer price index, is expected to increase by about 2.5 per cent further out in the projection period, partly because of the growing number of old-age pensioners.

Interest rate cuts will take somewhat longer

The key policy rate has been 4.5 per cent since December 2023, the highest level since December 2008. Norges Bank's Monetary Policy Report of December 2024 forecast that the first interest rate cut would come at the monetary policy meeting at the end of March this year, and at its January meeting Norges Bank's Monetary Policy Committee reported that the outlook for the Norwegian economy had not changed substantially.

The money market rate normally shadows the key rate with an added premium. From August 2023 to December 2024, the three-month money market rate remained almost unchanged at around 4.75 per cent. It then fell, and at the beginning of March this year lay just under the policy rate, indicating that the market strongly believed in a rate cut at the end of March.

Deposit and lending rates from banks and financial institutions have increased from record low levels in 2021 Q2 and Q3. The average interest rate on loans secured on dwellings rose from 2.0 per cent at the end of 2021 Q3 to 6.1 per cent at the end of 2024 Q1. It fell back slightly through the last three quarters of 2024, to 6.0 per cent at the end of Q4. The average deposit rate increased from 1.3 per cent at the end of 2023 Q3 to 3.4 per cent at the end of 2024 Q1, and remained at roughly this level up to the end of Q4 last year.

In mid-March this year, the krone is somewhat stronger than assumed in our last report. A euro is worth about NOK 11.70, and a US dollar about NOK 10.80. The krone as measured by the import-weighted krone exchange rate has also appreciated slightly since our previous economic report. We keep the krone exchange rate unchanged in our projections.

Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank also takes into account that the interest rate level influences activity in the Norwegian economy. Moreover, it takes into account that its setting of interest rates influences imported inflation through the krone exchange rate. Periods of global turbulence may lead to increased fear of investing in small currencies, such as the Norwegian krone, which may

weaken them.[1] The uncertainty facing us now in the form of trade conflicts and possible breaches of cooperation on security may therefore increase the risk premiums associated with small currencies. A higher than normal differential between interest rates in Norway and abroad may therefore be necessary to counteract the depreciation of the krone. In isolation, this points to the postponement of interest rate cuts in the near term. The high inflation figure in February also implies a postponement of interest rate cuts. At the same time, the preliminary national accounts figures reveal slower growth in activity in the mainland economy in 2024 than we assumed in our previous report.

Our projection for growth this year and through the projection period has been revised down, and the activity level in 2028 is now expected to be about 1.5 per cent lower than forecast in our previous report. In isolation, this points to more rapid interest rate cuts.

In 2024 Norges Bank revised up its estimate for the neutral real interest rate from a range of -0.5 – +0.5 per cent to a range of 0 – 1 per cent. The real interest rate is measured as the nominal interest rate adjusted for inflation. If, in addition, account is taken of the tax deduction on interest, the new range implies a neutral interest rate after tax in the range -0.4 – +0.4 per cent if inflation is at the inflation target. This upwardly revised projection for a neutral real interest rate probably still reflects the long period of low interest rates following the financial crisis.

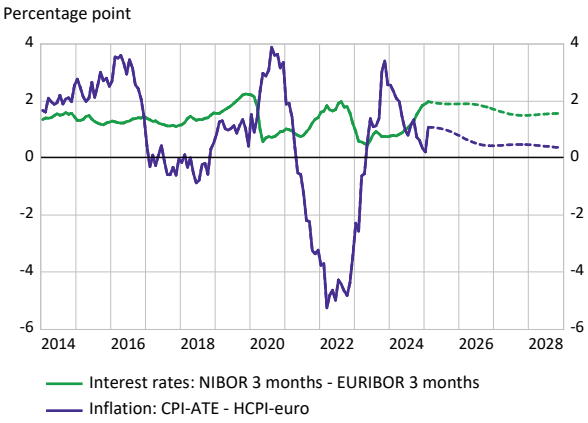
Our interest rate projection entails two interest rate cuts this year and three next year. The key policy rate will then be down to 3.25 per cent in 2027 and 2028. Given a spread of 0.2 percentage point between the policy rate and the money market rate, the latter will be about 3.5 per cent. With forecast inflation of close to 2.5 per cent in 2028, our projections imply a real interest rate of 1.0 per cent. If we take the tax deduction into account, the real interest rate will be 0.3 per cent at the end of the projection scenario. The lending rate – measured as the interest rate on loans secured on dwellings – will fall to just under 5 per cent towards the end of the projection period.

[1] What influences the krone exchange rate? (Norwegian text)

Consumption growth is rising

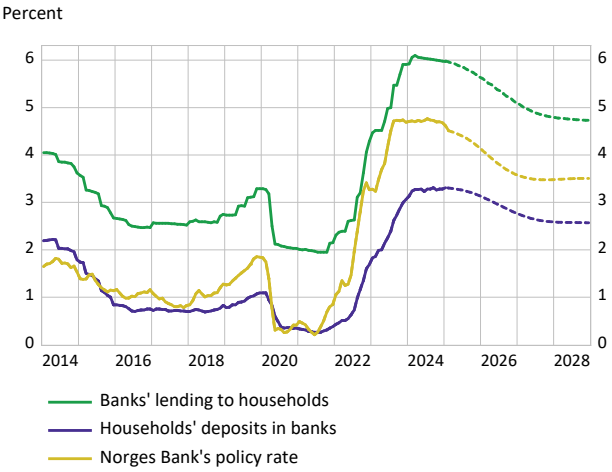
According to the preliminary non-financial sector accounts, the real disposable income of households and non-profit organisations, both including

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



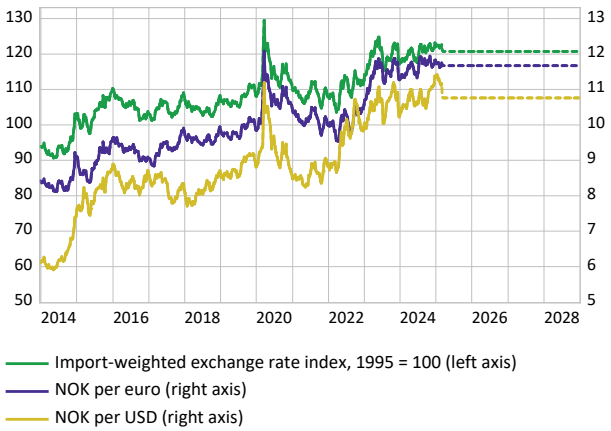
Source: Norges Bank and Statistics Norway

Figure 7. Norwegian interest rates



Source: Norges Bank and Statistics Norway

Figure 8. Exchange rates



Source: Norges Bank

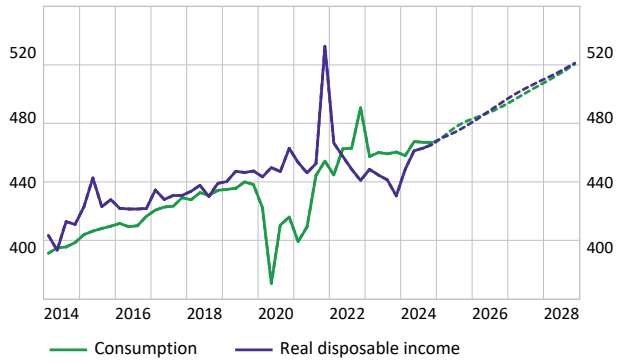
and excluding share dividends, increased by a bare 4 per cent in 2024. The increase last year follows a fall of around 2.5 per cent in 2023. Both growth rates have been revised down by around 1 percentage point since our previous publication in December, mainly as a result of downward revisions of household interest income of approximately NOK 13.5 billion in 2023 and NOK 17.5 billion in the first three quarters of 2024. The downward revisions are based on new data which have been incorporated into the non-financial sector accounts.[2] Higher wage income and public transfers and a lower rise in prices for some goods and services boosted households' purchasing power last year. Higher net interest expenses had a countering effect.

After falling by around 1 per cent in 2023 due to a higher cost of living and higher interest rates, overall consumption by households and non-profit organisations increased by about 1 per cent in 2024, according to the preliminary national accounts. Overall consumption thus remained roughly unchanged through the last two years. By way of comparison, annual consumption growth in the period 2010–2019 was just over 2 per cent. The level of goods consumption in both 2023 and 2024 was lower than that of services consumption, as was the case in the pre-pandemic years. Whereas the 1 per cent increase in goods consumption last year was largely attributable to electricity consumption, leisure activities were mainly responsible for the 1.5 per cent increase in consumption of services. Norwegians' consumption abroad and foreigners' consumption in Norway increased by around 8 and 14 per cent, respectively, last year.

Through much of 2024, disposable income was somewhat lower than consumption, measured in current prices. The saving ratio increased nonetheless as a result of substantial saving in collective pension funds. The saving ratios including and excluding share dividends were 7.5 and 2.5 per cent last year, up by about 3.5 percentage points on 2023. Household net financial investment as a share of disposable income also increased through last year to a level in line with the saving ratio. Households therefore appear to have strengthened their financial positions last year through increased saving and lower housing investment.

Figure 9. Income and consumption in households

Seasonally adjusted, billion 2022 NOK, quarter



Source: Statistics Norway

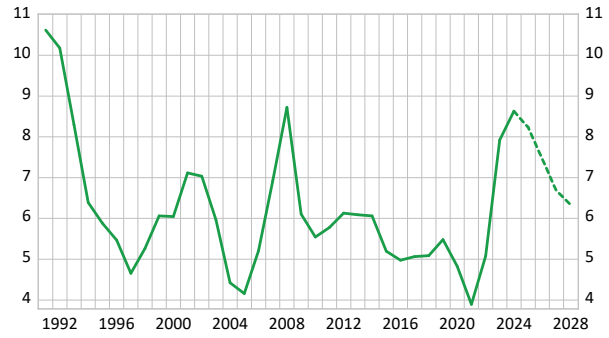
We expect that real disposable income, both including and excluding share dividends, will increase by around 3 per cent in 2025, about 1 percentage point less than forecast in our previous report. The downward revision is partly due to our now expecting fewer interest rate cuts this year than we did previously. For the years 2026–2028, growth in annualised average real disposable income will hover around 2.5 per cent. Both wage income and public transfers will increase considerably more than prices for goods and services, and will make the most important contribution to growth in real income in the near term. At the same time, net interest expenses will contribute positively to purchasing power when lending rates fall as a result of cuts in the policy rate. The level of the household interest burden, measured as interest expenses after tax as a share of disposable income, is therefore projected to fall from around 8.5 per cent in 2024 to around 6.5 per cent in 2028. The average interest burden in the years 2010–2019 was 5.5 per cent.

We forecast growth in total consumption in 2025 of around 2 per cent, roughly 1 percentage point lower than published previously. The downward revision of the projection for consumption growth in 2025 is largely attributable to the downward revision of real income growth. As households normally adjust their consumption to their income with a time lag, the downward revision of the consumption growth projection is also related to the downward revision of growth in real disposable income in the last two years in the non-financial sector accounts. The projection for consumption growth in 2025 implies a clear upswing through the current year after being virtually flat through the second half of last year. The goods consumption

[2] See the national accounts for further details.

Figure 10. Household interest burden

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



Source: Statistics Norway

index for January this year showed fairly broad-based growth of around 1.5 per cent. Given strong growth in both real disposable income and real wealth, consumption growth will rise to an annual average of around 2.5 per cent for the years 2026–2028. This is approximately 0.5 percentage point higher than the annual average for the years 2010–2019.

Our projections for income and consumption, together with saving in collective pension funds, imply an annual saving ratio of around 8 per cent in the projection period. The ratio excluding share dividends will be close to 3.5 per cent. The saving ratios will then be 1 and 0.5 percentage point higher than their averages for the years 2010–2019, partly because greater uncertainty normally prompts more precautionary saving. Our projections also imply that household net financial investment as a share of disposable income will average about 7.5 per cent in the projection period compared with about 0.5 per cent for the period 2010–2019. Thus households' financial position will be strengthened in the near term, as also indicated by the reduction in their interest burden.

The turning point for housing investment may come this year

Following a slight fall in house prices in 2023, the most recent figures for Statistics Norway's price index for resale homes reveal that the rise in prices ended at 2.7 per cent in 2024. The increase from 2024 Q3 to Q4 was 1.5 per cent.

Real Estate Norway publishes a monthly index of house prices. The first two months of the year saw a monthly rise of 1.4 and 0.9 per cent, respectively. Growth was geographically broad-based, with most pressure on larger cities in Southern Norway, and in Tromsø, in the north. Turnover figures show that activity was also very high, and in each of the first two months of the year more than 20 per cent more dwellings were sold than in the same period the previous year. The number of dwellings for sale is still a little lower than last year's level, but is nonetheless high in a historical perspective. The easing of the equity requirement in the mortgage lending regulations, which took effect on 1 January, has probably contributed substantially to the strong developments.

Statistics Norway's building statistics show that the number of housing start permits, measured in square metres, fell steadily through 2024, reaching a historically low level in Q4. Similar figures have not been seen since the banking crisis of the early 1990s. Preliminary national accounts figures show that housing investment fell by 8.1 per cent from 2024 Q3 to Q4. The figures are based largely on building area statistics, and the weak growth should therefore be viewed against the backdrop of the very weak developments in building start permits.

According to the index of actual starts published by the Norwegian Homebuilder Association, about the same number of housing starts were made in 2024 as in 2023. The figures for the past two years represent by far the lowest level in the history of the statistics, and are about 60 per cent weaker than in 2010. The most recent figure, for January 2025, shows that housing starts were 1 per cent lower than in the same period last year. The figures were pushed down by building starts for detached houses and small houses. In January starts were made on 20 per cent more apartments than in January the previous year. Statistics Norway's construction cost index for residential buildings reveals a continued high rise in prices for building materials, with a 12-month rise of 4.2 per cent in January. Statistics Norway's price index for new residential buildings shows a 4.5 per cent year-on-year rise in prices for new multi-unit residential buildings in 2024 Q4, while developments from 2024 Q3 to Q4 were roughly flat. This suggests that prices for resale multi-unit residential buildings may rise faster than prices for equivalent new buildings. In the longer term, this may contribute to making new homes relatively more attractive to purchasers. On the other hand, increased uncertainty may cause

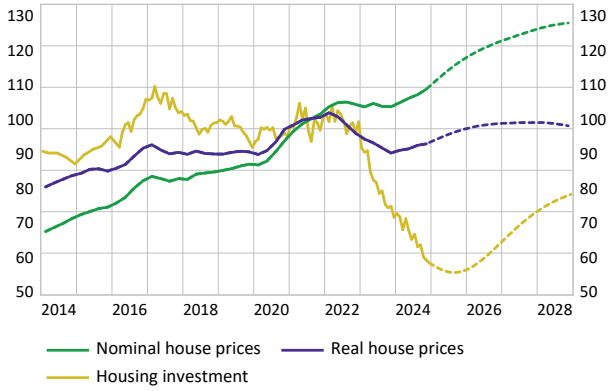
households to prefer resale homes rather than committing themselves to taking over a new home at a future time. Sales of new dwellings picked up markedly in January this year, and the year-on-year rise in January was a full 52 per cent. The increase can be largely attributed to increased sales of apartments. Sales of new dwellings may be an indicator of future housing starts. If this tendency continues, we may well see a turning point towards the end of the year.

In connection with the change in the composition of the Norwegian Government in early February, a target was launched for 130 000 new homes by 2030. The steps taken by the Government to achieve this target consist mainly of making planning and building processes more efficient at municipal level, and having fewer regulations. In isolation, this will speed up housing starts in the longer term, but challenges associated with high mortgage costs, limited access to credit and a continued high rise in prices for building materials cannot be resolved by measures of this kind. It is also difficult, given the general macroeconomic uncertainty, to make assumptions about the scope of these challenges going forward. In March the union Virke Byggevarehandel reported that the weak sales figures for building materials indicate that residential construction does not appear to have picked up so far in 2025. We are revising down our projection for housing investment in 2025 by about 5 percentage points, to a fall of approximately 14 per cent. This will mean a double-figure percentage fall in housing investment for three consecutive years, which has never before been recorded in the national accounts. We expect the fall to bottom out towards the end of the year, to be followed by an increase in housing investment of about 6 per cent in 2026. Growth will gather pace towards 2028, but from a very low level. Although housing investment is expected to grow in the next few years, it will remain at a low level throughout the projection period.

Our house price projections are based mainly on fundamental factors that influence households' demand for homes. These include their real income growth, borrowing, interest burden and real interest rates. We have revised our projection for income growth down somewhat since our last report, which in isolation points to lower house prices going forward. However the other

Figure 11. Housing market

Seasonally adjusted, index, 2022 = 100



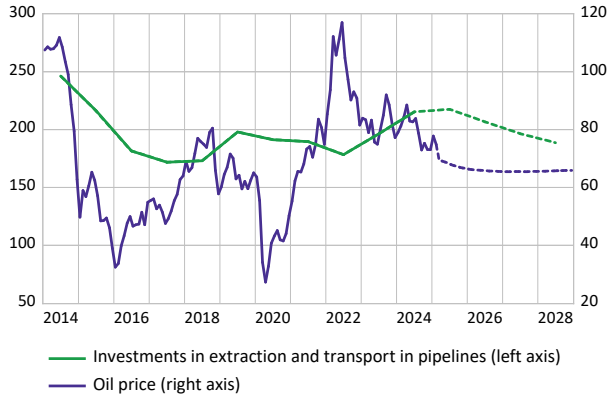
Source: Statistics Norway

factors remain approximately unchanged. Norges Bank's most recent Expectations Survey for 2025 Q1 (Norwegian text) may indicate that households are somewhat more moderate and a little more pessimistic than they were a quarter earlier. The Norwegian Federation of Cooperative Housing Associations' housing market barometer shows that 3 of 4 households interviewed expect house prices to rise over the next year. The low residential construction, expectations of a housing shortage and a further rise in prices, combined with changes in the mortgage lending regulations, are exerting upward pressure on house prices. We are therefore revising up our previous projections to 7 per cent for 2025 and just under 6 per cent for 2026. An overall rise in prices of around 6 per cent is expected for 2027 and 2028 combined. This means that the real rise in house prices will be positive in the years ahead, at an annual rate of between 1 and 5 per cent.

Petroleum investment is levelling off this year and will fall in the next years

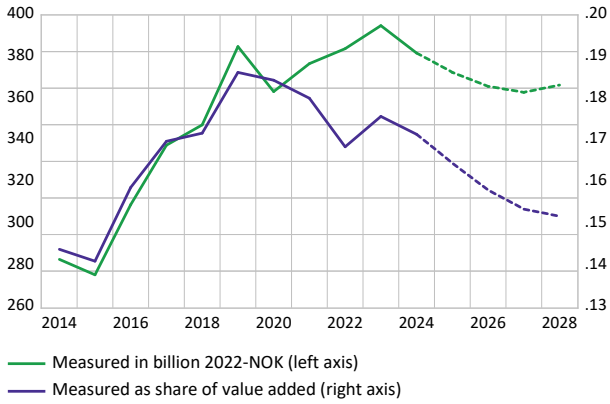
Following strong growth in petroleum investment in 2023, growth continued at roughly the same pace, with 9.6 per cent in 2024, according to preliminary national accounts figures. This is 0.5 percentage point lower than published in our last report. In 2024, growth was driven largely by higher investment in oil production platforms, drilling rigs and modules. Investment in exploration for oil and gas and in pipeline transport was also higher in 2024. There was somewhat lower investment in the category production wells in 2024, following a very high level of activity in 2023.

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



Source: Statistics Norway

Figure 13. Investments Mainland Norway
Billion 2022 NOK, year



Source: Statistics Norway

The strong increase in the investment level in the past two years is clearly attributable to the package of tax measures adopted by the Storting which offered favourable taxation to all developments for a which a Plan for Development and Operation (PDO) was submitted before the end of 2022. This is the reason that very many developments commenced in late 2022, leading to strong investment growth in 2023 and 2024. The main reason that investment was higher in 2024 than in 2023 is that development projects have higher investment in the second year of a development than in the first.

Statistics Norway surveys the petroleum companies' investment plans for the current year and the following year through its quarterly survey of intended investment in oil and gas, manufacturing, mining and power supply (KIS). The nominal projection for 2025 in the last investment intentions survey from February is NOK 254 billion. This is a marginal increase of 0.5 per cent on the figure in the November survey. It is usual for the projections in investment intentions surveys to increase far more than this from November to February. In nominal terms, the petroleum companies' forecasts for 2025 are 4.2 per cent higher than the projection for 2024 published in 2024 Q1.

We assume that there will be some investment in 2025 in projects for which PDOs have not yet been submitted, and which are therefore not included in the survey. Previous experience indicates that it is not improbable that some of the already ongoing developments may also incur somewhat higher costs than shown in the current investment plans. The accumulation of real capital may require more investment activity than previously anticipated. On the other hand, there is also a risk that not all the investments planned for this year will be completed, and that they will have to be postponed until next year. We assume that nominal investment in 2025 in some of the other categories, particularly exploration and concept studies, will be somewhat higher than indicated by the figures in the last survey.

We are therefore revising down our projection for growth in volume of investment in 2025 from 2 per cent in our previous report to 1 per cent, mainly because of a lower forecast for this year than was expected in the last investment intentions survey.[[Since investment in 2024 ended up 0.5 percentage point lower than our previous estimate, our projection implies an investment level in 2025 that is 1.5 per cent lower than forecast in our previous report.

The initial projection for 2026 forecasts total investment in pipeline transport and oil and gas extraction at NOK 197 billion, which in nominal terms is 4 per cent lower than the corresponding projection for 2025 published a year ago. It is the projections for field developments and fields in operation that are depressing the overall projection for 2026 compared with 2025. The development projects that were decided upon at the end of 2022 will have lower investment in 2026, That will not be fully compensated for by investment in new projects. However, we assume that the decline in investment will be eased through the level of activity in 2025 in the other investment categories, taken as a whole, being largely maintained in 2026. We forecast that real investment will fall by 5 per cent next year.

The remaining ongoing developments will be completed in the course of 2027. With a view to benefiting from the Storting package of favourable measures for the petroleum industry, operators on the Norwegian continental shelf planned to deliver PDOs for more developments than they actually achieved by the deadline in 2022. Some of the project plans were not mature enough to be submitted by the deadline, while it was decided to postpone others to avoid overly tight supplier markets that would push up development costs. Some of these projects will probably be realised over the next few years, the largest of them being the Wisting discovery in the Barents Sea. There are also many plans to develop new and older discoveries close to existing fields, plans for modification of old, shut down fields, and some new developments. These projects will curb the decline in 2027 and 2028. We forecast falls in investment of 5 and 4 per cent, respectively, in these years.

The volume of overall petroleum extraction in 2024 was 3.5 per cent higher than in 2023. Gas production increased by 7.1 per cent, while liquid production edged down 0.1 per cent. The Norwegian Petroleum Directorate now forecasts a 2.5 per cent decline in petroleum extraction this year, but growth of 0.6 per cent in 2026. Petroleum production is then expected to fall by 1.8 and 5.4 per cent in 2027 and 2028, respectively.

Weak near-term trend for business investment

Despite rising growth towards the end of the year, annual growth in business investment was negative last year following a sharp decline in the first half of the year. The level of business investment has now reverted to the level in 2019, prior to the Covid pandemic. In terms of value added, however, investment is now at a normal level. In particular, investment in services and investment associated with other goods production fell last year, but investment in manufacturing and mining also fell somewhat. Investment in power-intensive manufacturing helped to dampen the fall, however, by growing substantially through the year. In the near term, we expect investment in manufacturing and mining to be flat, investment in power production to increase significantly, and investment in other wholesale and retail trade and service industries to exhibit a weak decline.

Businesses in manufacturing, mining and quarrying, power supply and oil and gas report regularly to Statistics Norway's investment intentions survey on planned and completed investment. The most recent projections suggest a weak upswing in manufacturing and a slump in mining and quarrying. Power supply is helping to keep overall growth in manufacturing, mining and power supply buoyant, with a forecast for assumed investment in 2025 that is 14 per cent higher than the corresponding projection for 2024 made in 2024 Q1.

Norges Bank's survey of enterprises' outlook on the economy, Regionalt nettverk (norges-bank.no), gathers data on their planned investments . In the most recent report, published in December 2024, businesses announce minor changes in their investments next year. The report implies that investment in the service industries and in wholesale and retail trade will be flat.

In recent years, substantial state funding has been funnelled into subsidies through active industrial policy. Among other things, the state has subsidised the establishment of battery factories, offshore wind projects and capture and sequestration of CO_2. In its statement for 2025, the Advisory Panel on Fiscal Policy Analysis (Norwegian text) pointed out that industrial subsidies have increased substantially, and focus to too great an extent on specific industries. Amongst other things, the panel maintained that investment in offshore wind should be stopped, that the CO2 compensation scheme and investment in batteries should be discontinued, and that the state should not subsidise the development of socioeconomically unprofitable power production or increased use of electricity. If the authorities follow the panel's advice, it may have consequences for industrial investment going forward.

As a consequence of the broad-based build-up of Europe's defence capability, it is likely that activity among producers of defence materiel will increase in the period ahead. This will contribute to keeping manufacturing investment at a high level further out in the projection period.

On balance, we expect a decline in business investment in 2025 and 2026, with a somewhat sharper fall in 2025. The decline in 2025 is somewhat less than forecast in our previous report, while that

Box 2. Import shares

Consumption of goods and services can be divided into final deliveries and intermediate inputs. Final deliveries include consumption, investments and exports. Intermediate inputs are a production factor. Some of the final deliveries consist purely of imports. The remainder are delivered by Norwegian manufacturers, who use imported intermediate inputs to varying degrees.

We have used a static input-output model based on the goods and industry structure in KVARTS and figures for 2022, the last year with final national accounting figures, to calculate import shares for the Norwegian economy. We also show import shares for the previous year, calculated in the same way.[1] The analysis takes account of imported intermediate inputs, also from subcontractors, in addition to direct imports of final deliveries. However, the static input-output model does not take account of changes in relative prices, the spillover effects of changes in earnings, any need for changes in production capacity (investment) or changes in interest and exchange rates.

We also report how large a share the various final deliveries constitute of combined final deliveries. These shares are calculated in 2022 prices, and strongly reflect high oil and gas prices. Whereas exports of oil and gas accounted for less than 10 per cent of overall final deliveries in 2019 and 2020, this share increased to 17.7 per cent in 2021 and further to 27.7 per cent in 2022. This brought exports up to 43.7 per cent of final deliveries in 2022, while the share for 2019 and 2020 was around 25 per cent. Total consumption, which includes consumption by households and non-profit organisations as well as public consumption, accounted for over 50 per cent of final deliveries in 2019 and 2020. This share was reduced to 39.7 per cent in 2022 as a consequence of the high gas prices. New investment, which accounted for about 20 per cent of final deliveries in 2019 and 2020, represented 14.5 per cent of final deliveries in 2022.

In 2022 household consumption had an import share of 32.4 per cent, a 5.5 percentage point increase on 2021. The increase was mainly due to the normalisation of household consumption abroad following low consumption abroad in 2021 as a result of the Covid pandemic. Household consumption abroad is regarded in its entirety as imports. Goods consumption has an import share that is more than twice as high as the import share for consumption of services. Own vehicles, a sub-category of goods consumption, represent a substantial share of imports, as passenger cars are not manufactured in Norway. The reason their import share is not even higher than 57.0 per cent is that mark-ups and taxes account for a large share of the costs of vehicle purchases. Public consumption, which consists largely of labour costs, has a low import share.

Investment is the final delivery category with the highest import share. In 2022, 35.5 per cent of final investments were covered by imports.

Final export deliveries are also partly delivered through imports. In 2022, 23.1 per cent of final deliveries from the Norwegian mainland were covered by imports. Oil and gas exports have a low import share, and as this share has increased in terms of value, it has contributed to pushing down the import share for total exports from over 20 per cent in 2019 and 2020 to 11.4 per cent in 2022.

Shares of imports in final consumption 2021 and 2022. Current prices. Per cent

	Share 2022	Import share 2021	Import share 2022
Consumption	**39.7**	**21.8**	**25.2**
Consumption by households and non-profit organisations	25.5	27.9	32.4
Consumption by non-profit organisations	1.5	16.1	18.3
Goods consumption	11.1	38.8	40.7
Food and beverages	3.3	31.0	31.6
Energy products etc.	1.0	0.9	1.3
Own vehicles	2.2	53.4	57.0
Miscellaneous goods	4.7	46.3	47.9
Consumption of services	11.1	13.8	15.9
Housing	4.3	7.7	6.7
Other services	6.8	18.2	21.6
Norwegians' consumption abroad	1.7	100.0	100.0
Public sector consumption	14.2	11.5	12.3
New investments	**14.5**	**35.4**	**35.5**
By type:			
Buildings and infrastructure	7.1	22.2	23.2
Aircraft and ships	0.6	83.9	67.4
Other types	6.7	43.0	45.4
By industry:			
Mainland Norway	11.8	35.2	35.3
General government	3.3	33.5	32.8
Manufacturing	0.7	45.9	46.8
Other goods-producing industries	1.0	44.1	44.6
Housing	3.3	22.2	23.2
Other service industries	3.6	43.8	43.8
Extraction and pipeline transport	2.4	33.1	34.1
Shipping	0.2	80.8	65.9
Exports	**43.7**	**14.4**	**11.4**
Mainland Norway	13.5	21.9	23.1
Goods	8.8	23.7	24.1
Services	4.8	18.4	21.3
Foreigners' consumption in Norway	0.8	25.2	27.5
Other services	4.0	18.0	20.2
Oil and gas	27.7	2.1	1.4
Shipping etc.	2.5	68.0	59.6
Total use of goods and services	**100.0**	**22.0**	**21.3**

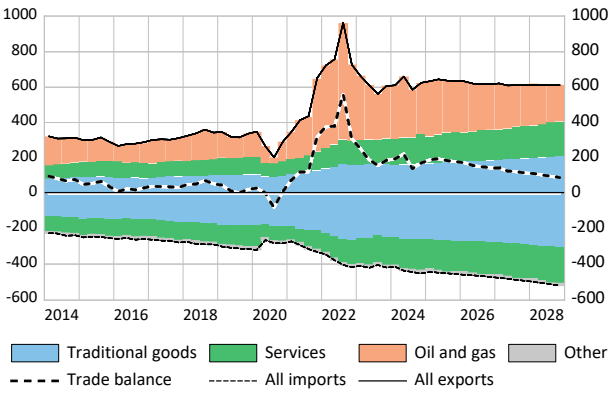
Source: Statistics Norway

[1] In ES 1/2024 import shares were calculated using the most detailed goods and industry structure in the national accounts as a basis. The figures for 2021 given here will therefore deviate somewhat from those reported a year ago.

in 2026 is somewhat more pronounced. All in all, the decline in the projection period is roughly unchanged compared with our previous report. Greater global economic uncertainty, particularly regarding global demand and incipient trade wars, will place a damper on investment activity going forward. At the same time, increased domestic economic activity in combination with lower interest rates will exert upward pressure on investment. Our projections indicate that the level of business investment will fall somewhat in the projection period, but will rise slightly towards the end of the period. Investment measured as a share of value added is expected to fall throughout the projection period.

Figure 14. Foreign trade

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



Source: Statistics Norway

Uncertain prospects for the external account

Mainland exports of both goods and services grew in 2024 Q4, while exports of crude oil and natural gas fell back. Increased exports of the product groups engineering products and basic metals, and the service groups financial and business services along with foreigners' consumption in Norway contributed substantially to growth in mainland exports in Q4. These two product groups and the service group foreigners' consumption in Norway also contributed strongly to annualised growth in mainland exports in 2024. The depreciation of the krone has boosted the competitiveness of differentiated export products and stimulated tourism in Norway for foreigners. However, growth in mainland exports in 2024 was moderate, and lower than in 2023. Growth in service exports has been very high since the Covid pandemic in 2020, while growth in exports of mainland goods has been considerably lower. Exports of both oil and gas increased in 2024 after remaining at a virtually constant level in the years 2021–2023.

Six fighter aircraft were imported in 2024 Q4. Reduced imports of other goods pushed down overall goods imports, With lower imports of electricity, refined petroleum products and cars accounting for most of the decline. There was a broad-based increase in service imports in Q4 last year, with Norwegians' consumption abroad accounting for 30 per cent of all service imports in Q4. Consumption abroad has grown each quarter since 2021 Q2, and is now back at the pre-pandemic level. For 2024 as a whole, service imports increased more than goods imports.

Crude oil and natural gas, along with mainland products such as electricity, refined petroleum products and semi- processed or unprocessed commodities such as fish, basic metals and wooden products are largely priced on international markets in large currencies such as the US dollar and the euro. The depreciation of the krone in recent years has contributed positively to these export prices expressed in Norwegian kroner. Export prices for goods, services, oil and gas all rose in Q4 last year. For the year as a whole, however, only service exports saw a rise in prices. The price of gas (which can fluctuate widely) fell more than the oil price.

The depreciation of the krone has also stimulated the rise in import prices, but the rise in Q4 was less than the rise in prices for mainland exports. Mainland exports grew, while imports fell, thereby reducing the mainland trade deficit in Q4. Norway's trade surplus including the export value of oil and gas increased by 23 per cent, to NOK 171 billion. Since 2022, when Russia's invasion of Ukraine sent the gas price and Norway's trade surplus sky high, the trade surplus has fallen sharply each year as a result of the reduced value of oil and gas exports. In 2024 the trade surplus fell by just over 8 per cent, to NOK 722 billion.

The changes in US economic policy announced by the Trump administration are creating great uncertainty internationally. It is uncertain how much Norway's foreign trade – mainly with the EU and the US – will be impacted by tariffs and a possible trade war. Mainland exports to the US and the EU accounted for 8.4 per cent and 5.7 per cent,

respectively, of total export value in 2024, while imports from the US and Europe accounted for 7.8 and 63 per cent of total import value (see Norway's most important trade partners and Norway's trade with the US) (both with Norwegian text). We have revised down growth in demand from our trading partners compared with our previous projection. We have also revised growth in mainland demand down slightly. In isolation, this has a dampening effect on exports and imports.

We forecast slightly higher growth in mainland exports than in demand from our trading partners, meaning that Norway will win market shares. Growth of exports is slightly higher than estimated growth in imports. The rise in prices for mainland exports is also expected to be higher than the price rise for imports. Mainland foreign trade will thus make a positive contribution to the trade balance. However, production and export of oil and gas are expected to decline slightly through the 2025–2028 projection period, and the oil price is expected to fall. Norway's trade surplus will thus shrink[[through the projection period. The newly approved increase in support for Ukraine will reduce the surplus on the balance of income and current transfers this year. When the income and current transfers surplus, which will increase from next year as a result of the increasing value of the petroleum fund, is added to the balance of trade, the total – the current account balance – as a share of GDP will fall from almost 14 per cent in 2025 to under 10 per cent in 2028.

Higher growth in mainland industries ahead

Preliminary national accounts figures reveal that mainland GDP, in terms of basic value, fell 0.1 per cent from 2024 Q3 to Q4. This followed an upswing through the other quarters. Wealth creation in mainland industries increased by 0.8 per cent for the year as a whole. In terms of market value, mainland GDP grew by 0.6 percent from 2023 to 2024.

Growth in most industries was weak towards the end of last year. Power production pushed up growth, however, while agriculture and fisheries were the largest detractors from growth. These three industries are largely influenced by naturally occurring factors. Output in the aquaculture industry also fell in Q4. There is great uncertainty concerning both fisheries and aquaculture. A significant reduction in the cod quotas from 2024 to 2025 is impacting the ocean fishing fleet in particular. Aquaculture is subject to a number of different challenges such as salmon lice and escaped fish, as well as uncertainty regarding potential trade barriers.

Construction output has fallen since 2022 Q2. Developments have been characterised by a low level of residential construction and of new project starts. However, the beginning of 2025 shows positive movements in sales of new dwellings, although housing starts are limited.[3] The weak economic situation in local government also means fewer contracts for the construction industry. At the same time, some major government central construction projects are contributing positively to activity.

After a long period of fairly flat developments, production in manufacturing and mining increased moderately through 2024. Output fell by 0.4 per cent in Q4, but increased by 1.7 per cent for 2024 as a whole. There are considerable differences across industries. Suppliers to the petroleum industry, such as shipbuilding, had a good year in 2024, but there were signs of levelling off for them too towards the end of the year. Other segments, such as producers of consumer goods, saw negative developments. Statistics Norway's business tendency survey for 2025 Q1 shows that the outlook for manufacturing is positive going forward, and that an upswing is expected in the supply of orders from both the domestic and the export market. Prices for intermediates and for products sold to the various markets are also expected to continue increasing.

The service industries supply their services to the business sector or to households. There are also substantial exports of business sector services. Both types of services showed weak growth through 2024 that flattened out in Q4. An example is wholesale and retail trade, where developments were flat in the last two quarters. This sector is strongly affected by households' willingness and ability to purchase, and goods consumption moved weakly through 2024. It is expected to pick up somewhat in 2025. Among other things, we note that numbers of newly registered private cars in

[3] Upswing in sales of new dwellings (Norwegian text).

January and February were significantly higher than the corresponding figures for November and December. The rise in goods consumptions boosts wholesale and retail trade. Examples of typical business sector services, both in Norway and abroad are information technology services (ICT) and professional, scientific and technical services. Developments in ICT were flat through the whole of 2024, while professional, scientific and technical services, which mainly make deliveries to the petroleum sector, grew moderately. How service production as a whole will develop in the future depends on household demand and on demand for intermediates and investment from the business sector at home and abroad.

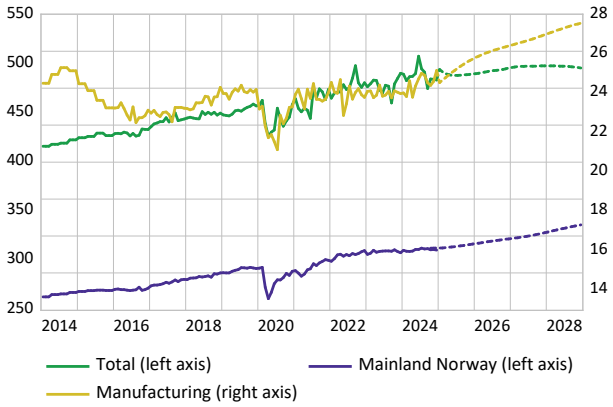
General government activity, which accounts for 1/3 of mainland GDP, increased by 0.6 per cent in Q4, while the increase from 2023 to 2024 was 2.1 per cent. The economic situation of municipalities does not suggest activity growth in 2025. We assume, however, that the level of defence and civil government activity will increase.

Our projections show that growth in mainland industries will rise to 1.3 per cent in 2025, and will be around 2 per cent for the remainder of the projection period. This is a downward revision compared with the previous report of 0.9 percentage point over the next four years. It is not clear to what extent global conditions will impact economic activity in Norway. Increased tariffs subdue global economic activity, which also impacts Norwegian export businesses through lower demand and higher trade barriers. In other respects we assume that Norway will not be directly affected by the protective measures announced by the EU. In sum, we envisage clear growth in manufacturing in 2025, further growth in 2026, and more subdued growth for the remainder of the projection period.

The upturn in the Norwegian economy is also being driven by domestic factors, including increased growth in public consumption and investment. The increase in household real disposable income will stimulate consumption. This will strengthen growth in wholesale and retail trade and other private services. Our projections also show that housing investment will pick up towards the end of 2025. Construction activity is accordingly expected to pick up further out in 2025 and remain buoyant for the remainder of the projection period.

Figure 15. Gross domestic product

Seasonally adjusted, billion 2022 NOK, month



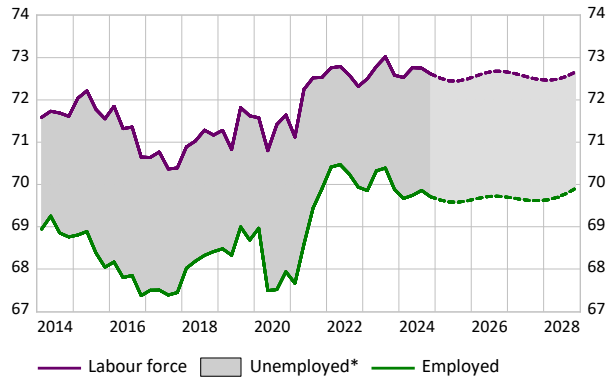
Source: Statistics Norway

Stable unemployment for the next years

Unemployment measured by the Labour Force Survey (LFS) rose from a low level of 3.2 per cent in 2022 to 4.0 per cent towards the end of 2024. This level is approximately the same as the average for the 2010s. According to trend LFS figures, unemployment fell further to 3.9 per cent in January 2025. The trend figures represent long-term developments, and greatest uncertainty is associated with the figures at the end of the time series. Unemployment is expected to remain at around the current level in 2025 and in the following three years. Labour force participation, defined as the share of the population forming part of the labour force, is currently at a historically high level, where it is expected to remain in the near term.

Registered unemployment is published by NAV, and was 2.0 per cent for the first two months of this year. This is 0.1 percentage point lower than in the last four months of 2024, and the reduction has mainly been among unemployed persons with an occupational background in construction. This group nonetheless accounts for the largest share of those with a known occupational background who are registered as fully unemployed, approximately 14 per cent in February 2025. In total, including job-seekers on labour market programmes, 6 500 more persons were registered with NAV in February 2025 than in the same month the previous year. Immigrants from Ukraine accounted for 58 per cent of the increase. Note that the NAV figures are based on a total count of all those registered by NAV as fully unemployed, whereas the LFS figures are based on responses from interviews with a representative sample of the population.

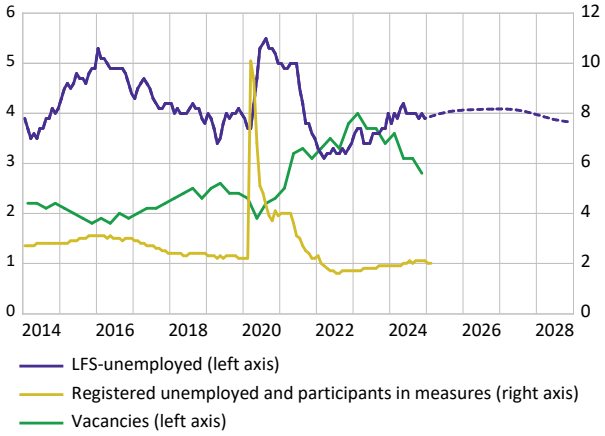
Figure 16. Labour market status
Percent of population in working age, LFS



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

Source: Statistics Norway

Figure 17. Unemployed and number of vacancies
Percent of labour force and of the sum of occupied and vacant positions, seasonally adjusted and smoothed



Source: The Norwegian Labour and Welfare Administration and Statistics Norway

This means that the LFS figures also capture unemployed persons who are not registered with NAV. In addition, some of those registered with NAV as unemployed are not classified as unemployed in the LFS.[4]

The number of vacancies fell by almost 12 per cent from 2024 Q3 to Q4. Statistics Norway's survey of job vacancies has generally shown a decline in the number of vacancies through 2023 and 2024, but from a historically high level in 2021 and 2022. The number of vacancies is still at a fairly high level. According to the NAV figures, the number of new jobs fell somewhat in the course of 2024, but the supply of vacancies is still higher than the level prior to the Covid pandemic. Statistics Norway publishes figures on the stock of job vacancies, while NAV publishes figures on new vacancies based on a narrower definition, which does not include informally announced vacancies.

LFS figures put the employed at 69.7 per cent of the population aged 15–74 in 2024, down 0.4 percentage point on the previous year. In the age group 20–64, those employed accounted for 80 per cent of the population in 2024. This figure was also down 0.4 percentage point on the previous year, and was 2 percentage points lower than the government's target for this age group in 2023; see Meld. St. 33 (2023–2024) (Norwegian text).

According to preliminary national accounts figures, developments in numbers employed were weak through 2024. The number employed increased by 0.2 per cent from 2024 Q3 to Q4. Year-on-year growth from 2023 to 2024 in the number employed was 0.6 per cent. The number of hours worked remained fairly flat through 2024, and annual growth from 2023 to 2024 was 0.2 per cent.

Industries with an increase in the number of employees and hours worked from 2023 to 2024 included the oil and gas sector and services associated with this sector, and some manufacturing segments, in particular manufacture of metal products, electrical equipment and machinery. The number of employees and weeks worked in the defence forces and in health and care services also increased in this period. The number of construction employees fell by 3.0 per cent from 2023 to 2024. The fall was driven by a decline in the erection of buildings, but there was employment growth in the infrastructure sector. Administrative and support service activities, which include the provision of temporary employment services, also saw a decline in the number employed in this period.

According to Statistics Norway's statistics on job numbers and earnings, in January 2025 there were 13 900 Ukrainian immigrants in work and receiving wages amongst those who had immigrated after the invasion in 2022. They account for 30 per cent of Ukrainians aged 20-66 who have immigrated since the invasion and remained living in Norway. The fairly low participation rate is related to the fact that many take part in the introduction programme for newly arrived refugees before they look for work. The immigration from Ukraine has contributed to pushing down the percentage

[4] See the article Why different unemployment figures? (Norwegian text).

employed somewhat in the course of the years 2022–2024, particularly among women.

The number in the labour force continued to increase through 2024, approximately in pace with population growth, according to the LFS. Labour force participation ended up at 72.7 per cent in 2024, 0.1 percentage point down on the previous year. This is a high level in a historical perspective.

After a couple of years with a tight labour market, the situation became more normal in 2024. We still forecast a slight increase in employment in 2025, and that growth will remain weak through the remainder of the projection period. According to our projections, employment will increase in pace with population growth, leaving the employment rate more or less unchanged. We forecast that employment will remain roughly unchanged at the current level for the next couple of years, prior to a slight dip towards 3.9 per cent at the end of the projection period.

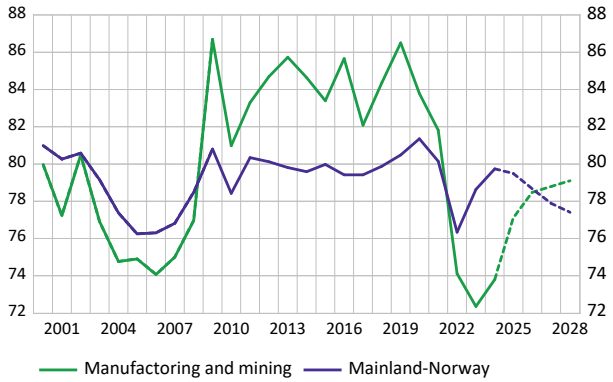
Real wage growth again this year

Statistics Norway's figures show growth in average accrued annual earnings of 5.6 per cent from 2023 to 2024. Assuming a 3.1 per cent rise in the consumer price index (CPI) in the same period, this means a 2.4 per cent reduction in average real wages from 2023 to 2024. This is the highest growth rate since 2012, and the first year with an increase in average real wages since 2020.

Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to wage earners, is estimated to be 72 per cent for manufacturing in 2024. This is up from 71 per cent in 2023 but still lower than the average of just over 80 per cent for manufacturing in the period 2010–2024. In manufacturing, the industry group food, beverages and tobacco products, which accounts for 20 per cent of labour costs in manufacturing as a whole, pushed down the average labour share in 2024. The engineering industry countered by pushing up the share of labour costs in manufacturing in 2024, despite it falling from 82 to 78 per cent from 2023 to 2024.[5]

[5] The engineering industry encompasses the manufacture of metal products, machinery and equipment, electrical products and the like, as well as the construction of ships and oil platforms/modules and the repair and installation of machinery and equipment.

Figure 18. Wage share
Calculations based on factor income adjusted for income of self-employed, percent



Source: Statistics Norway

The Technical Reporting Committee on Income Settlements (TBU) calculates annual wage growth for the largest negotiating areas. Preliminary estimates by the TBU show annual wage growth for manufacturing workers in businesses under the Confederation of Norwegian Corporate (NHO) of 5.6 per cent from 2023 to 2024, while the corresponding growth rate for clerical employees in manufacturing was 4.9 per cent. Overall, annual wage growth from 2023 to 2024 for manufacturing businesses in NHO is calculated to be 5.3 per cent. This is 0.1 percentage point higher than the norm of 5.2 per cent estimated by the NHO, in agreement with the Norwegian Confederation of Trade Unions (LO), for the wage settlement. Annual wage growth from 2023 to 2024 for the engineering segment of the Industry Agreement, which is the wage leader in union settlements, is estimated to be 6.1 per cent.

Growth in average annual wages can be decomposed into contributions from carry-over, pay increases and wage drift. Carry-over indicates how much the wage level at the end of a year exceeds the average level for the year as a whole, and provides information about annual wage growth the following year. The negotiated pay increase is the wage increase arising from central negotiations. Wage drift is the sum of all factors that affect annual wages other than carry-over and negotiated pay increase.

The carry-over into 2024 for manufacturing workers in NHO companies was 1.6 per cent, while pay increases contributed 2.2 percentage points and wage drift 1.8 percentage points to annual wage growth in 2024. For clerical employees in manu-

facturing, wage drift contributed 3.1 percentage points in 2024. Wage drift contributed more to annual wage growth in 2024 for both these groups than the average for the period 2020–2024. The preliminary estimate of the carry-over into 2025 for NHO manufacturing companies is 1.8 per cent, consisting of 1.6 per cent for manufacturing workers and 2.0 per cent for clerical employees. A preliminary estimate of the overall weighted carry-over into 2025 is 1.8 per cent, which is slightly lower than the carry-over into 2024.

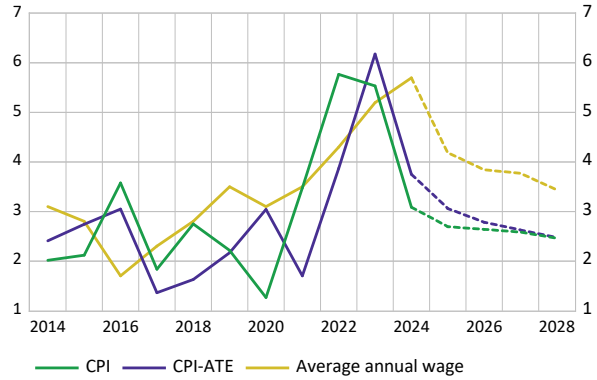
According to our projections, annual wage growth will be 4.2 per cent in 2025 before falling to around 3.5 per cent towards 2028. Wage growth for the current year is being maintained at a high level by sound profitability in manufacturing. Increased global turbulence may create uncertainty about profitability in the near term, which could have a countering effect. Given forecast CPI inflation of 2.7 per cent for 2025, the projections indicate real wage growth of approximately 1.5 per cent in the current year. Our projections point to annual real wage growth of about 1 per cent for the years 2026–2028.

Stable inflation in the years ahead

The rise in the consumer price index (CPI) fell markedly from 2023 to 2024, as did the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE). The annual rise in the CPI ended at 3.1 per cent in 2024, down from 5.5 per cent in 2023. Inflation measured by the CPI-ATE was 3.7 per cent in 2024, down from 6.2 per cent in 2023. Overall, inflation in recent years has been historically high, with annual CPI inflation at a level not seen since the 1980s. In 2022, high prices for energy products added an annualised 1.7 percentage points to CPI inflation, measured as the difference between the CPI and the consumer price index excluding energy products (CPI-AE). For the past two years annual CPI inflation has consistently been lower than CPI-ATE inflation. The difference in the rates of increase between the CPI and the CPI-ATE in recent years is mainly due to a decline in energy prices. In particular, spot prices on the Nord Pool power exchange fell significantly from the peak level in 2022. Prices were more than halved from 2022 to 2023, and the fall continued from 2023 to 2024. Energy support for households was introduced in December 2022, and dampened the impact of high spot prices on household electricity prices. However, energy prices are a cost factor for all industries that use energy. The fall in energy prices since 2022 has reduced the rise in industries' costs, resulting in a lower rise in producer and consumer prices in the last couple of years, on both domestic and international markets.

Figure 19. Consumer price indices and annual wage

Change from previous year in percent



Source: Statistics Norway

According to the CPI-ATE by delivery sector, it was primarily developments in prices for imported goods that contributed to lower inflation last year. Despite a weak exchange rate, the annual rise in prices[[for imported goods exhibited a slowing trend through the year, while movements in prices for Norwegian goods contributed to maintaining high inflation. The rise in prices for services also contributed to keeping the overall CPI-ATE at a high level in 2024, pushed up in particular by rents, which have a high weighting in the CPI-ATE and were subject to high inflation. This is likely to persist into 2025.

The underlying key factors that determine inflation in our calculations are global inflation and the krone exchange rate which, coupled with developments in wages, productivity and energy prices, drive inflation. In our projections, producer prices move such that industries' production costs are covered over time. The time from when a cost impulse arises to when it feeds fully through into producer prices and further into consumer prices is considerable, however. The effects on prices of a weakening of the exchange rate persist for several years, which will contribute to maintaining inflation at a high level in the coming years.

According to the CPI-ATE by delivery sector, the 12-month rise in prices for services excluding rents

Table 4. The consumer price index – goods and services by consumption group

	Weight[1]	Change on previous year. Per cent					
		2021	2022	2023	2024	jan.25	feb.25
Total	**1 000**	**3.5**	**5.8**	**5.5**	**3.1**	**2.3**	**3.6**
Food and non-alcoholic beverages	117.4	-2.0	6.5	9.8	5.3	5.0	7.5
Alcoholic beverages and tobacco	37.2	-1.8	3.7	5.0	4.4	4.7	4.0
Clothing and footwear	45.1	-1.3	0.6	3.8	2.3	-1.2	-2.7
Housing, lighting, fuels	253.0	10.0	6.7	1.9	2.4	2.0	5.1
Of which: Electricity including grid charges	41.4	70.8	19.0	-7.1	-9.9	-9.8	7.1
Furnishings, household equipment	58.1	3.7	6.5	8.5	2.7	1.1	1.8
Health	32.9	3.0	2.5	3.7	4.5	5.2	5.0
Transport	151.0	2.1	8.9	7.1	1.4	1.3	1.7
Of which: Purchase of vehicles	61.9	2.0	4.3	7.4	-1.3	-1.1	-2.0
Communications	17.7	1.5	1.0	5.6	1.0	2.3	5.2
Recreation and culture	134.3	3.1	4.1	8.4	5.4	3.0	2.8
Education	4.6	1.9	2.1	3.1	5.3	5.1	5.1
Restaurants and hotels	67.8	3.3	7.4	6.7	3.6	1.9	3.9
Miscellaneous goods and services	81.0	2.6	2.5	2.0	1.9	0.7	0.7

[1] The weights apply from January 2025 to December 2025.
Source: Statistics Norway

Table 5. The consumer price index adjusted for tax changes and excluding energy products (CPI-ATE). By supplier sector

	Weight[1]	Change on previous year. Per cent					
		2021	2022	2023	2024	jan.25	feb.25
Total	**1 000**	**1.7**	**3.9**	**6.2**	**3.7**	**2.8**	**3.4**
Norwegian products	130.1	1.4	6.0	8.4	5.1	4.9	7.0
Imported goods	326.3	1.5	4.1	6.6	2.3	1.2	1.1
Rent	222.6	1.3	2.0	3.9	4.5	4.2	4.3
Services excluding rent	321.0	2.3	4.1	6.3	4.0	2.4	3.8
- with wages as dominant price factor	96.7	3.6	3.0	3.1	2.4	0.8	0.8
- with other important price components as well	224.3	1.7	4.7	7.8	4.7	3.1	5.1

[1] The weights apply from January 2025 to December 2025.
Source: Statistics Norway

fell through 2024. This is largely due to reduced prices for services with prices that are not fixed in markets, but that are a result of political decisions. The Storting decided to offer free ferry passages for connections with fewer than 100 000 travellers a year from 1 February 2024. The Storting also decided to reduce parents' contributions for day-care centres and the before- and after-school care programme from 1 August 2024. In many areas, national rates form the basis for parental payments. The offer of free ferry passages reduced the 12-month rise in the CPI-ATE by about 0.1 percentage point from February 2024, while the reduction in parents' payments for day-care reduced the 12-month rise in the CPI-ATE by about 0.3 percentage point from August 2024. In the case of service prices resulting from political decisions and subsidies, the production costs are covered to a greater or lesser extent by appropriations over government budgets. In the fiscal budget for 2025, the Storting decided to maintain the rates of parents' contributions for day-care at the same level as in 2024, and to continue the offer of free ferries in outlying areas. Policy-related price cuts imply a change in the price level and affect the inflation rate, measured by the 12-month rise in prices, for a year from the time of their introduction. The price level is still lower than prior to the price reduction, but the inflation rate then reflects more closely the underlying increase in costs. The effect of reduced ferry rates on the 12-month rise in the CPI-ATE tapered off in February 2025, and in isolation increased the inflation rate by about 0.1 percentage point from January to February. When we reach August, the effect on the 12-month rise of reduced day-care rates will taper off, which will push up CPI-ATE inflation by about 0.3 percentage point from July to August. Towards the end of 2025, when the effect of reduced ferry rates and day-care prices is depleted, we expect that the 12-month rise in prices for services excluding rents will reflect underlying cost developments to a greater extent.

Inflation rose sharply from January to February 2025. The 12-month rise in the CPI ended at 3.6 per cent in February, up from 2.3 per cent in January.

Box 3. Above-target CPI inflation partly due to increased return on capital

Some of the impulses underlying the high rise in domestic consumer price inflation have waned. Inflation among our trading partners has fallen substantially since the peak in 2022, while energy prices have come down from extraordinarily high levels. The krone has also been weak, but has been relatively stable this past year. On the other hand, high export prices and a weak krone exchange rate boosted profitability in some manufacturing segments, leading to high wage growth. Conversely, weak domestic demand has translated into weak profitability for the service industries, with a lag before the rise in costs feeds fully through into prices.

In this analysis, we describe the consumer price inflation in our projections with the aid of changes in nominal hourly labour costs, return on capital and total factor productivity (TFP). The framework we use is based on definitions in the national accounts and is described in more detail in Haskel (2023).[1]

According to the income approach in the national accounts, GDP in current prices can be expressed as the sum of labour costs, gross operating surplus and taxes less subsidies[2]:

$$P_y Y = WL + RK + TxS, \quad (1)$$

Where Y represents the volume of GDP, P_y is the price of GDP (the GDP deflator), L is labour input in hours worked, W is the average hourly labour cost, K is the volume of real capital, R is the return on capital and TxS is net taxes (taxes less subsidies) on production.

Haskel (2023) shows that equation (1) can be used to decompose changes in the GDP deflator in share-weighted changes in nominal labour and capital income, changes in total factor productivity, and share-weighted net tax changes.[3]

$$\Delta P_Y = S_Y^L \Delta W + S_Y^K \Delta R - \Delta TFP + S_Y^{TxS}(\Delta \mathrm{TxS} - \Delta \mathrm{Y}), \quad (2)$$

where S_Y^L, S_Y^K and S_Y^{TxS} represent the shares of GDP represented by labour, capital and net tax, respectively, and Δ stands for percentage changes.

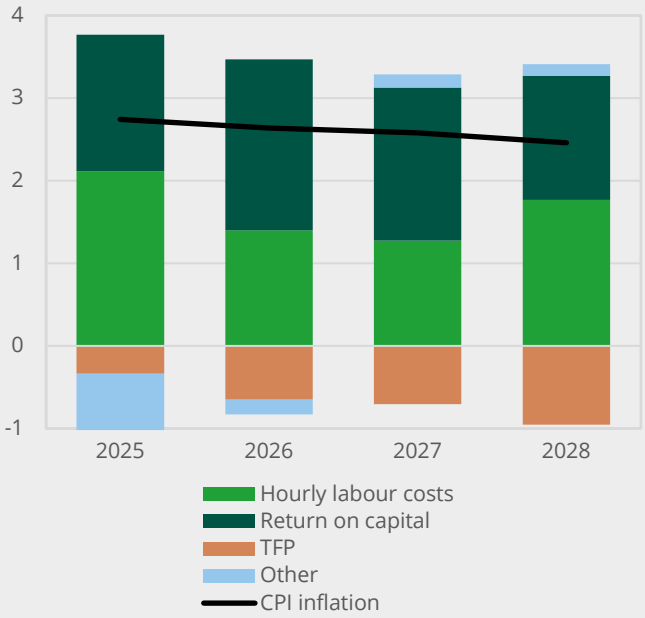
GDP can also be expressed by means of the expenditure approach, as the total of all components used, where each component has a price component and a volume component:

$$P_y Y = P_C C + P_X X + P_I I + P_G G - P_M M + DS, \quad (3)$$

where C is private consumption, X is exports, I is investment, G is public consumption, M is imports and DS is changes in stocks. By expressing this equation in differential form and replacing the change in the GDP deflator with the components from equation (2), changes in consumer prices can be expressed as a function of weighted changes in hourly labour costs and return on capital, changes in total factor productivity and an error term.[4]

$$\Delta P_c = S_Y^L \Delta W + S_Y^K \Delta R - \Delta TFP + \epsilon \quad (4)$$

Figure 1. Decomposition of CPI inflation



Source: Statistics Norway

Figure 1 shows the decomposition of our projections for consumer price inflation through the projection period.[5]

Hourly labour costs (light green columns) are expected to make a considerable contribution to inflation in 2025, but their importance will wane as the labour share in manufacturing reverts to its historical average and wage growth slows.[6] At the same time, a gradual normalisation of TFP growth (red columns) will lead to slower inflation, as a more effective production process reduces the need to pass costs through into prices.

Despite falling hourly labour costs and increased productivity, inflation is expected to remain relatively stable. This is because the return on capital is expected to increase (dark green columns). Preliminary figures for 2024 reveal wide variations in profitability across industries. Whereas manufacturing has benefited from increased competitiveness as a result of the weaker krone exchange rate, many service industries have struggled to normalise profitability and keep the rise in their prices in pace with cost growth.[7] In the near term we expect the higher cost level to be gradually passed through into prices, which will contribute to normalising profitability and increase return on capital.

In addition inflation will be affected by changes in net taxes and the terms of trade, and by changes in prices for other GDP components. The net contribution from these factors is represented by the blue columns. In 2025 the negative

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[1] This analysis does not focus on identifying how changes in the krone exchange rate, energy prices and import prices affect inflation. The effects of changes in these factors will come about via changes in the costs of labour and capital and changes in the terms of trade and other GDP components.
[2] The gross operating surplus is defined as the operating surplus plus capital attrition. Taxes also include payroll tax.
[3] Equation (2) holds true with reservations for some discrepancies that are due to choice of price and volume indices.
[4] The derivation is described in more detail in Haskel (2023). The error term includes changes in subsidies, taxes, weighted changes in prices for imports, exports, public expenditure and investment and statistical discrepancies: $\epsilon = S_Y^{TxS}(\Delta \mathrm{TxS} - \Delta \mathrm{Y}) + S_C^M(\Delta P_M - \Delta P_Y) - S_C^X(\Delta P_X - \Delta P_Y) - S_C^G(\Delta P_G - \Delta P_Y) - S_C^I(\Delta P_I - \Delta P_Y) + S_C^Y \psi$ where ψ is an error term that captures changes in stock and any index problems arising from the use of chained indices and various statistical discrepancies.
[5] Although the CPI and the consumer price deflator have different weightings through the year, which may create differences between the indices, the underlying drivers in our projections are the same for both indices. The differences that arise are assumed to fall in the error term in equation (5). See Box 3.2 in *Økonomiske analyser* 1/2023 (Norwegian text) for further details of the difference between the CPI and the consumer price deflator in the national accounts.
[6] In 2028 the contribution from hourly labour costs will increase because there are fewer business days in this year.
[7] Although revised figures show that the hourly labour costs in the service industries was higher than previously assumed (see Box 4), it is still low in a historical perspective.

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contribution to inflation will be particularly due to the fact that import prices are expected to increase less than prices for domestic goods and services, which improves the terms of trade and reduces businesses' costs.

Our projections for inflation in Norway are based on the assumption that the krone exchange rate and forward prices for electricity and other energy will remain unchanged and that global inflation will remain close to 2 per cent in the years ahead. Developments in these factors are shrouded in uncertainty, particularly because of changes in trade policy and geopolitical risk. There is also uncertainty surrounding the current situation in the Norwegian economy; see Box 4 for the importance revisions of preliminary national accounts figures can have for accuracy in forecasting consumer price inflation.

CPI-ATE inflation was 3.4 per cent in February, up from 2.8 per cent in January. Movements in prices for food and non-alcoholic beverages in particular, as well as for electricity, contributed to the rise. A cold month contributed to the high electricity prices in February. Electricity spot prices have fallen again and will probably end up some way under last year's level, measured as the average in March. The 12-month rise in prices for food and non-alcoholic beverages rose to 7.5 per cent in February, up from 5.0 per cent in January. The rise can be partly explained by price movements in 2024, when prices fell from January to February, whereas they rose this year. Prices for food and non-alcoholic beverages fell further from February to March last year in connection with Easter sales. This year Easter is in April. We will probably see a high 12-month rise for this product group in March, but the rate may then come some way down again in April.

An increase in prices for food and non-alcoholic beverages, with their CPI weighting of 12 per cent, has contributed to the high inflation of recent years. Naturally occurring factors play a part in food production, and the high price level we are currently observing for products such as coffee and chocolate can be traced back to a shortage of raw materials. The price level for food products and non-alcoholic beverages fell from January to March 2024, but then rose markedly from April to July. Some of this upturn can probably be attributed to poor harvests in 2023 as a result of extreme weather in both Norway and Europe. Trade with the EU has gradually increased through the EEA Agreement, and some of the upswing in prices is due to a weak krone exchange rate. Norwegian agriculture is sheltered[[to some extent, and the agricultural agreement for the coming agreement year will have a bearing on further price developments. Wage growth, energy costs, and the krone exchange rate affect production costs in the food industry, wholesale and retail trade and transport. Given the cost estimates on which the projection is based, we assume that the 12-month rise in prices for this product group will slow through the year.

The annual rise in prices for imported goods as a whole was 2.3 per cent in 2024. This is a sharp decline from 2023, when prices rose 7.0 per cent. Global inflation fell. The krone was weak, but the import-weighted exchange rate index was almost unchanged, as an annual average, from 2023 to 2024, following a clear weakening from 2022 to 2023. Global inflation has been revised up slightly compared with our previous report. We assume generally that the annual rise in prices for import goods will be stable going forward and consistent with global inflation of somewhat over 2 per cent. The projections have been revised in some areas. This applies, for example, to prices for cars, which fell from 2023 to 2024. There is reason to believe that strong market competition coupled with still falling battery prices will result in a very moderate rise in prices in the years ahead, given a stable exchange rate.

The annual rise in rental prices was 4.4 per cent overall in 2024, and higher than the general rise in prices. The 12-month increase in rents was 4.3 per cent in February 2025, which is still close to the annual average for 2024. The house rent index has a weight of about 22 per cent in the CPI-ATE and consists of actual rent and of imputed rent. Prices for imputed rents shadow movements in prices for equivalent dwellings in the rental market. Existing rents are largely regulated by means of the consumer price index, while price adjustments in connection with entry into new rental contracts are also included in the overall rise in prices. The change in actual rents has largely tracked the CPI with a time lag. Given lower CPI inflation and an expected lower interest rate level, it is reasonable to assume that the rate of rent inflation will gradually fall. Population growth and a shortage of rentals are having a countering effect. We assume

that the rise in rental prices will slow and and it will be some years before it approaches CPI inflation. Rents contribute most to inflation further out in the projection scenario.

The average spot price for electricity in Norway fell by over 30 per cent from 2023 to 2024. As in all the years since 2020, spot prices were consistently highest in Southern Norway. According to the Norwegian Water Resources and Energy Directorate (NVE), reservoir levels at the beginning of March were higher than normal for the time of year in all Norwegian price areas, and record high in Central and Northern Norway, measured as the average for the last 20 years. Levels in snow reservoirs are low, however. According to Statnett, the system operator of the Norwegian power system, the transition to emission-free power production in Europe is proceeding apace, and about 250 TWh of solar and wind power were developed in 2023 and 2024 alone. In periods when little solar and wind power have been produced, German spot prices have been high. The high spot prices on the Continent have spilled over into Norwegian spot prices via the transmission cables to other countries. At the beginning of the year there was wide fluctuation in listed spot prices on the Nordic power exchange, Nord Pool. Fluctuating temperatures also affected the price level. We have taken the average forward price in February 2025 as the basis for developments in electricity spot prices. Movements in electricity forward prices indicate that average spot prices will remain more or less unchanged from 2024 to 2025 for Southern Norway, while they will fall considerably for Central and Northern Norway.

In forecasting the household electricity price, we have taken account of the energy support package for households. We have also incorporated the Government's proposed package of lower electricity prices, submitted on 31 January this year. The Government proposes a number of new measures for lowering household electricity bills. According to Government statements, households will be able to choose between the current electricity support scheme and a new, fixed "Norway Price" of 40 øre/kWh. The Government aims for the fixed price scheme to come into effect by 1 October 2025 at the latest. At the same time, the current electricity support scheme will be continued. We have also incorporated the Government proposal to reduce value-added tax on grid charges from 25 to 15 per cent from 1 July 2025. We have assumed that 60 per cent of consumers in Southern Norway will choose the fixed price from October. This percentage includes leisure houses and cabins. Electricity prices for Central and Northern Norway are expected to be lower, and it is assumed that consumers here will largely keep to spot price contracts. We have extended these assumptions to the end of the projection period, adjusting both energy support and the fixed price in line with general inflation. This means that we have not yet incorporated the Government's proposal to abolish value-added tax on grid charges completely from 1 January 2026.

The Norwegian Energy Regulatory Authority (RME) has defined a preliminary income cap for ordinary distribution companies, excluding Statnett, of NOK 24.8 billion for 2025, compared with a final income cap of NOK 23.3 billion in 2024. The income cap limits the grid charges the electricity suppliers can impose on their customers. Bottleneck income arises because of price differentials across price areas, and in principle accrues to Statnett. Given the large differences across price areas at the start of 2025, we have assumed that grid charges excluding taxes will be kept at the level in January 2025 for the remainder of the year. With a 3 per cent rise on last year, excise is contributing to an increase in grid charges. It is assumed that the reduced value-added tax on grid charges from 1 July will also reduce excise income. NVE has announced that in the years ahead grid charges may rise because of increased investment in the transmission network. We have assumed that grid charges excluding excise will increase slightly more than general inflation going forward.

We assume that forward prices in the power market will be fairly stable in the years ahead. The introduction of a fixed price and lower VAT on grid charges will curb the rise in prices in 2025 and 2026. With a fixed price agreement, households will be faced in the longer term with some periods of the year with higher prices than they would have had with a spot price contract. We have assumed that household electricity prices, including grid charges, will fall by 2 per cent from 2024 to 2025. Prices remain virtually unchanged on average from 2025 to 2026. After that they will increase a little more than general inflation in the years 2027 and 2028. Overall we have assumed that the extra support measures, with reduced VAT on grid charges

from 1 July and the introduction of a fixed price from 1 October, will reduce CPI inflation by 0.2 percentage point in 2025.

The difference between the CPI and the CPI-ATE is determined by movements in prices for energy products and developments in special tax and VAT rates. We assume that fuel prices largely shadow the crude oil price in NOK, as a high premium of special taxes dampens the effect of the underlying movements in the price of crude oil. There are several levels of fuel taxes. In the approved fiscal budget for 2025, the CO2 tax on both petrol and diesel increases by about 20 per cent. At the same time, the Storting has cut the road tax, with petrol and biodiesel getting the biggest reduction. We forecast that, on balance, fuel prices will rise a little more than underlying inflation next year. The increase is countered by an expected fall in the crude oil price in NOK, so that annualised average prices at the pumps are forecast to decline somewhat overall from 2024 to 2025. Given an expected reduction in electricity prices, we assume that prices for energy products as a whole will reduce CPI inflation by 0.3 percentage point for 2025, measured as the difference between the CPI and the CPI excluding energy products (CPI-AE). In the years ahead, energy products as a whole will contribute to slightly lower inflation in 2026, but for 2027–2028 we assume that household energy prices will rise roughly in pace with general inflation.

In the approved fiscal budget for 2025, most special taxes have been adjusted by about 3 per cent. The lowest air passenger tax rate will be reduced in 2025. This applies to travel inside Norway and to Europe. The Storting has decided to further reduce the traffic insurance tax (motor vehicle tax) for cars with combustion engines in 2025. Taxes on cars with combustion engines increase from 1 April 2025, but this is of little importance given that a large percentage of car purchases are expected to be electric cars. The Storting has decided to cut value-added tax on water supply and waste water services from 25 to 15 per cent from May 2025. In the CPI, tenants pay municipal charges indirectly through their rent. Changes in actual rent are reflected in both the CPI and the CPI-ATE, whereas home owners pay municipal charges directly and tax reductions affect the difference between the CPI and the CPI-ATE. In our projection, tax reductions are forecast to reduce inflation in 2025 by 0.1 percentage point, measured as the difference between the annual rise in the CPI-ATE and the annual rise in the CPI-AE. The overall difference between the CPI and the CPI-ATE will thus be -0.4 percentage point. We have adjusted the special tax rates for inflation for the years 2026–2028 and assume that they have a neutral effect on CPI inflation.

Since our last report, all leading indicators that determine inflationary developments have been revised on the basis of new, updated data. The krone exchange rate is fixed at its current level in the projections, which means that the rise in import prices for typical consumer goods will be just over 2 per cent in the medium term, in line with the projections for global inflation. Lower wage growth and an upswing in productivity from low levels in recent years is curbing the inflation rate; see Box 3 for the decomposition of CPI inflation in our projections. Movements in rental prices, which have a high weighting in the CPI-ATE, contribute to maintaining inflation.

Annualised CPI-ATE inflation is expected to fall to 3.1 per cent in 2025, a decline of 0.6 percentage point on 2024. CPI inflation is forecast to fall from 3.1 per cent in 2024 to 2.7 per cent in 2025. The rates of both CPI and CPI-ATE inflation are then projected to be fairly stable up to 2028.

Inflation projections are uncertain. The uncertainty is associated in particular with movements in the krone exchange rate, energy prices and the global economy, including significant changes in trading partners' tariff policy. While there is great uncertainty associated with both the scope and the level of future tariffs, analyses by several professional communities indicate that higher tariffs will have a greater impact on economic activity than on inflation (see Box 1 in ES 4/2024).

Uncertainty surrounding the projections

Statistics Norway presented its first projections for the Norwegian economy in 1988, and since 1990 has with few exceptions published projections for at least two years ahead in February/March, May/June, September and November/December each year in the publication *Economic Survey*. In the following we provide an evaluation of the projections for three important macroeconomic variables: growth in mainland gross domestic product (main-

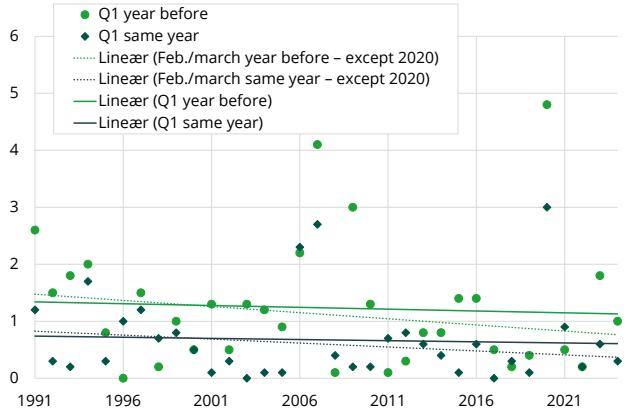
land GDP), inflation measured by the consumer price index (CPI), and the unemployment level as a percentage of the labour force (LFS unemployment). We investigate both whether the projections have deviated systematically from the ex post outturn, and the spread of the discrepancies. The evaluation is also used to say something about the uncertainty surrounding Statistics Norway's projections for 2025 and 2026.

There are often differences between the preliminary GDP figures published in February the year following the accounting year and the final figures, which are normally only available almost two years later.[6] The "final" figures may also be revised in connection with periodic revisions when new statistics are incorporated or when the calculation principles are changed. We use provisional GDP figures from the preliminary accounts as ex post outturns for three reasons. First, the final accounts figures are not available for the years following 2022. The projections for these years must therefore be compared with preliminary accounts figures regardless. Second, the projections are made on the basis of preliminary – not final – accounts figures for the recent past. Third, changes were made in definitions in connection with the main revisions in 1995, 2002, 2006 and 2014, which means that projections and final figures are not associated with the same measuring system.[7] For example, our projections for mainland GDP in 2013, published before the main revision in 2014, would have been different if we had used the new definition when making the projections. Final figures for CPI and LFS unemployment are available shortly after the end of the year.[8]

How accurate have our projections been?

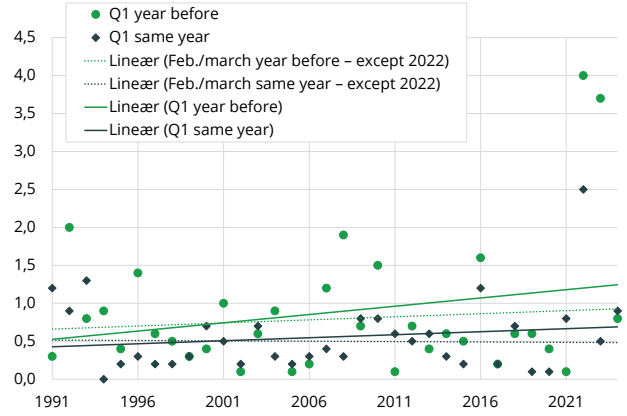
Figures 20, 21 and 22 show developments over time in the absolute discrepancies between projections and preliminary accounts figures for mainland GDP growth, CPI inflation and LFS unemployment. We have also included linear trend lines which show how the forecast errors have developed over time. Since the errors for mainland GDP growth and LFS unemployment for 2020

Figure 20. Projections of the percentage change in mainland GDP. Absolute deviation from preliminary accounting figures



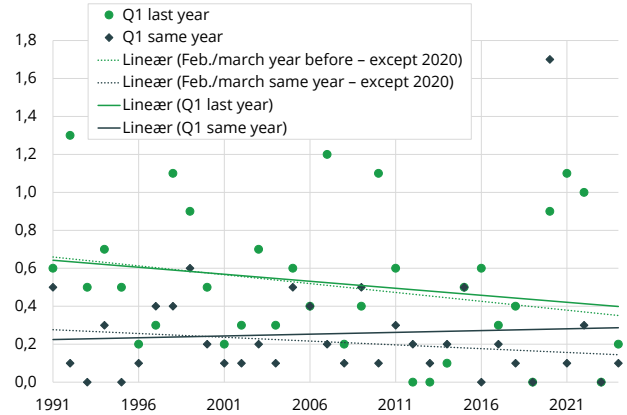
Source: Statistics Norway

Figure 21. Projections of the percentage change in CPI. Absolute deviation from published figures



Source: Statistics Norway

Figure 22. Projections of unemployment (LFS). Absolute deviation from published figures



Source: Statistics Norway

[6] Helliesen, M. K., H. Hungnes, and T. Skjerpen (2022). Revisions in the Norwegian National Accounts: accuracy, unbiasedness and efficiency in preliminary figures. *Empirical Economics,* 62 (3), 1079–1121.

[7] The main revision in 2011 did not result in major changes in macro figures.

[8] With the publication of the January index on 10 February 2017, the reference year in the CPI was changed to 2015 (2015=100). A change in the reference year may result in discrepancies in already published change figures due to rounding effects. As the CPI is final the first time it is published, the figures first published represent the official and final figures.

were very large, we made two trend lines for each forecast horizon: one based on all projection years from 1991 up to and including 2024 (solid line) and one in which we excluded the projections for 2020 (broken line). The errors for CPI inflation in 2022 published at the beginning of 2021 and 2022 were also large. We therefore also constructed two trend lines for each forecast horizon: one based on all projection years from 1991 to 2022 inclusive (solid line) and one excluding the projections for 2022 (broken line).[9]

If we exclude the projections for 2020, the broken blue line in Figure 20 shows that the forecast errors for mainland GDP growth have diminished over time. This applies to both the projections published the previous year (broken red line) and those published the same year (broken blue line). The solid lines show developments when the GDP projections for 2020 are also included. These also decline over time, but not as much as when the GDP projections for 2020 are not included.

The broken blue line in Figure 21 shows that the projections for CPI inflation published early the same year have improved with time, if the projections for 2022 are excluded. However the errors for 2022 were so large that the projections now show increasing forecast error over time. The projection for CPI inflation in 2022 published in early 2021 was 4.0 percentage points too low, while that for CPI inflation in 2022 published early the same year was 2.5 percentage points too low. Extraordinarily sharp increases in energy prices, partly as a consequence of the war in Ukraine, have contributed to this, and our forecasting tool is not equipped to foresee such price changes.

If we exclude the projections for 2020, the broken lines in Figure 22 show that unemployment projections have improved over time. The projections for LFS unemployment published the year before the projection year have improved over time even when the figures for 2020 are included. This despite the fact that the projection for unemployment in 2020 published in March 2019 was 0.9 percentage point out. The unemployment projection published in April the same year (which was the first published projection in 2020) was far too pessimistic and overestimated unemployment by 1.7 percentage points. This error was so large that when the projection for 2020 is included, we find that the LFS projections published early the same year have no longer become more accurate with time.

In the next figures we look at different aspects of the uncertainty associated with projections published at different times. These are based on historical forecast error, and include the forecast errors for 2020 (for mainland GDP and LFS unemployment) and 2022 (for CPI inflation).

Figures 23, 24 and 25 show the average differences between projections published at different times and the ex post outturn for growth in mainland GDP, CPI inflation and the unemployment level measured as a percentage of the labour force. The figures also provide an indication of the spread in the discrepancies, by including three bands around the average. These bands are calculated on the basis of the historical spread. They do not say anything about how many of the discrepancies actually lie within the bands. Under given conditions,[10] the probabilities that the discrepancies between future projections and the ex post outturn lie within these bands are 50, 80 and 90 per cent, respectively. We have only used the projections for the years from 1995 onwards when calculating the bands. The forecast errors for 2020 (for mainland GDP and LFS unemployment) and 2022 and 2023 (for CPI inflation) are thus included in the basis for calculating the uncertainty bands, which has led to the latter being larger than previously estimated.

Has there been systematic forecast error?

The forecast error for GDP growth published for different projection horizons has summed to zero; see Figure 23. On average, the projections made the previous year (with the exception of the projections published in November/December the previous year) have been too high. This applies in particular to the projections published in February/March and May/June the preceding year, when the projections averaged around 0.3 percentage point higher than the ex post outturn. Conversely, the GDP projections made the same year were too

[9] The projections for CPI inflation in 2023 published early in 2022 also deviated substantially from observed CPI inflation in 2023. We have not made separate projections in which we adjust for this error.

[10] All the discrepancies form part of a given statistical distribution (normal distribution with the same expectations and spread) and are independent.

low. This applies in particular to the first projections made in the projection year, which were 0.3 percentage point too low on average. The forecast error for 2020 has made a large contribution to this picture. If the projections for 2020 are excluded, the projections for GDP growth published in February/March the previous year have been 0.1 percentage point too high, while projections published in May/June the previous year have almost matched the ex-post outturn.

On average, projections for CPI inflation have been a little lower than actual CPI inflation; see Figure 24. The average forecast error for CPI inflation is reduced from -0.5 percentage point in February/March of the year prior to the projection year to -0.2 percentage point in February/March of the projection year. The CPI projections published in the last three quarters of the year they apply to have all matched the outturn. The forecast errors for 2022 and 2023 have led to about half of the average projection discrepancies.

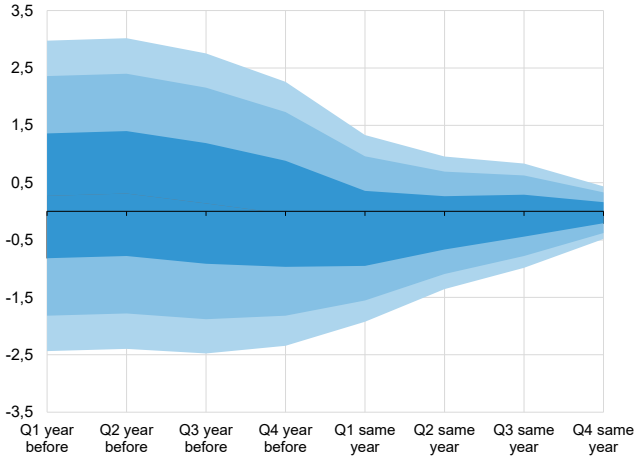
Unemployment projections have tended to be systematically somewhat too high; see Figure 25. The projections published in February/March the year prior to projection year are on average 0.2 percentage point too high. After that the average discrepancy is about 0.1 percentage point up to and including the projections published in May/June the same year. Subsequently, discrepancies are virtually zero on average.

In view of the large spread in these projections, the evaluation indicates that there are no large systematic errors in our projections for the three main variables.

The spread in the projections

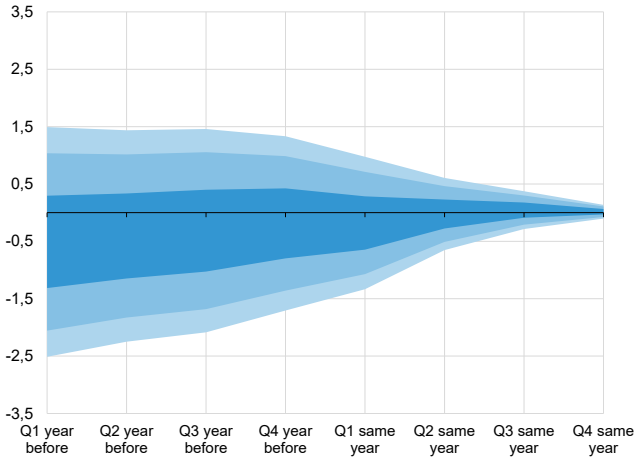
There has been a relatively wide spread in the discrepancies between the projection for GDP growth published in the first three forecasts in the year prior to the projection year and the preliminary accounts figure. Of the 30 projections from and including 1995 made in February/March the preceding year, 12 are more than one percentage point off the preliminary accounts figure. Only once was the projection completely accurate – the one for 1996. The projections in 1998, 2008, 2011, 2012, 2018 and 2022 were also very good, deviating by only 0.1–0.3 percentage point. The variation in the discrepancies is considerably less, on average, in

Figure 23. Projections of the percentage change in mainland GDP. Absolute deviation from preliminary accounting figures and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



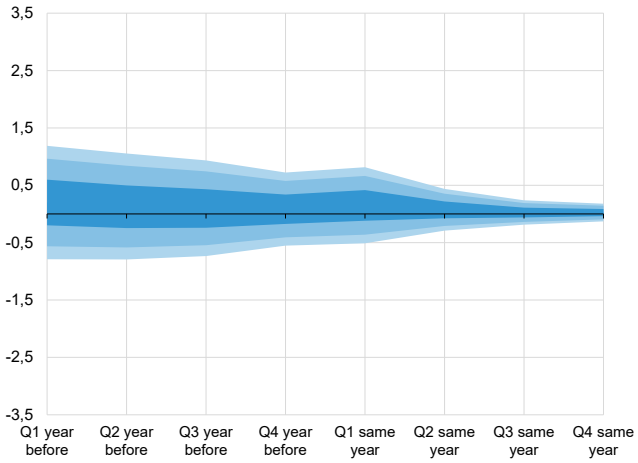
Source: Statistics Norway

Figure 24. Projections of the percentage change in CPI. Absolute deviation and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



Source: Statistics Norway

Figure 25. Projections of unemployment (LFS). Absolute deviation and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



Source: Statistics Norway

the projections made in December the previous year, but 8 out of 30 projections are still more than 1 percentage point off the mark. Despite possessing ever more data on economic developments in the year for which projections are made, the spread in the discrepancies is therefore relatively wide right up to and including the projections in September the same year. One important reason for this is that the quarterly GDP figures have often been revised quite considerably through the projection year. The last projections we make before the outturn is available again show a distinct decline in the spread of the discrepancies. The GDP projections published in November/December the same year have been out by a maximum of 0.6 percentage point (for 1995), but the forecast error was 0.5 percentage point three times (1997, 2015 and 2020).

We find a similar pattern in the projections for annual CPI inflation. There is substantial variation between the first three projections and the outturn, then the spread decreases gradually. In the projections published in September the same year, the discrepancy only exceeded 0.3 percentage point once (for 2017), when it was 0.6 percentage point). And in the projections published in the last quarter of the year, the discrepancy for CPI was a maximum of 0.1 percentage point. As the CPI is not revised, this reflects the fact that uncertainty lessens through the year as the actual development of the CPI gradually emerges.

The spread in the error between the unemployment projection and the outturn also declines as the projection horizon shortens. The mean absolute discrepancy is 0.5 percentage point in February/March the preceding year and 0.3 percentage point in November/December of the preceding year. After that the spread continues to narrow gradually, measured by the mean absolute discrepancy. The error for unemployment is reduced considerably in the last two projections prior to the outturn, with a maximum discrepancy of 0.3 percentage point (the projection for 1997 published in November/December the same year, and the projections for 2020 and 2021 published in September the same year). As in the case of the CPI, this is because the figure is not revised but gradually emerges in the course of the year.

Projections for 2025 and 2026 are uncertain

The uncertainty associated with our projections for 2025 and 2026 is illustrated in Figures 26, 27 and 28. Mainland GDP growth is now projected to be 1.2 per cent in 2025 and 1.9 per cent in 2026. In light of the historical forecast error for the years 1995–2024, there is a 50 per cent likelihood that mainland GDP growth will be between 0.5 and 1.9 per cent in 2025 and between 0.8 and 3.0 per cent in 2026. Ranges of a total of 3.3 percentage points in 2025 and 5.4 percentage points in 2026 cover the ex post increase with a probability of 90 per cent.

CPI inflation was 3.1 per cent in 2024. It is forecast to be 2.7 and 2.6 per cent, respectively, in 2025 and 2026. Historical forecast error indicates that there is an 80 per cent probability that the projections for 2025 and 2026 will not be more than 0.9 and 1.5 percentage points, respectively, off the mark.

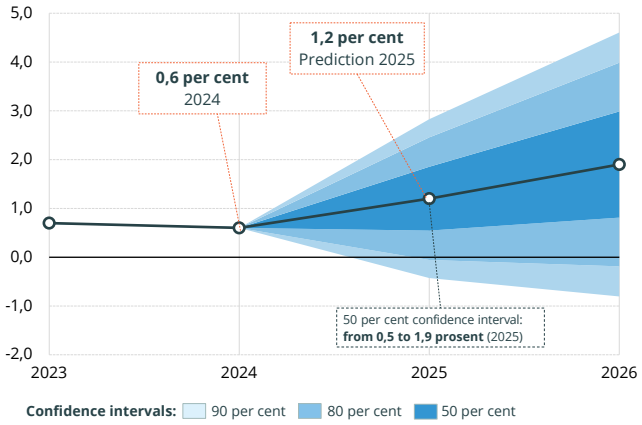
Unemployment averaged 4.0 per cent in 2024, and is forecast in our projections to be 4.0 per cent in 2025 and 4.1 per cent in 2026. Historical forecast error indicates an 80 per cent probability that the published LFS figure will not deviate more than 0.5 percentage point from our projection for 2025. In 2026, on the other hand, there is an 80 per cent probability that unemployment will lie within a range of 0.8 percentage point above or below the projection.

There is great uncertainty regarding both the global and the Norwegian economy going forward, and it is probably larger than the forecast errors for the period 1995–2024. This means that the uncertainty associated with our projections is greater than indicated by the uncertainty fans in Figures 26–28.

How accurate were Statistics Norway's projections for 2024?

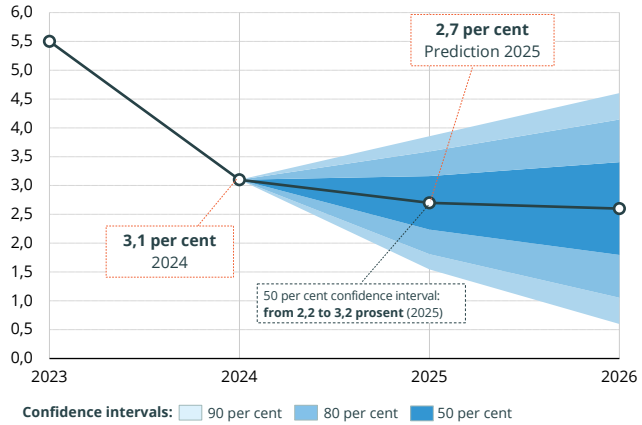
Table 6 shows projections for 2024 published in *Economic Survey* March 2022 (ES 1/2022), March 2023 (ES 1/2023) and all editions of the Norwegian publication Økonomiske analyser published through 2024. These are juxtaposed with published figures for 2024. Growth in the Norwegian economy was a little higher than forecast in 2023, even though mainland economic growth was somewhat lower than foreseen. Inflation, measured both as the rise in the consumer price index (CPI) and the rise in the consumer price index adjusted for tax

Figure 26. Projected percentage change in mainland GDP



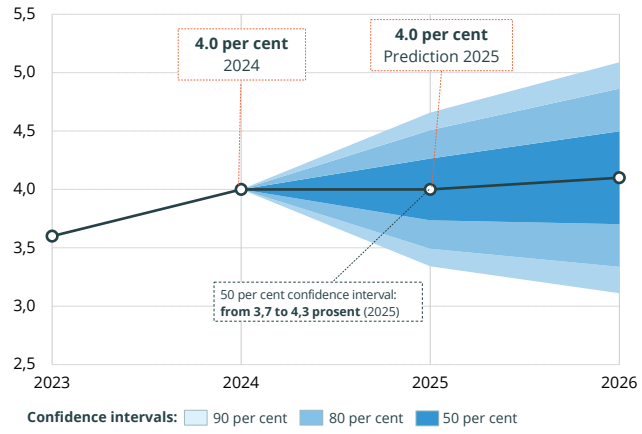
Source: Statistics Norway

Figure 27. Projected percentage change in CPI



Source: Statistics Norway

Figure 28. Projected percentage change in unemployment (LFS)



Source: Statistics Norway

changes and excluding energy products (CPI-ATE) was far weaker last year than forecast at the beginning of 2024. However, the rise in house prices was stronger than we predicted at the start of the year.

Despite slower growth in the mainland economy, the fall in gross investment in the mainland economy was less than assumed in last year's projections. This is mainly due to a revision of public sector fixed capital in 2023 and 2024. Investment in defence and local government was revised sharply down in 2023 and 2024.

The rise in the CPI and CPI-ATE was substantially lower than assumed in the first half of 2024. Box 4 provides an account of the reasons for our errors. Revised national accounts figures show that the return on real capital in 2022 and 2023 was higher than the amount forming the basis for the projection for 2024. Thus it was not as necessary for businesses to raise prices in 2024 in order to maintain profitability, as originally assumed in the projections.

Growth in the average annual wage was also somewhat stronger than foreseen last year. Growth last year was 5.6 per cent, while our projection for accrued annual wage growth varied between 5.2 and 5.3 per cent through the year. Disbursed annual wages in 2024 broken down by industry show that growth in manufacturing, wholesale and retail trade and health and social services was 5.3 per cent, while construction and administrative and support service activities contributed to pushing growth up to higher than our projection. Better than expected profitability in administrative and support service activities may have contributed to wage growth in 2024 being higher than forecast.

The rise in house prices was higher than forecast through 2024. In ES 2/2024 we forecast a 2.6 per cent rise in house prices, a sharp upward revision from ES 1/2024. In the KVARTS macroeconomic model that forms the basis for our projections, house prices are determined by factors such as developments in real interest rates, household real disposable income and housing wealth. The theoretical and empirical properties of the KVARTS housing module are based on Boug et al. (2024). In 2024 house prices were considerably higher than these fundamental factors are able to explain.

Building costs have increased substantially in recent years, leading to a pronounced fall in housing investment since 2023. As mentioned above, annual wage growth in the construction sector was relatively high in 2024. A weak krone and high interest rates also depress profitability in construction. Weak sales of new dwellings and limited access

to credit for residential builders have also made it difficult to initiate new housing projects. If there are many cases of residential construction not taking place even though housing start permits have been obtained, the preliminary national accounts figures may overestimate housing investment. This will then be revised down as more data comes in. In some municipalities, planning and building cases may have a very long processing time, and planning proposals may have been submitted for processing before the difficult situation for the building industry arose. This increases the likelihood of housing start permits, once issued, not resulting in actual residential construction. The last years have probably been characterised by such downward revisions and this lack of reliable data has therefore contributed to our previous underestimation of the actual fall in housing investment. This fall has been far larger than assumed in our projections for the first three quarters of 2024.

Table 6. Forecasts for 2024 given at various times and preliminary published figures for 2024 per March 2025. Percentage growth unless otherwise noted

	2022/1	2023/1	2024/1	2024/2	2024/3	2024/4	Published figures 2024 (per March 2025)
Demand and output							
Consumption in households etc.	2.2	1.5	0.6	0.2	1.1	1.1	1.2
General government consumption	2	1.7	2.1	2.2	2.3	3.1	2.4
Gross fixed investment	3.2	1.9	-1.2	-3.5	-2.4	-2.3	-1.9
Extraction and transport via pipelines	6.5	6	11	10	11	10.1	9.6
Mainland Norway	2.5	0.6	-5.7	-6.7	-5.3	-5.9	-4.9
Housing	2.0	1.2	-16.1	-15.4	-16.2	-19.8	-19.1
Demand from Mainland Norway	2.2	1.4	-0.5	-0.9	-0.1	0.1	0.2
Exports	2.6	2.3	3.1	3.1	1.9	5.5	5.7
Imports	3.6	1.9	2.1	0.6	0.9	1.4	3.7
Gross domestic product	2.1	1.8	1.1	0.8	1	2.2	2.1
Mainland Norway	2.1	1.6	0.9	0.5	0.7	0.9	0.8
GDP in current prices (NOK billion)			5 126	5 186	5 195	5 165	5 198
Labour market							
Employed persons	0.5	0.1	0	0.2	0.5	0.6	0.6
Labor force	0.4	0.1	0.4	0.8	0.8	0.9	0.9
Participation rate (level)	72.9	72.4	72	72.2	72.3	72.7	72.7
Unemployment rate (level)	3.6	3.8	4.1	4.1	4.1	4	4
Prices and wages							
Wages per standard man-year	3.8	4.5	5.2	5.2	5.3	5.3	5.6
Consumer price index (CPI)	1.9	2.3	4	3.8	3.4	3.2	3.1
CPI-ATE	2.1	2.8	4.3	4.1	3.9	3.7	3.7
House prices	2.4	-1.3	2	2.6	2.5	2.4	2.7
Income, interest rates and excange rate							
Household real disposable income	2.4	3.9	0.5	2.2	4.6	4.7	3.8
Household saving ratio (level)	9	3	5.3	5.7	7.2	8.1	7.3
Money market rate (level)	2	2.9	4.6	4.7	4.7	4.7	4.7
Importweighted krone exchange rate (country)	0	0.5	-0.6	-0.2	1	0.7	0.8
NOK per euro (level)	9.86	11.19	11.43	11.51	11.68	11.62	11.6
Current account							
Current balance (bill. NOK)	637	876	708	825	878	943	892
Current account (per cent of GDP)	13.1	16.8	13.8	15.9	16.9	18.2	17.2
International indicators							
Exports markets indicator	4.5	1.9	1.8	1	2.4	2.2	2.3
Consumer price index, euro-area	2	2.5	2.2	2.3	2.5	2.5	2.5
Money market rate, euro (level)	0.8	2.5	3.1	3.7	3.6	3.6	3.6
Crude oil price US dollar (level)	80	77	77	81	79	80	79.6

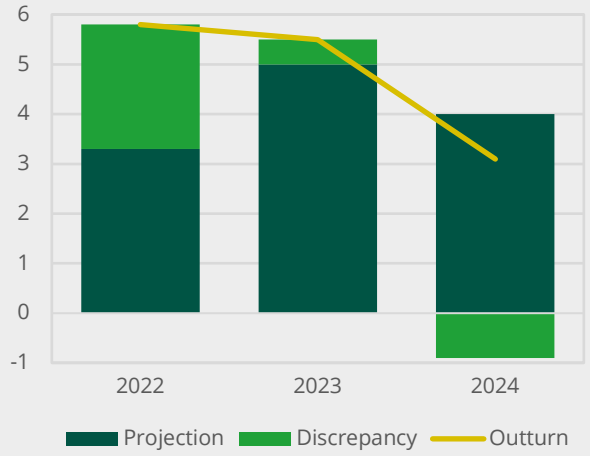
Source: Statistics Norway

Box 4. Why did we forecast inflation incorrectly?

Recent years have been characterised by large changes in the Norwegian and global economies. The post-pandemic rebound and Ukraine war both caused a sharp rise in market prices globally. Domestic inflation surged from 3.2 per cent in January 2022 to 7.5 per cent in October the same year, measured by the 12-month rise in the consumer price index (CPI). In 2024 it was 3.1 per cent as an annual average.

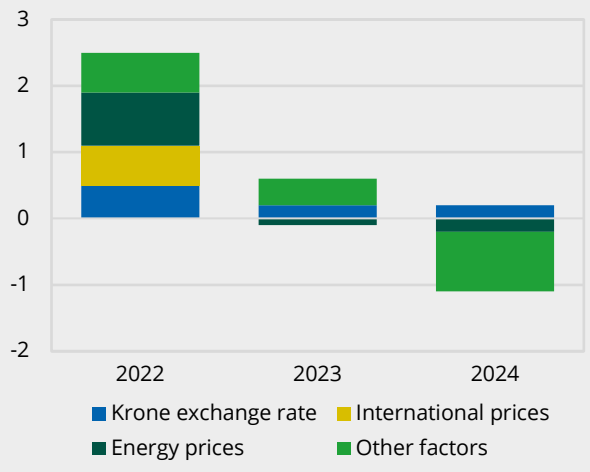
Large, sudden changes in the economy have made forecasting work particularly challenging, and the discrepancies between our projections and realised CPI inflation have been record high these past years (see section on forecasting uncertainty). Figure 1a shows our projections for annual CPI inflation compared with the ex-post outturn for the years 2022–2024. The projections in the figure are those published in Q1 of the projection year. In 2022 and 2023, we underestimated inflation by 2.5 and 0.5 per percentage point, respectively. At the beginning of 2024, however, we forecast higher inflation than shown by the ex post outturn, with a discrepancy of -0.9 percentage point.

Figure 1a. Annual CPI inflation: actual rise and projection from Q1 the same year



Source: Statistics Norway

Figure 1b. Decomposition of forecast error for CPI inflation
Discrepancy in percentage points between ex post outturn and projection from Q1 the same year



Source: Statistics Norway

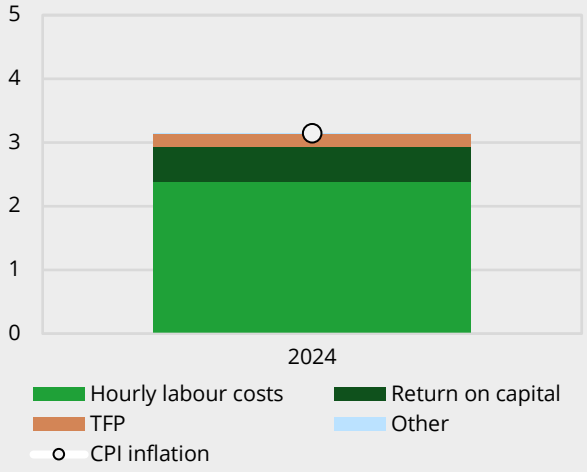
Historically, energy prices, the krone exchange rate and inflation among our trading partners have been important drivers of domestic inflation. Figure 1b shows the decomposition of the forecast error for the years 2022–2024 into contributions from these three factors. In 2022 they accounted for a major share of the discrepancy. In addition, inflation in 2022 and 2023 was higher than historical factors might suggest; see Box 2 in ES 3/2023. In 2024, however, the forecast error cannot be attributed to changes in energy prices, the krone exchange rate or inflation among our trading partners. Nor can the negative discrepancy be attributed to disruptions in historical contexts, which led to forecast error in 2022 and 2023.

In order to explain why consumer price inflation in 2024 was lower than forecast, we perform a decomposition based on data and projections from ES 1/2024, which we then compare with a similar decomposition based on the most recent national accounts figures, published on 11 November.

Figure 2a. Decomposition of CPI inflation in 2024 based on ES 1/2024

Source: Statistics Norway

Figure 2b. Decomposition of CPI inflation in 2024 based on historical data



Source: Statistics Norway

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Figure 2a shows a decomposition of our projections in ES 1/2024 for consumer price inflation in 2024, while Figure 2b shows a corresponding decomposition of the ex post outturn.

The decomposition is based on the definitions in the national accounts, and breaks down consumer price inflation into changes in nominal hourly labour costs and return on capital as well as total factor productivity (TFP). See Haskel (2023) and Box 3 for a more detailed description of the decomposition.

In our March 2024 projections we assumed that the increase in hourly labour costs (light green column) would be the most important driver of inflation, contributing 2.2 percentage points. Historical figures show that hourly labour costs actually contributed 2.4 percentage points, which is partly due to somewhat higher than assumed annual wage growth in 2024.

At the same time we expected mainland return on capital would push up inflation by 1.8 percentage points (dark green column). As shown in Figure 2b, the actual contribution from the change in return on capital was 1.3 percentage points lower than expected.

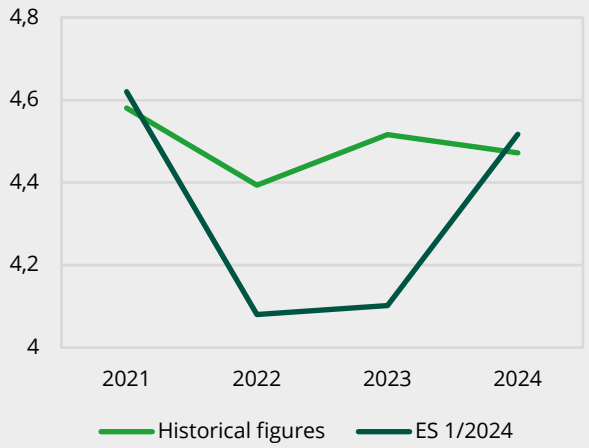
The unexpectedly low contribution must be viewed in light of the upward revision of the national accounts figures for return on capital in 2022 and 2023. There have been particularly large changes in the service industries, which account for around 30 per cent of private consumption. Figure 3 shows the return on capital, measured as the ratio between operating surplus and the value of capital stocks in the service industries. The dark green line shows developments based on national accounts figures from February 2024 and our projections, while the light green line shows historical figures. We assumed in our projections that a rise in prices in the service industries would push up overall consumer prices by 0.8 percentage point, which would contribute to normalising return on capital, as shown by the dark green line in Figure 3.

However, the updated national accounts figures show a significant upward revision of the return on capital in the service industries; see the light green line in figure 3. The operating surplus in the service industries was revised up for both 2022 and 2023, in part as a result of higher domestic market prices and lower costs than previously assumed. The need to increase prices to maintain a more normal return on capital was thus not as great as assumed in our projection for 2024.

Our projections for 2024 Q1 assumed a slight fall in TFP. However the TFP level was revised up for 2023, and the forecast fall in 2024 was then more pronounced than assumed in our projection. In isolation, developments in TFP thus accounted for 0.2 percentage point of inflation in 2024 (red column).

Error in forecasting inflation may be attributable to a number of factors. As a rule, a large portion can be attributed to discrepancies in projections for energy prices, the krone exchange rate and/or inflation among our trading partners. However, our analyses show that these factors did not make a major contribution to the forecast error in 2024. Much of this error must be viewed bearing in mind that the return on capital in 2022 and 2023 was markedly higher than what was assumed when the projection for 2024 was made. Preliminary

Figure 3. Net return on capital. Private services industry.[1] Per cent



[1] Net return on capital is equal to the ratio between the operating surplus and the value of real capital. The aggregate does not include wholesale and retail trade, housing services and rental of commercial buildings etc.

Source: Statistics Norway

national accounts figures are based on a broad set of indicators. The preliminary figures are revised as more data, including from company accounts, become available. Large, abrupt changes in many parts of the Norwegian economy have led to substantial revisions of some areas of the preliminary national accounts figures, particularly for 2022, as reflected in the forecast error for 2024. In the years ahead we consider that the greatest uncertainty for inflationary developments in Norway will be associated with developments in energy prices, the krone exchange rate and inflation among our trading partners.

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Haskel, J. (2023, 25. mai). What's driving inflation: wages, profits, or energy prices? Speach presented at Peterson Institute for International Economics, Washington, DC.

[1] According to the most recent national accounts figures, both import and domestic market prices increased more in 2022 than historical contexts based on Boug et al. (2013, 2017, 2023) would imply. Preliminary figures for 2023 show that the unexpectedly strong increase in import prices eased through the year, while the rise in domestic market prices remained higher than the empirical relationships would imply. At the same time there has been considerable variation across industries; for example, prices in the service industries increased less than expected in light of historical contexts.

[2] As changes in energy prices, the krone exchange rate and inflation among our trading partners are incorporated in the prices paid by businesses for intermediate inputs, these factors will affect companies' operating results and hence influence consumer price inflation through changes in return on capital. The operating result in the traded sector also influences wage growth through the wage leader model. These three factors will also affect consumer price inflation through changes in the terms of trade.

Table 7. Main economic indicators 2016–2028. Accounts and forecasts[1, 2]

										Forecasts			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Demand and output													
Consumption in households etc.	1.1	2.2	1.4	1.0	-6.2	5.1	7.8	-1.2	1.2	2.1	2.3	2.6	2.3
General government consumption	2.3	1.9	0.6	1.1	-0.5	3.6	1.8	3.4	2.4	1.7	1.8	1.6	1.0
Gross fixed investment	3.9	2.6	2.2	9.5	-4.1	0.7	0.3	-1.5	-1.9	-1.6	0.5	1.5	1.7
Extraction and transport via pipelines	-16.0	-5.4	0.7	14.3	-3.3	-0.9	-6.0	10.2	9.6	1.0	-5.0	-5.0	-4.0
Mainland Norway	9.0	6.8	1.5	6.3	-3.1	1.6	1.7	-2.6	-4.9	-2.9	1.6	3.2	3.1
Industries	12.6	9.2	3.1	10.3	-5.3	3.2	2.7	2.9	-3.3	-2.4	-1.8	-0.8	1.0
Housing	6.6	7.3	-6.5	-1.1	-1.6	3.5	0.4	-18.3	-19.1	-14.1	6.5	15.2	10.0
General government	6.4	2.6	8.1	7.5	-1.1	-2.5	1.5	4.1	3.5	3.2	3.8	2.4	1.8
Demand from Mainland Norway[3]	3.1	3.1	1.2	2.3	-3.9	3.9	4.7	-0.3	0.2	1.0	2.0	2.4	2.1
Exports	0.4	1.6	-1.5	2.1	-2.3	6.1	5.2	0.4	5.7	-1.7	1.4	0.7	-1.5
Traditional goods	-11.2	0.9	2.0	5.1	-0.8	6.7	-1.8	5.3	1.9	2.8	2.6	3.3	2.8
Crude oil and natural gas	5.4	5.2	-4.6	-2.9	10.5	0.2	0.3	-1.8	7.5	-4.0	0.6	-1.2	-4.9
Imports	1.9	1.8	1.4	5.3	-9.9	1.8	13.3	-1.5	3.7	0.9	1.7	2.5	2.4
Traditional goods	-1.4	3.5	2.8	6.2	-2.7	5.4	6.2	-6.2	3.6	0.2	1.3	2.5	2.5
Gross domestic product	1.2	2.5	0.8	1.1	-1.3	3.9	3.2	0.1	2.1	-0.4	1.5	1.1	-0.3
Mainland Norway	0.9	2.2	1.9	2.3	-2.8	4.5	4.3	0.7	0.6	1.2	1.9	2.0	1.8
Manufacturing	-4.1	-0.1	1.6	2.1	-5.7	5.6	1.0	0.0	1.6	3.2	4.0	2.7	1.5
GDP in current prices (NOK billion)	3 116	3 323	3 577	3 597	3 462	4 324	5 733	5 102	5 198	5 451	5 531	5 649	5 768
Labour market													
Total hours worked. Mainland Norway	0.6	0.5	1.6	1.5	-2.1	2.4	3.5	0.6	0.3	0.7	1.1	1.1	0.2
Employed persons	0.3	1.1	1.6	1.6	-1.5	1.1	3.7	1.3	0.6	0.4	0.5	0.3	0.5
Labor force	0.2	-0.2	1.4	1.0	0.4	2.2	1.4	1.3	0.9	0.4	0.6	0.2	0.3
Participation rate (level)	70.4	69.7	70.2	70.5	70.4	72.1	72.6	72.8	72.7	72.5	72.7	72.6	72.6
Unemployment rate (level)	4.7	4.2	3.8	3.7	4.6	4.4	3.2	3.6	4.0	4.0	4.1	4.0	3.9
Prices and wages													
Wages per standard man-year	1.7	2.3	2.8	3.5	3.1	3.5	4.3	5.2	5.6	4.2	3.8	3.8	3.4
Consumer price index (CPI)	3.6	1.8	2.7	2.2	1.3	3.5	5.8	5.5	3.1	2.7	2.6	2.6	2.5
CPI-ATE[4]	3.0	1.4	1.6	2.2	3.0	1.7	3.9	6.2	3.7	3.1	2.8	2.6	2.5
Export prices. traditional goods	4.5	4.7	5.1	0.1	-3.5	12.6	30.4	0.0	-1.5	3.3	2.4	2.3	2.5
Import prices. traditional goods	2.5	3.2	4.1	2.5	4.3	5.0	15.9	5.5	0.7	2.6	1.7	2.0	2.2
House prices	7.0	5.0	1.4	2.5	4.3	10.5	5.2	-0.5	2.7	7.0	5.5	3.2	2.3
Income. interest rates and excange rate													
Household real disposable income	-1.6	2.0	0.9	2.0	1.1	4.1	-3.6	-2.4	3.8	2.8	2.8	2.8	2.2
Household saving ratio (level)	6.9	6.6	5.9	7.1	12.9	13.8	4.7	4.0	7.3	7.7	8.0	8.0	7.7
Money market rate (3 month NIBOR) (level)	1.1	0.9	1.1	1.6	0.7	0.5	2.1	4.2	4.7	4.4	3.8	3.5	3.5
Lending rate. credit loans (level)[5]	2.6	2.6	2.7	3.0	2.6	2.1	2.9	5.0	6.0	5.8	5.4	4.9	4.8
Real after-tax lending rate. banks (level)	-1.6	0.1	-0.7	0.2	0.7	-1.8	-3.3	-1.5	1.5	2.4	2.1	1.8	1.7
Importweighted krone exchange rate (44 countries)[6]	1.8	-0.8	0.1	2.9	6.7	-5.3	1.2	8.5	0.8	0.6	-0.2	0.0	0.0
NOK per euro (level)	9.29	9.33	9.60	9.85	10.72	10.16	10.10	11.42	11.63	11.68	11.67	11.67	11.67
Current account													
Current balance (bill. NOK)[7]	163	210	320	136	38	644	1699	887	890	778	719	641	567
Current account (per cent of GDP)	5.2	6.3	9.0	3.8	1.1	14.9	29.6	17.4	17.1	14.3	13.0	11.3	9.8
International indicators													
Exports markets indicator	3.8	5.6	4.3	3.4	-7.5	10.1	8.2	1.7	2.3	2.4	2.1	2.7	3.0
Consumer price index. euro-area	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.5	2.2	2.3	2.2	2.1
Money market rate. euro (level)	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.5	2.0	2.0	2.0
Crude oil price US dollar (level)[8]	45	55	72	64	43	71	99	82	80	69	66	66	66
Crude oil price NOK (level)[8]	379	452	583	564	407	609	951	867	856	752	709	705	708

[1] Percentage change from previous year unless otherwise noted.
[2] Some time series may have been revised after the publication of the Economic Survey.
[3] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Credit lines. secured on dwellings.
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 12 March 2025.