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Economic developments in Norway

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– in Norway: Thomas von Brasch, thomas.vonbrasch@ssb.no, tel. (+47) 93 89 85 24
– international: Roger Hammersland, roger.hammersland@ssb.no, tel. (+47) 47 29 32 89

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Economic developments in Norway

Economic growth has been moderate since mid-2022. Repeated interest rate hikes, high inflation and weak foreign demand have curbed activity. At the same time, unemployment has increased from a low level and is now about 4 per cent, which is the same as the average for the 2010s. Inflation, which peaked at 7.5 per cent in October 2022, has been more than halved since then, and the 12-month rise in prices was 2.4 per cent in November. Going forward we expect higher real wage growth, lower interest rates and further growth in public demand to boost activity in the Norwegian economy.

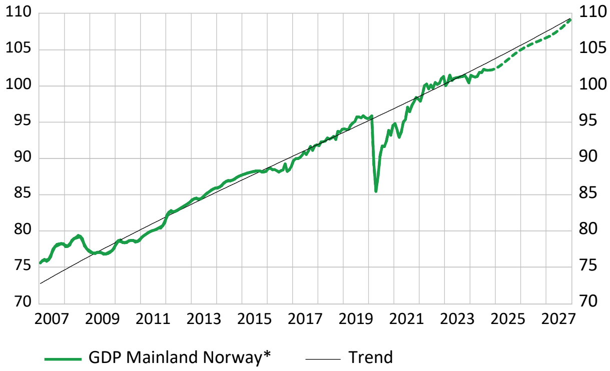
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Percent

	2022	2023	Seasonally adjusted			
			23:4	24:1	24:2	24:3
Demand and output						
Consumption in households etc.	7.8	-0.9	0.8	-1.4	1.9	0.4
General government consumption	1.8	3.2	0.9	0.6	1.1	0.8
Gross fixed investment	0.3	-0.5	4.4	-6.6	3.5	4.5
Extraction and transport via pipelines	-6.0	10.6	8.2	-9.0	9.4	12.8
Mainland Norway	1.7	-1.4	4.1	-6.0	1.7	1.3
Final domestic demand from Mainland Norway[1]	4.7	0.1	1.6	-1.9	1.6	0.7
Exports	5.2	0.2	3.6	-0.1	6.2	-4.4
Traditional goods	-1.8	5.3	0.3	-0.9	3.5	-1.4
Crude oil and natural gas	0.3	-1.8	6.3	0.7	7.5	-6.1
Imports	13.3	-1.6	0.2	-0.3	4.0	-0.3
Traditional goods	6.2	-6.2	-0.4	1.3	3.7	-0.4
Gross domestic product	3.2	0.0	2.7	0.2	2.0	-1.8
Mainland Norway	4.3	0.6	-0.3	0.4	0.3	0.5
Labour market						
Total hours worked. Mainland Norway	3.5	0.6	0.2	0.3	-0.2	0.1
Employed persons	3.7	1.3	0.1	0.3	-0.0	0.2
Labour force[2]	1.4	1.3	-0.1	0.1	0.6	0.1
Unemployment rate. level[2]	3.2	3.6	3.7	3.9	4.2	4.0
Prices and wages						
Annual earnings	4.3	5.2	..	..	..	..
Consumer price index (CPI)[3]	5.8	5.5	1.2	1.0	0.4	0.2
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	3.9	6.2	1.2	0.8	0.8	0.5
Export prices. traditional goods	30.4	0.0	2.5	-2.5	-0.9	0.4
Import prices. traditional goods	15.9	5.5	2.6	-1.1	2.1	-2.0
Balance of payment						
Current balance. bill. NOK[4]	1 699	907	237	247	232	225
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.3	3.5	4.3	4.5	4.5	4.5
Lending rate. credit loans[5]	0.7	1.3	5.7	6.0	6.1	6.0
Crude oil price NOK[6]	951	867	897	857	911	843
Importweighted krone exchange rate. 44 countries. 1995=100	110.0	119.4	121.0	118.6	119.7	121.1
NOK per euro	10.1	11.42	11.66	11.41	11.57	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

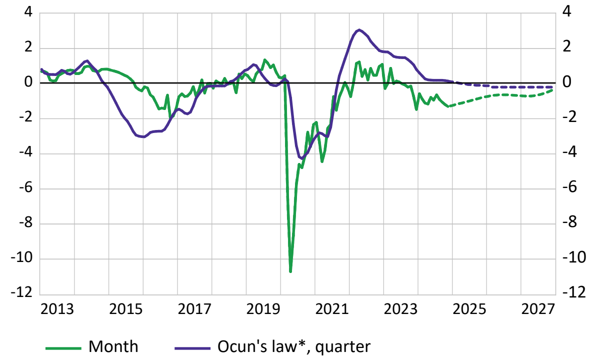


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021.

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

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

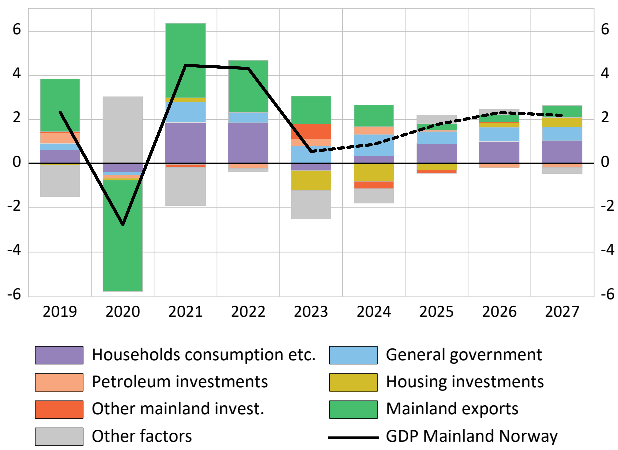


* The series «Okun's law» is based on a one-to-one correspondence between the rate of unemployment and the output gap, cf. box 2.1 i Economic surveys 4/2022. The rate of unemployment is measured relative to the historical average 2010-2020.

Source: Statistics Norway

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

Change from previous year in percent



Source: Statistics Norway

The demand contributions are calculated by finding the change in each variable, extracting the direct and indirect import shares, and then dividing by the mainland GDP level for the previous period. All figures are 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.

The krone is still weak in a historical perspective, but the trade-weighted krone exchange rate has strengthened by almost 1 per cent since our last economic report in September. Developments in the krone exchange rate have an important effect on inflation, amongst other things through import prices measured in NOK. We assume that the exchange rate will remain at its mid- December level in the years ahead.

In recent months, consumer price inflation (CPI inflation) has been lower than previously expected, and the annual rise in 2024 is now forecast to be 3.2 per cent. In particular, movements in prices for imported goods, which account for about a third of the weighting base, have exerted downward pressure on the rise in prices. The recent strengthening of the krone is contributing to a further fall in inflation towards the inflation target of 2 per cent in the period ahead. Rising productivity growth is adding to this effect. However, owing to pronounced nominal wage growth, inflation is likely to be a little higher than the inflation target in the near term.

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. At recent monetary policy meetings, Norges Bank has indicated that the level will probably be kept unchanged for the rest of the year, so that the first interest rate cut will not be made before next year. The fall in inflation in recent months and appreciation of the krone point to a lower interest rate. We assume that the first rate cut will be made at the beginning of next year, and that there will be five cuts, each of 0.25 percentage point, in the course of 2025. The money market rate will then fall from the current level of 4.7 per cent to about 3.5 per cent in 2026 and 2027.

Fiscal policy is characterised by greater fiscal space. Public investment and consumption account for just over a third of the mainland economy, and these demand components have grown appreciably more than trend growth in the economy through 2023 and so far this year. Fiscal policy additionally affects economic activity through transfers to households and businesses, and through

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

	QNA				Projection			
	2020	2021	2022	2023	2024	2025	2026	2027
GDP Mainland Norway	-2.8	4.5	4.3	0.6	0.9	1.8	2.3	2.2
with contributions from:								
Consumption by households and non-profit organisations	-0.6	1.7	1.4	-0.4	0.3	0.9	1.0	1.0
General government consumption and investment	-0.2	0.8	0.5	1.1	1.0	0.5	0.6	0.7
Petroleum investment	-0.1	-0.0	-0.2	0.3	0.4	0.1	-0.2	-0.2
Housing investment	-0.1	0.2	0.0	-0.9	-0.8	-0.3	0.2	0.4
Other mainland investment	-0.3	0.2	0.2	0.2	-0.3	-0.1	0.1	0.0
Exports from mainland Norway[1]	-5.0	3.4	2.3	1.3	1.0	0.3	0.3	0.5
Other factors etc.[1]	3.6	-1.8	0.0	-1.0	-0.6	0.4	0.2	-0.3

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

various changes in policy. In the National Budget for 2025, the structural non-oil budget deficit is estimated to be NOK 460 billion in 2025. Given the Government's settlement with the Socialist Left, along with increased support to Ukraine and to local government, the budget deficit can now be estimated at over NOK 490 billion. If the rise in value of the Government Pension Fund Global (the petroleum fund) in recent times is taken into account, it appears likely that spending of petroleum revenue will be equivalent to around 2.5 per cent of the fund›s value at the beginning of 2025. Significant spending on defence in the near term will add to a continued increase in public investment. The annual growth in general government consumption is expected to be around 2 per cent. However, the increase in the value of the petroleum fund means that the percentage withdrawn is likely to be substantially lower than the 2.7 per cent that is aimed for in normal times. 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 following weak developments through 2023. The latter must be viewed in light of the increased cost of living, higher interest rates and high sales of consumer durables such as furniture, white goods and cars during the Covid pandemic. Consumption excluding car purchases, which were low in 2023, was around 1.5 per cent higher on average in the first three quarters of the year compared with the same quarters the previous year. The marked increase in household real disposable income in the first three quarters of 2024 contributed to the rise. Given fairly strong growth in both real disposable income and real wealth, consumption growth is expected to pick up appreciably to between 3 and 3.5 per cent in the years ahead. Our projections are based on the assumption that the saving ratio excluding share dividends will be around 4 per cent as an annual average in the projection period, about 1 percentage point higher than the average for the ten-year period 2010–2019.

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 rose to a high level in 2023, but this year appears likely to fall by about an annualised 5 per cent. Businesses report lower investment in both manufacturing and services this year. One exception is power supply, where a sharp increase in investment is expected. According to revised national accounts figures, business investment has grown less in recent years than previously assumed. Next year, investment in both manufacturing and power supply is expected to grow, particularly in projects involving electricity transmission and distribution. In isolation, greater uncertainty regarding global demand and prices for factor inputs in the global market will dampen investment activity going forward. At the same time, increased domestic economic activity and lower interest rates will exert upward pressure on the interest rate level. On balance, business investment is expected to remain at the current level in the years up to and including 2027.

Petroleum investment looks likely to peak next year. Last year petroleum investment increased by as much as 10.6 per cent, and high projections in the petroleum companies' reporting for the most recent quarterly investment intentions survey point to roughly equally high growth this year. The companies announce more moderate growth next

Table 3. Main economic indicators 2023-2027. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Acco-unts 2023	Forecasts										
		2024			2025			2026			2027	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	-0.9	1.1	1.1	1.2	3.1	2.7	2.6	3.4	2.2	2.5	3.2	1.9
General government consumption	3.2	3.1	2.1	2.2	1.5	2.2	2.1	1.8	1.8	1.2	2.1	1.7
Gross fixed investment	-0.5	-2.3	..	-2.8	-0.9	..	1.9	1.3	..	1.8	1.6	..
Extraction and transport via pipelines	10.6	10.1	10.0	11.0	2.0	1.0	-1.0	-4.1	-5.0	-7.0	-4.7	-5.0
Industries	3.4	-5.6	-6.4	-6.2	-2.6	0.5	0.9	1.0	2.4	0.8	0.1	2.7
Housing	-18.3	-19.8	-16.2	-17.0	-9.0	4.0	12.1	7.0	9.6	13.7	13.2	8.3
General government	7.7	4.1	..	3.9	2.8	..	-0.3	3.3	..	2.3	2.3	..
Demand from Mainland Norway[1]	0.1	0.1	-0.4	-0.2	1.5	2.3	2.5	2.8	2.4	2.4	2.9	2.2
Exports	0.2	5.5	..	2.7	0.4	..	2.5	0.2	..	1.0	0.4	..
Traditional goods[2]	5.3	3.3	1.7	1.4	2.6	4.9	3.4	2.3	2.1	4.4	3.2	2.7
Crude oil and natural gas	-1.8	7.4	..	2.7	-0.8	..	1.5	-1.3	..	-2.3	-1.6	..
Imports	-1.6	1.4	0.9	1.0	1.6	3.2	3.0	2.5	1.8	2.9	3.3	1.8
Gross domestic product	0.0	2.2	1.6	1.1	0.9	1.8	2.1	1.1	0.5	1.2	1.1	0.5
Mainland Norway	0.6	0.9	0.6	0.7	1.8	1.1	2.3	2.3	1.3	2.1	2.2	1.5
Labour market												
Employed persons	1.3	0.6	0.6	0.5	0.8	0.5	0.7	0.4	0.7	0.6	0.4	0.8
Unemployment rate (level)	3.6	4.0	..	4.0	4.1	..	4.1	4.1	..	4.1	4.0	..
Prices and wages												
Annual earnings	5.2	5.3	5.2	5.2	4.3	4.3	4.5	3.8	3.7	4.3	3.8	3.3
Consumer price index (CPI)	5.5	3.2	3.2	3.7	2.7	3.2	3.0	2.5	2.8	2.5	2.4	2.4
CPI-ATE[3]	6.2	3.7	3.7	4.1	2.8	3.0	3.2	2.6	2.8	2.7	2.4	2.4
Housing prices[4]	-0.5	2.4	2.9	..	4.4	5.4	..	4.6	8.1	..	4.1	6.4
Balance of payment												
Current balance (bill. NOK)[5]	907	943	..	810	908	..	899	784	..	..	693	..
Current account (per cent of GDP)	17.8	18.2	..	15.7	16.7	..	16.5	14.1	..	..	12.2	..
Memorandum items:												
Money market rate (level)	4.2	4.7	..	10.3	4.2	..	11.5	3.5	..	9.7	3.5	..
Crude oil price NOK (level)[6]	82	80	..	83	71	..	79	70	..	75	69	..
Import weighted krone exchange rate (44 countries)[7]	8.5	0.7	0.6	4.7	1.3	0.6	4.3	0.0	-0.2	3.5	0.0	-0.1

[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 3/2024 (NB).

year, driven by growth in fields in operation. Some of the development projects initiated in recent years are nearing completion and are not expected to be fully replaced by new investments, so petroleum investment is likely to fall in 2026 and 2027. 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.

The housing investment turnaround has not yet arrived. According to the quarterly national accounts, housing investment dived 35 per cent from 2022 Q4 to 2024 Q3. Such a steep fall in investment has not been seen since the 1990s housing crisis. Housing investment accounts for approximately 20 per cent of mainland investment, and the sharp fall has played a part in depressing activity in the Norwegian economy as a whole. We forecast that in 2024 housing investment will fall by just 20 per cent on an annual basis. The most recent figures from the Norwegian Homebuilder Association show that sales of new dwellings, an indicator of housing starts, continue to be higher than last year, and in the period up to and including October were 14 per cent higher than in the same period in 2023. We expect the housing starts turnaround to be some way off still, and that housing investment will pick up in the second half of 2025. The expectation that house prices will rise in the years ahead must also be borne in mind. The mortgage lending regulations are undergoing some amendments that will take effect on 1 January 2025. Among the changes is an increase in the permitted loan-to-asset value ratio from 85 to 90 per cent. This may result in increased demand for housing and push up house prices. Although household real disposable income is expected to pick up appreciably, rising real interest rates will place a definite damper on the rise in house prices in the years ahead. Prices are expected to increase by around 4–5 per cent annually up to and including 2027.

Clear growth in real wages appears likely in 2024, following almost unchanged real wages from 2015 up to and including 2023. The Federation of Norwegian Industries (Norsk Industri) and the United Federation of Trade Unions (Fellesforbundet) reached agreement on a norm of 5.2 per cent for annual wage growth in 2024. It was decided through voluntary and compulsory arbitration that the norm for the wage-leader sector should also apply between the central government and the trade union federations Akademikerne, Unio and LO. As a consequence of persistently high wage growth so far in 2024, the projection for annual wage growth in 2024 remains 5.3 per cent, which is equivalent to real wage growth of about 2 per cent this year. 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 2027. Given this picture, real wage growth will remain at just on 1 per cent in the years ahead.

Unemployment measured by the Labour Force Survey (LFS) has risen from a low level of around 3.2 per cent in 2022 to 4.0 per cent in Q3 this year. The LFS captures unemployment among cyclically vulnerable groups with little incentive to register with the Norwegian Labour and Welfare Organisation (NAV). A substantial portion of the increase in seasonally adjusted LFS unemployment in 2023 and early 2024 was attributable to increased labour market participation among persons aged 15–24. Of Ukrainians aged 20–66 who live in Norway and who immigrated following the invasion in 2022, 30 per cent were in work and receiving wages in September. It is assumed that many more will register in the labour market in the time ahead. Although mainland economic activity is picking up, unemployment is therefore likely to remain at close to the current level in the years ahead.

Thus the Norwegian economy is recovering. Wage and income growth are being maintained at a high level by solid wage leader profitability, which stimulates household consumption. Lower inflation and a lower policy rate will also boost consumption. In addition, the fiscal scope for manoeuvre paves the way for a continued increase in public consumption, investment and transfers. In due course there will be a turnaround in residential construction. We accordingly expect mainland GDP to reach what we regard as a cyclically neutral situation in 2026.

Our projections are shrouded in uncertainty, particularly with respect to further developments in the global economy and how they may impact our domestic activities (see Box 1). In addition, there is great uncertainty surrounding further movements in the krone exchange rate. What is certain, however, is that economic disturbances not taken into account in our forecasts will also occur in the future. Our projections must be interpreted such that the disturbances have an approximately equal probability of occurring on the upside as on the downside of the projection scenario.

Fiscal policy is characterised by greater fiscal space

So far in 2024, growth in general government consumption and investment has been considerably higher than estimated trend mainland economic growth. General government consumption grew by 0.8 per cent in 2024 Q3. Central government consumption also rose 0.8 per cent, while the increase in defence consumption was 2.8 per cent. Local government consumption grew 0.7 per cent. Gross general government investment increased by a full 11.4 per cent from 2024 Q2 to Q3, with growth in defence investment accounting for most of this

Box 1. Different scenarios for the USA's tariff policy: Effects on the global and Norwegian economies

According to the OECD, import restrictions in the G20 economies have tripled since 2015. From next year a further increase is expected in trade tariffs between the US and its trading partners, as the future US president, Donald Trump, has announced repeatedly. However there is great uncertainty associated with both the scope and the level of the future tariffs.

Several studies have analysed the consequences of higher US tariffs in 2018–2019. They find that the measures led to higher costs for consumers and producers, reduced employment, and had negative effects on global trade (Amiti et al., 2019; Flaaen and Pierce; Fajgelbaum et al., 2020). Although the non-traded sector experienced positive effects such as increased domestic production and improved competitiveness, the net effect at aggregate level was negative. According to Caldara et al. (2020), increased costs and trade-related uncertainty contributed to weakening growth prospects, both in the US and globally, which has negatively impacted investment – particularly in manufacturing.

In this analysis we take as our starting point four scenarios from the IMF's World Economic Outlook (2024) and a Working Paper from the Peterson Institute for International Economics (PIIE) by McKibbin et al. (2024) which analyse developments in the global economy based on different assumptions about the US tariff policy::

1. A general increase of 10 percentage points in US tariffs, with retaliation by trading partners (IMF)
2. A general increase of 10 percentage points in US tariffs, with retaliation by trading partners (PIIE).
3. A general increase of 10 percentage points in US tariffs, with retaliation by trading partners, and an increase in trade uncertainty (IMF)
4. A 60 per cent increase in tariffs between the US and China (PIIE)..

These scenarios were estimated by the IMF and McKibbin et al. (2024) with the aid of G20 models, which take account of the effects of global trade flows and macroeconomic changes across sectors and regions.[1, 2] Using these scenarios as our starting point, we analyse how changes in the activity level of our trading partners may affect the Norwegian economy.[3] In order to shed light on the channels through which global developments can affect the Norwegian economy, we consider alternatives with both endogenous and exogenous monetary policy. The analysis for the Norwegian economy was performed with the aid of the KVARTS macroeconomic model.[4] This analysis shows how the individual scenarios are expected to affect our trading partners, and subsequently the Norwegian economy, compared with a situation without tariff changes. However, we assume in our baseline scenario that Trump's proposed measures are part of a negotiating strategy to attain changes in trade agreements, and therefore that not all the tariff increases will be realised.

Effects on the global economy

Figure 1 shows percentage changes in GDP in the US and the euro area, and changes in inflation and the interest rate level in the euro area resulting from increased tariff rates in the four scenarios described above.

In scenarios 1 and 2 (represented by the blue and dark green lines, respectively) both the IMF and McKibbin et al. (2024) find that a general 10 per cent increase in tariff rates will affect US GDP growth negatively, but they find different strengths for the impact. McKibbin et al. (2024) show that although higher tariff rates are intended to protect sectors such as agriculture and durables, these sectors will be hit hardest. This is due to increased production costs, weakened exports because of a stronger dollar and lower demand. On balance, the policy results in negative effects for the non-traded sectors, quite contrary to the aims of the tariff policy. Reduced global trade, higher costs for imported goods and a decline in exports to the US mean that the effects on economic growth in the euro area will also be negative, but less so than for the US.[5]

In scenario 3 it is assumed that the increased tariff rates will also reduce global investment because of heightened uncertainty regarding trade policy. This is consistent with findings by Caldara et al. (2020), who showed that the increases in US tariff rates in 2018–2019 resulted in greater uncertainty regarding future trade policy, which had a negative effect on investment, especially in manufacturing.[6] As shown in figure 1 (green line), this reduction in investment leads to a pronounced fall in GDP in the US, particularly compared with the effects in scenario 1.[7] Investment in the euro area is reduced for the same reasons as in the US, particularly as a consequence of increased trade policy uncertainty, which weakens the manufacturing sector and curbs capital investment. The result is that GDP in the euro area is considerably lower in this scenario than in scenarios 1 and 2.

In scenario 4 (yellow line), where the US increases tariffs by 60 percentage points on goods imported from China, the US experiences a reduction in GDP and employment as a result of

[1] McKibbin et al. (2024) use the Cubed model (G20) described in McKibbin and Wilcoxen (2013), and the IMF uses "Flexible System of Global Models"; see Andrle et al. (2015).

[2] For the IMF scenarios we use a Taylor rule from the ECB Working Paper of Brand and Mazelis (2019), which is in line with Hartmann and Smets (2018), to estimate interest rates in the euro area..

[3] In the IMF scenarios we have assumed that changes in GDP growth in Sweden, Denmark, the UK and Poland shadow changes in the euro area, while changes in GDP growth in Korea, Japan and Russia shadow developments in the group "rest of the world". In the same way we have assumed in the PIIE scenarios that changes in GDP growth in Sweden, Denmark and Poland shadow changes in the euro area, while changes in GDP growth in Russia shadow developments in the group "rest of the world".

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

[5] As demonstrated by McKibbin et al. (2024), the long-term effect may, however, be positive for the euro area if European producers gradually fill the gap left by Chinese suppliers, and thereby regain some of their lost economic activity.

[6] It is assumed that total investment in the US will be reduced by about 4 per cent compared with the baseline scenario. This is roughly double the case in 2018–2019. The fall in investment in the euro area is in line with the fall in the US, while other regions, including China, experience a reduction that is about half as large.

[7] The effects for economic growth in the US appear to be relatively similar in scenarios 2 and 3. This may be attributable to the fact that the fall in investment in the US is part of the outcome in scenario 2 in McKibbin et al. (2024).

Figure 1. Changes in US and euro area GDP (per cent) and changes in inflation and the interest rate level in the euro area (percentage points) as a consequence of: (1) and (2) scenarios for a general 10 percentage point increase in US tariff rates, with retaliation from trading partners, based on the IMF World Economic Outlook (2024) (blue line) and on McKibbin et al. (2024) (dark green line); (3) scenario for a general 10 percentage point increase in US tariff rates, with retaliation by trading partners, and an increase in trade uncertainty based on the IMF World Economic Outlook (2024) (green line); (4) scenario for a 60 percentage point increase in tariff rates between the US and China based on McKibbin et al. (2024) (yellow line)

Figure 1a. GDP US
Changes in GDP. Per cent

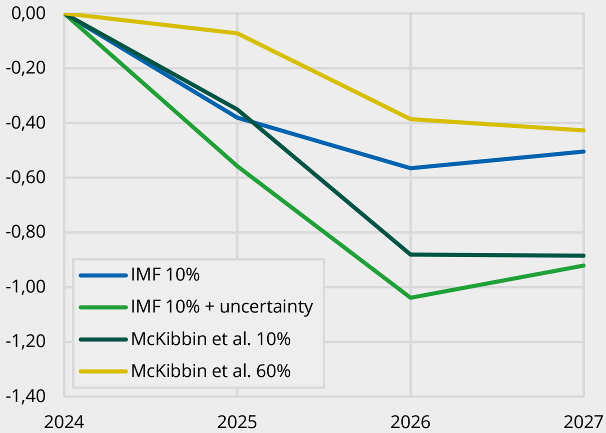


Figure 1b. GDP euro area
Changes in GDP. Per cent

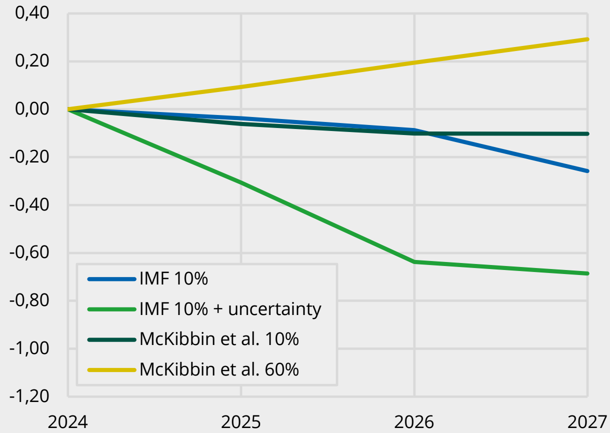


Figure 1c. Inflation euro area
Changes in inflation. Percentage points.

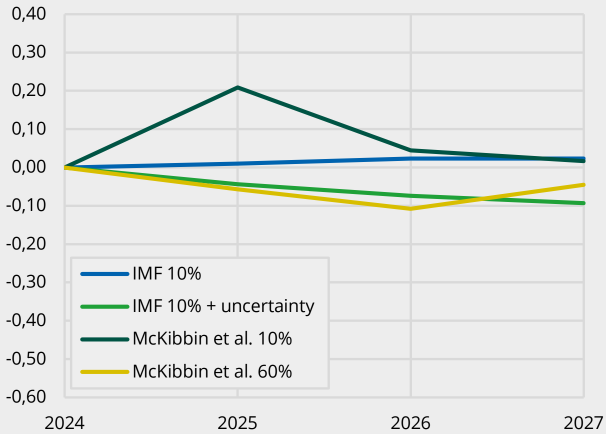
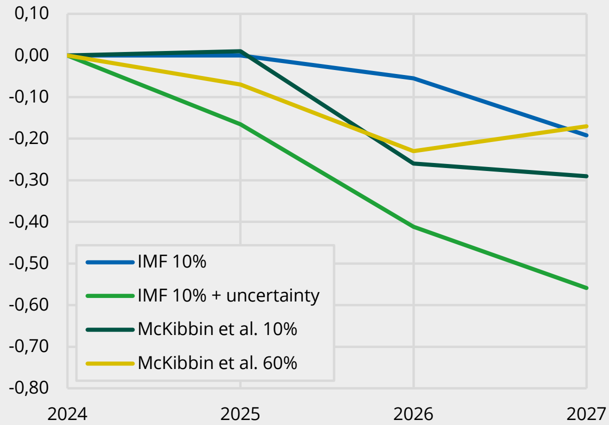


Figure 1d. Interest rate euro area
Changes in interest rates. Percentage points.



The interest rate response in the IMF scenarios was forecast with the aid of a Taylor rule taken from the ECB working paper by Brand and Mazelis (2019).

Source: Statistics Norway

reduced trade and higher import costs. However, this decline is less than in the other scenarios. In the longer term, the euro area may benefit from the transfer of production from China to Europe and other less affected regions. It leads to more favourable developments in Europe, as Europe strengthens its competitiveness as a supplier to the US market.

Euro area inflation only rises significantly in scenario 2, and then only in the short term. Inflation is subsequently dampened by lower economic activity.[8]

According to the standard Taylor rule (see Taylor (1993)), an optimal response from the central banks in these scenarios would be to conduct an expansionary monetary policy to counteract the slowing of activity. This is consistent with a recent study by Bergin and Corsetti (2023), who show that changes in tariff rates differ from other types of supply side shocks to the economy such as changes in productivity or pricing. Higher tariffs result in increased costs for consumers and reduce demand for export goods. Central banks will therefore reduce their policy rates to counter the negative effects on output, even though this, in isolation, means higher short-term inflation.

The four scenarios illustrate the fact that higher tariff rates may have negative consequences for GDP in both the US and the euro area, mainly as a result of reduced global trade and greater uncertainty concerning trade policy. Furthermore, higher tariffs lead to reduced investment, which further exacerbates the fall in GDP. The redistribution of production only counters these negative effects to a limited extent.

[8] As scenarios 1 and 2 are based on the same assumptions regarding changes in tariff rates, the different inflation response may be due to different model assumptions, such as the rule underlying the monetary policy response.

Figure 2. Changes in mainland GDP and the krone exchange rate (per cent) and changes in inflation (percentage points) as a consequence of: (1) and (2) scenarios for a general 10 percentage point increase in US tariff rates, with retaliation from trading partners, based on the IMF World Economic Outlook (2024) (blue line) and on McKibbin et al. (2024) (dark green line); (3) scenario for a general 10 percentage point increase in US tariff rates, with retaliation by trading partners, and an increase in trade uncertainty based on the IMF World Economic Outlook (2024) (green line); (4) scenario for a 60 percentage point increase in tariff rates between the US and China based on McKibbin et al. (2024) (yellow line). Exogenous monetary policy in Norway

Figure 2a. Mainland GDP

Changes in mainland GDP. Per cent. Exogenous interest rate.

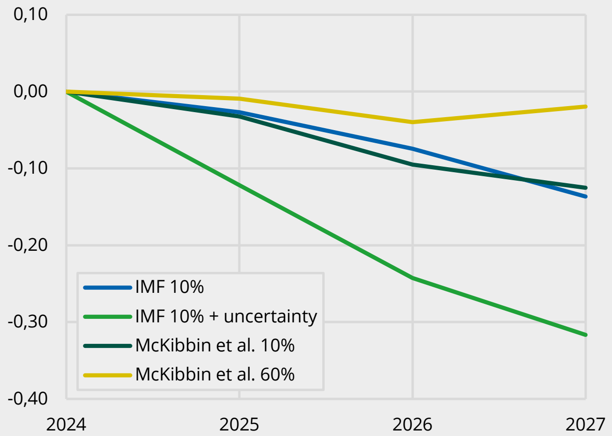


Figure 2b. Inflation Norway

Changes in inflation. Percentage points. Exogenous interest rate.

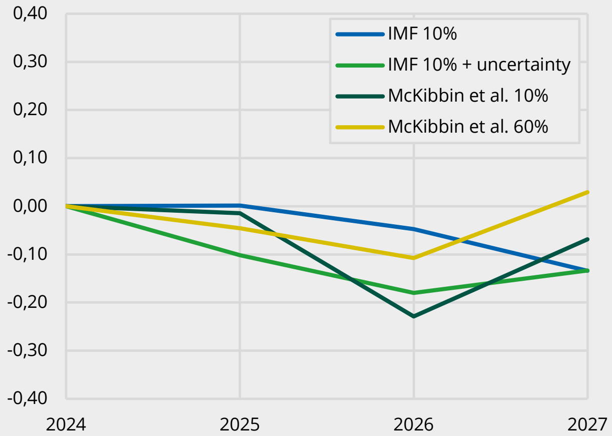
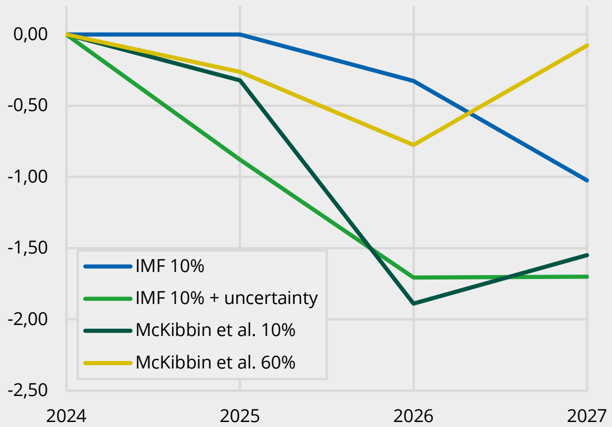


Figure 2c. Exchange rate

Changes in NOK/EUR Per cent. Exogenous interest rate.



Source: Statistics Norway

Effects on the Norwegian economy

As a small, open economy, Norway is strongly affected by changes in the global economy. Changes in global trading conditions, such as increased tariffs and geopolitical uncertainty, impact both demand for Norwegian exports and the krone exchange rate. We will look in more detail at how each of the above scenarios affects the Norwegian economy.

To illustrate the need for a monetary policy response in Norway to each of the four scenarios, we first present percentage changes in mainland GDP and the krone exchange rate and changes in inflation, given that the interest rate in Norway remains unchanged; see Figure 2.

Changes in the level of activity among our trading partners will affect the Norwegian economy through several channels. Demand for Norwegian exports will change. Mainland exports account for just over 20 per cent of total mainland output. Three quarters of all Norwegian exports go to countries in Europe. The euro area is Norway's most important market, and accounts for half of all exports. In 2023, only 3 per cent of Norway's exports went to the US.[9],[10] Developments in European countries will therefore have the strongest effect on the Norwegian economy. As it takes time for companies to adapt their production, changes in mainland GDP take place gradually. In addition higher tariffs on Norwegian goods sold in the US may affect the earnings of Norwegian exporters.[11]

[9] Historically, the share of Norwegian exports going to the US has been around 4 per cent, but this has been reduced since the pandemic.
[10] At the same time, countries in Europe account for around 60 per cent of imports, and changes in inflation among our trading partners could influence domestic consumer prices, as some 40 per cent of all goods and services in Norway are imported.
[11] It is assumed that Norwegian export prices to the US are reduced by 10 per cent in scenarios 1, 2 and 3. However, some of the increased tariffs may be paid by US importers. The effects on Norwegian GDP will then be somewhat less than in our projections.

Figure 3. Changes in mainland GDP and the krone exchange rate (per cent) and changes in inflation and money market rates (percentage points) as a consequence of: (1) and (2) scenarios for a general 10 percentage point increase in US tariff rates, with retaliation from trading partners, based on the IMF World Economic Outlook (2024) (blue line) and on McKibbin et al. (2024) (dark green line); (3) scenario for a general 10 percentage point increase in US tariff rates, with retaliation by trading partners, and an increase in trade uncertainty based on the IMF World Economic Outlook (2024) (green line); (4) scenario for a 60 percentage point increase in tariff rates between the US and China based on McKibbin et al. (2024) (yellow line)

Figure 3a. Mainland GDP
Changes in mainland GDP. Per cent.

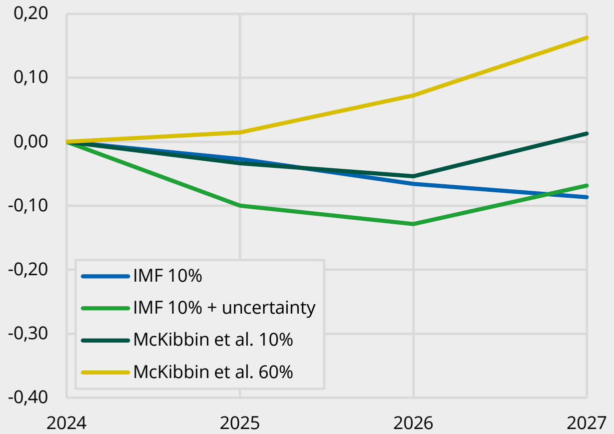


Figure 3b. Inflation Norway
EChanges in inflation. Percentage points.

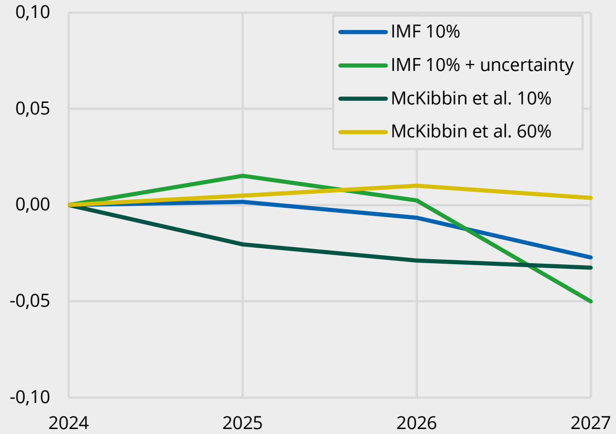


Figure 3c. Money market rate Norway
Changes in interest rates. Percentage points.

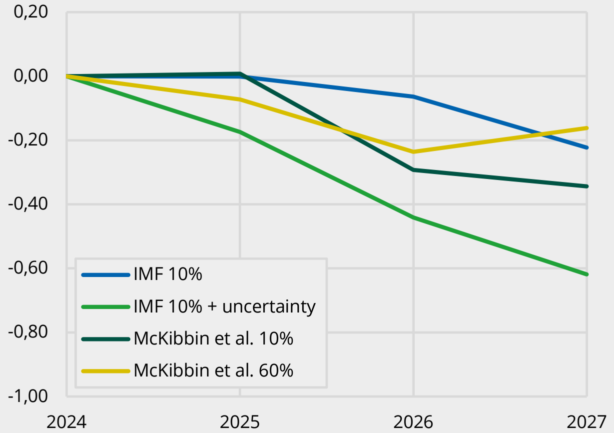
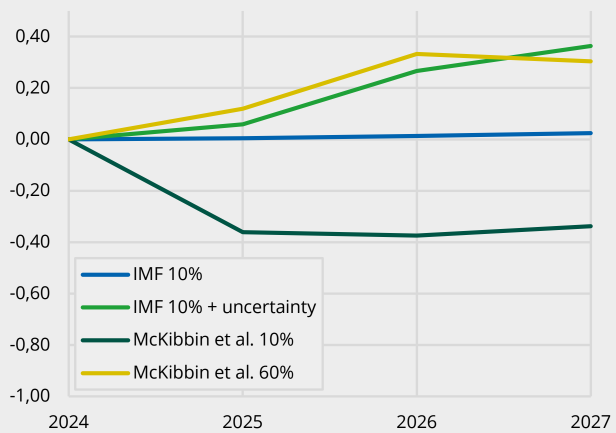


Figure 3d. Exchange rate
Changes in NOK/EUR. Per cent.



Source: Statistics Norway

In scenario 4, where tariff rates are increased only between the US and China, the effects on mainland GDP are modest. This is because the increased activity in the euro area, which is Norway's most important trading partner, compensates for the fall in activity in the US and China. In scenarios 1 and 2, which assume a general 10 percentage point increase in tariff rates, mainland GDP is expected to be reduced by about 0.1 per cent in 2027.

Mainland GDP is reduced most in scenario 3. In this scenario it is assumed that, in addition to low demand for Norwegian exports and increased tariffs on goods sold to the US, domestic manufacturing investment is reduced because of greater uncertainty surrounding trade policy.[12] In this scenario, mainland GDP is reduced by around 0.4 per cent.

[12] The fall in manufacturing investment is assumed to be 4 per cent compared to the projection scenario forming the basis for the projections in this report.

The Norwegian economy is also affected by the appreciation of the krone. As shown in Figure 2, an increased interest rate differential against other countries leads to the krone appreciating in all scenarios. A stronger krone coupled with lower economic activity contributes to curbing inflation. For a more detailed description of how changes in conditions abroad influence developments in mainland GDP and inflation in Norway according to our KVARTS macroeconomic model, see Box 1.2 in Økonomiske analyser 3/2024 (Norwegian text).

Increased tariff rates create a need for lower interest rates in Norway. Figure 3 illustrates the effects on the Norwegian economy when monetary policy can be adapted to the external shocks. A stronger krone, weaker economic growth, somewhat lower inflation and lower interest rates among trading partners also lead to downward adjustment of Norwegian interest rates. Lower interest rates dampen the negative effects on mainland GDP. In the scenario where tariffs are only increased between the US and China, a lower interest rate level and increased euro area activity will boost mainland activity.

Our analyses demonstrate that the effects on mainland GDP are moderate in scenarios for higher tariff rates developed by the IMF and PIIE. Lower interest rates will partially counter the negative effects of the higher tariff rates, while inflation will not be changed much.

The effects on the global and Norwegian economy of increased US tariff rates are uncertain. For example, an analysis by the Confederation of Danish Industry (Dansk Industri) (2024) shows that a trade war between the US and its trading partners could reduce Danish GDP by over 2 per cent by 2028, while euro area GDP is estimated to be reduced by more than 1.5 per cent in the same period. This represents a stronger impact than the IMF and PIIE scenarios. At the same time, the Danish analysis indicates that in the longer term the US may experience a less severe weakening of its GDP than for example the euro area and China, mainly because exports and imports constitute a smaller share of GDP.

Higher US import tariffs may reduce Norwegian exports, but the effect will vary, depending on the tariff level and competition from both other countries and US producers. Moreover, the EU could introduce protective measures as a response to the US trade changes, which increases the risk of Norway being excluded from the EU market or not benefiting from any agreements between the EU and the US. However, Norwegian export industries are relatively specialised, with oil and gas accounting for almost half of all exports. Although sectors such as steel and aluminium may be particularly vulnerable to higher tariffs, energy products are a less likely target for tariffs.[13]

The analysis shows that the short-term effects of increased tariffs vary across regions. According to economic theory, in the longer term trade restrictions will lead to lower productivity growth and impair global economic activity.

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[13] Whereas oil is sold in the global market, and a tariff from some countries will only lead to a change in the trading pattern between countries, gas and electricity are strategically important resources for Europe, and have been in short supply since the start of the war in Ukraine. High transport costs largely protect Norwegian exports of energy to the Continent from global competition.

increase. 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 estimated 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 a weakly 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 spending associated with refugees from Ukraine. The Government also proposes an additional NOK 5 billion to municipal and county governments in both 2024 and 2025.

Moreover, the settlement with the Socialist Left party (SV) entails an increase in spending of petroleum revenue of about NOK 7 billion in 2025. This spending is mainly earmarked for social welfare schemes, climate measures and protection of the environment. The parties in the Storting also agree to increase support for Ukraine from the NOK 15 billion proposed in NB25 to NOK 35 billion.

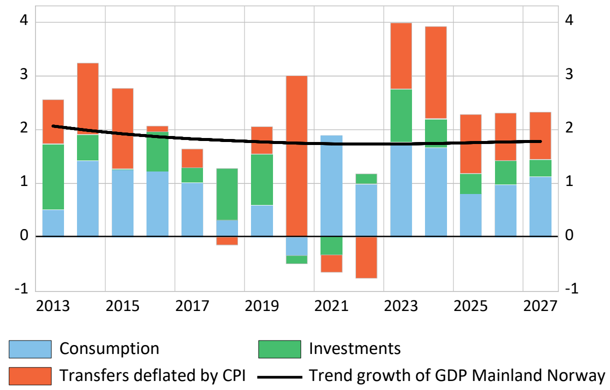
The use of petroleum fund capital based on the proposals in NB25 implies withdrawing the equivalent of about 2.5 per cent of the value of the fund at the start of 2025. This withdrawal of petroleum revenue is almost NOK 100 billion lower than the expected real return. The proposed additions will increase spending to just under 2.7 per cent of the value of the fund. 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 in mid-December was about NOK 20 000 billion, which means withdrawals equivalent to just under 2.5 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. The ex post revised budget forecasts net cash flow from petroleum activities at approximately NOK 700 billion in 2024, which is somewhat higher than the projections in NB25 and in the revised budget. The projection for 2025 is NOK 643 billion. 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 shadow forward prices. This implies substantial fiscal scope for manoeuvre in the period ahead. However, fluctuations in financial and currency markets create increased risk, indicating that the spending of petroleum revenue will have to be gradually adjusted.

We assume in our projection period that the defence programme will entail extensive investment. We expect six F-35 fighter aircraft to be delivered by the end of 2024, and the remaining six by the end of 2025. We assume that the NATO target that at least 2 per cent of GDP should be used on defence will be met in 2024, and that this share will increase somewhat in the years ahead. Imports of military defence materiel, such as fighter aircraft, will have little impact on activity in the Norwegian economy. However, purchases of defence materiel produced in Norway, as well as investment in and upgrading of the defence infrastructure in Norway, will stimulate economic activity. A gradually expanding health and care sector will also stimulate economic activity in the period ahead. The Government is not proposing any major tax reforms in the 2025 budget. Overall net tax reductions amount to NOK 17.5 billion nonetheless. The discontinuation of a temporary extra payroll tax represents a reduction of NOK 12 billion accrued in 2025. The tax exemption limit is being raised to NOK 100 000, and the limit for paying tax on wage and benefit income to roughly NOK 200 000. The tax on emissions under the EU Effort Sharing Regulation is being raised, while value-added tax on water supply and waste water services is being reduced to 15 per cent from 1 May 2025. The settlement with the Socialist Left also entails a 16 per cent increase in the tax on offshore emissions. We have assumed that withdrawals from the fund will be kept con-

Figure 4. Contributions to growth in general government

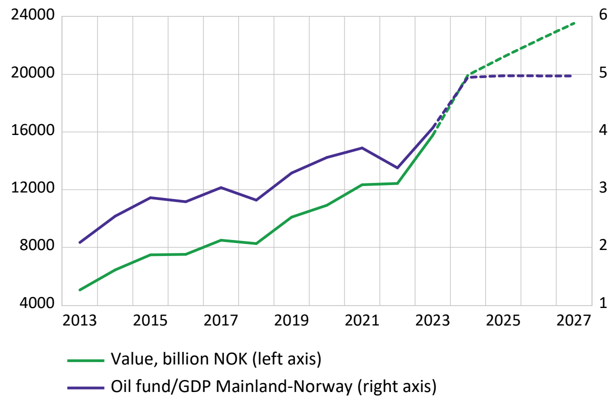
Change from previous year in percent



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

siderably lower than 2.7 per cent further out in the projection period despite the increased defence investment.

NB25 forecasts that growth in general government consumption and gross investment will be 2.1 and -0.3 per cent, respectively, in 2025. We forecast growth in general government consumption and gross investment of 1.5 and 2.8 per cent, respectively, in 2025. In our earlier economic reports, growth in gross investment was revised upward as a result of higher defence investment. Our projection for growth in public sector consumption has been revised up compared with our previous report for 2024 as a result of updated national accounts figures. The level of consumption in 2025 is roughly unchanged from our previous report, which explains the lower growth rate in 2025. Public consumption is forecast to grow by about 2 per cent annually further out in the projection period, as in our previous economic report. The real value of transfers, measured by the consumer price index, is expected to increase by about 3 per cent further out in the projection period.

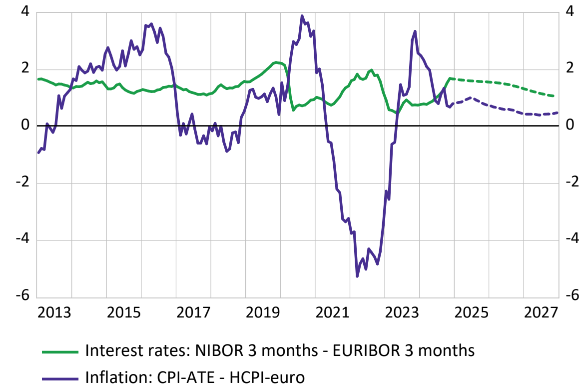
Interest rate cuts next year

The key policy rate has been 4.5 per cent since December 2023, the highest since December 2008. At its most recent monetary policy meetings, Norges Bank has indicated that this level will probably be kept unchanged for the rest of the year, so that the first interest rate cut will not come before next year. Norges Bank's Monetary Policy Report of September 2024 forecast that the first interest rate cut would come in 2025 Q1, and at its November meeting Norges Bank's Monetary Policy Committee stated that the outlook for the Norwegian economy had not changed substantially.

The money market rate normally shadows the key rate with an added premium. However, the money market rate did not increase last year in connection with the September and December rate hikes. This may be because part of the increase in the policy rate had already been priced in and that the premium might have been reduced. The 3-month money market rate has remained almost unchanged at around 4.75 per cent since the beginning of August last year.

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

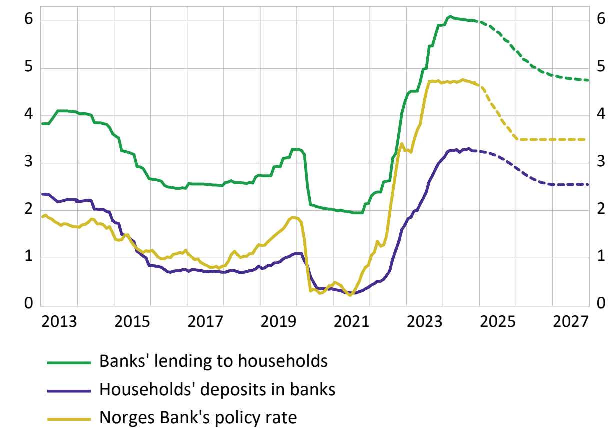
Percentage point



Source: Norges Bank and Statistics Norway

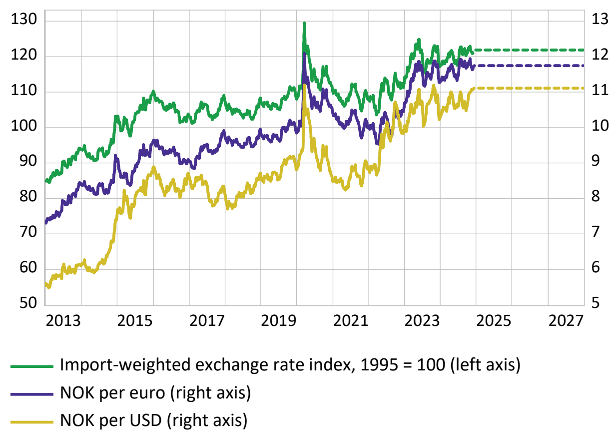
Figure 7. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

Figure 8. Exchange rates



Source: Norges Bank

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 remained at around this level until the end of Q3. In the last three years, the average deposit rate has risen by 3.1 percentage points, to 3.4 per cent at the end of Q3 this year.

Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank takes into account that the setting of the interest rate influences the krone exchange rate, and thereby imported inflation. It also takes into account that the interest rate level affects activity in the Norwegian economy. Inflation measured by the 12-month rise in the consumer price index (CPI) was 2.4 per cent in November this year. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 3.0 per cent in the same month, slightly up on the previous month but markedly down from 6.0 per cent in October 2023. Thus inflation has decreased in the course of the past year, but remains higher than the inflation target. The fall in inflation in recent months has prompted a downward revision of our projections for CPI and CPI-ATE inflation for 2024, also in this economic report. In isolation, these lower inflation rates point to a lower policy rate.

At the beginning of December, one euro cost NOK 11.70. Thus the krone is slightly stronger than at the time of our previous report, when one euro cost NOK 11.90. The krone has depreciated against the US dollar in the last three months, from an exchange rate of NOK 10.80 in September to NOK 11.10 at the beginning of December. On balance, the krone measured by the import-weighted exchange rate, I-44, has appreciated by just under 1 per cent since our previous report. In isolation, this appreciation points to a lower key policy rate. But the krone is still very weak, which indicates that interest rate cuts should be approached with caution.

This year Norges Bank has 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 less inflation. If 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. This is a low level, possibly reflecting the previous long period with low interest rates.

In its September projections, Norges Bank assumed that the money market rate would fall to 3 per cent by the end of 2026. As inflation is not expected to have fallen right down to the inflation target by then, this means a real interest rate before tax of 0.8 per cent or, if the tax deduction is also taken into account, only 0.2 per cent.

We are using a higher estimate for the neutral real interest rate than Norges Bank. In our projections, the money market rate is expected to come down to 3.5 per cent from 2026 and remain at that level in 2027. Measured in relation to inflation equal to the inflation target of 2.0 per cent, this implies a neutral real interest rate before tax of close to 1.5 per cent, and after tax of 0.8 per cent.

Our interest rate projection implies five cuts in the course of 2025. This means that the lending rate – measured as the rate on credit loans secured on dwellings – will come down to 4.8 per cent in 2027. A faster fall in interest rates than implied by market expectations may result in a weakened krone and increased imported inflation.

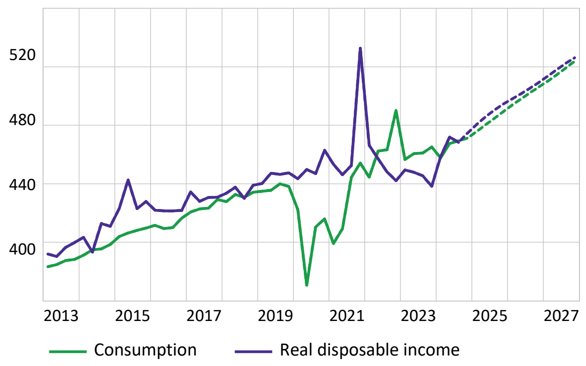
Consumption growth markedly up next year

According to Statistics Norway›s preliminary non-financial sector accounts, the real disposable income of households and non-profit organisations fell by around 1.5 per cent in 2023. This fall is about 1 percentage point less than forecast in our last report and is mainly due to an upward revision of share dividends and a downward revision of net interest expenses in the non-financial sector accounts.[1] A high rise in prices for many goods and services coupled with increased net interest expenses contributed to the decline last year. At the same time, higher wage income and public transfers helped to dampen the fall. Real disposable income, also excluding share dividends, increased markedly through the first three quarters of 2024. The upswing was attributable to higher wage income, public transfers and disbursements from

[1] See the national accounts for further details.

Figure 9. Income and consumption in households

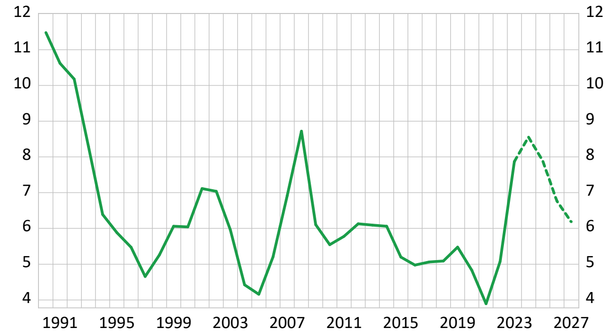
Seasonally adjusted, billion 2022 NOK, quarter



Source: Statistics Norway

Figure 10. Household interest burden

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



Source: Statistics Norway

pension and other funds, and lower net interest expenses.[2] The rise in prices for goods and services also slowed during this period.

The final national accounts show that overall consumption by households and non-profit organisations rose by almost 8 per cent in 2022, which is an appreciable upward revision on the national accounts published in September. According to the preliminary national accounts, overall consumption fell by around 1 per cent in 2023. The weak consumption developments through 2023 were characterised by low sales of durables such as furniture, white goods and cars. This must be viewed against the background of the increased cost of living, higher interest rates and high sales of such goods during the Covid pandemic. The low level of car purchases must also be viewed in light of the introduction in January 2023 of taxes on electric car purchases, which prompted planned purchases to be brought forward to 2022.

Overall consumption fell further in 2024 Q1, but grew strongly in Q2 and moderately in Q3, largely because of the wide fluctuations in car purchases. Consumption for the first three quarters of the year including purchases of cars was 1.1 per cent higher on average than in the same period in 2023. Consumption excluding car purchases was 1.3 per cent higher. Whereas goods consumption so far this year has been marked by fluctuations in car purchases, consumption of services showed clear growth in the same period.

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

Measured in current prices, consumption was considerably higher than disposable income in much of 2022 and all of 2023. The saving ratio, measured as saving as a share of disposable income, therefore fell from a record high level of around 14 per cent in 2021 to around 4.5 per cent in 2023.[3] The saving ratio excluding share dividends fell from around 5.5 per cent to close to zero in the same period. Income was somewhat higher than consumption through the first three quarters of the year, and this, together with saving in collective pension funds, led to an increase in the saving ratio. During this period, the saving ratio including and excluding share dividends averaged around 7.5 and 3 per cent, respectively.

Household net financial investment, measured as a share of disposable income, increased through the first three quarters of the year to an average level in line with the saving ratio. Households therefore appear to have strengthened their financial positions so far this year through increased saving, higher prices for securities and lower housing investment.

We now expect that real disposable income, both including and excluding share dividends, will increase by just over 4.5 per cent this year, roughly as forecast in our previous report. For the years 2025–2027, growth in real disposable income is expected to hover around an annual average of 3.5 per cent. Wage income and public transfers are

[3] Household saving includes saving in collective pension funds. Thus household saving has been positive, despite consumption being higher than disposable income. The high level of the saving ratio in late 2021 is due to large share dividend disbursements prior to an increase in the taxation of these dividends.

forecast to 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. Net interest expenses will also make a positive contribution 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 per cent in 2027. In the ten-year period 2010–2019, the average annual interest burden was 5.5 per cent.

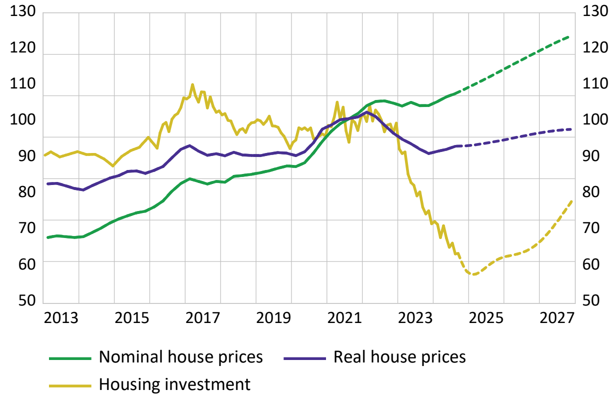
We now forecast growth in total consumption in 2024 of around 1 per cent, approximately the same as in our previous report. The annual growth projection for 2024 implies a moderate rise in consumption in Q4. The goods consumption index for October this year, i.e. the first month in Q4, showed a seasonally adjusted fall of around 1.5 per cent. Car purchases, which fluctuate widely from month to month, contributed in particular to this fall. Given fairly strong growth in both real disposable income and real wealth, consumption growth will rise appreciably to around 3 per cent in 2025 and further to an annual average of around 3.5 per cent for 2026 and 2027.

Our projections for income and consumption, including saving in collective pension funds, point to an average annual saving ratio of around 8 per cent in the projection period. The saving ratio excluding share dividends will be around 4 per cent. Both ratios will be about 1 percentage point higher than their averages in the period 2010–2019. Our projections also indicate 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 in the period 2010–2019. Thus households' financial position will be strengthened in relative terms in the near term, as also indicated by the reduction in their interest burden.

The turnaround point for housing investment is yet to come

Statistics Norway›s resale home price index shows that in 2024 Q3 house prices were 0.8 per cent higher than the previous quarter. The rise was highest in Bergen and Stavanger, at 2.9 and 2.1 per cent, respectively, compared with 1.3 per cent in Oslo and Bærum.

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



Source: Statistics Norway

According to monthly housing market figures from Real Estate Norway, more than 25 per cent more resale homes were sold in October this year than in the same month in 2023. One reason why demand in the resale homes market is high now may be sluggish activity in the new homes market. However, the supply of dwellings for sale has declined somewhat through October and November. Unless sales also decline, there may be a low stock of resale homes on the market, which may push up prices after the end of the year. House prices rose 0.3–0.4 per cent in each of the months September, October and November. Prices have risen each month so far this year except in July, when they dipped marginally. However the figures must be interpreted with some caution, as price inflation was weak in autumn 2022 and 2023, which may have affected the seasonal adjustment.

When the final national accounts for 2022 were published, the figures for 2023 and 2024 were also revised. The fall in housing investment, which gathered pace in early 2023 and has continued into 2024, is thus somewhat steeper than previously assumed. Preliminary quarterly national accounts figures now show that housing investment fell by 5.3 per cent from 2024 Q2 to Q3. Statistics Norway's building statistics show that housing starts also fell further. Housing starts are now at the lowest level since 1999. The number of square metres of housing starts has virtually halved since 2022. The Norwegian Homebuilder Association publishes statistics on sales of new homes and housing starts on behalf of its member companies. The most recent figures show that sales of new dwellings continue to be higher than last year's, and as of 14

October are 14 per cent higher than in the same period in 2023. The rise in prices for new homes is still high and the rise from 2023 Q3 to 2024 Q4 was 7.3 per cent according to Statistics Norway›s price index for new homes. A higher rise in prices for new homes than for resale homes may be one of the reasons for the relatively low level of activity in the market for new homes.

Housing starts continue to fall, and the volume is 5 per cent lower so far this year than in the same period in 2023. Sales of new homes may be a leading indicator for housing starts, but the combination of tight monetary policy, restrictive access to credit for developers and building prices that continue to rise may mean that it will take time before housing starts pick up again. The rise in Statistics Norway's construction cost index for residential buildings has gathered pace in 2024 and the year-on-year price rise for materials in October was 4.5 per cent, down from a peak of over 25 per cent in 2021 and 2022. These factors, coupled with a downward revision of the national accounts figures, mean that we are revising down our housing investment projection for 2024 by 3.6 percentage points, to a fall of 19.8 per cent.

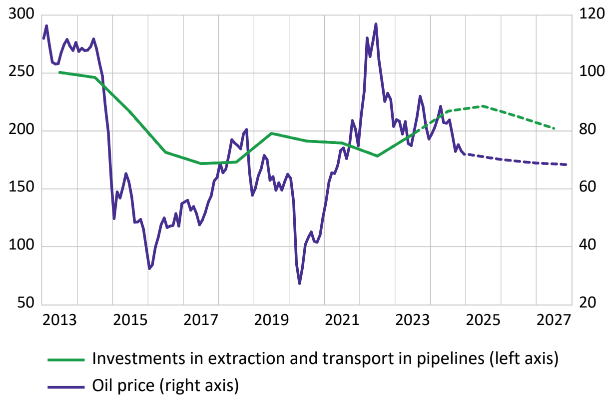
However, there is great uncertainty associated with the projection for housing investment in the years ahead. Preliminary national accounts figures are based on an incomplete source base, and this may lead to revisions subsequently. We expect the turnaround point for housing starts to be some way off still, but that it will come in the course of 2025. We are therefore revising our projections for the years ahead down somewhat compared with our previous report, such that housing investment in 2025 is forecast to fall by 9 per cent. For 2026 and 2027 combined we foresee growth of around 20 per cent, but from a very low level in a historical perspective.

In our house price forecasting, we place emphasis on factors that impact the ability of households to finance their purchases of dwellings. These factors include real interest rates and interest rate burden and households' outlook with respect to growth in real income and debt. We have revised up our projections for income growth, which in isolation results in higher house prices. However, debt growth has been revised down somewhat, while real interest rates will also rise. In addition, the nominal interest rate level is expected to remain at the current level for a while to come, which will have a countering effect. According to Finance Norway's Consumer Confidence Indicator, Norwegian households are now positive with respect to their own financial situation next year, and the housing market barometer of the Norwegian Federation of Cooperative Housing Associations (NBBL) for November indicates that two of three Norwegians expect a rise in house prices over the next year, while most believe that interest rates have peaked. Expectations of this kind can fuel the rise in house prices. As a result of the low projections for housing investment, our projections for the value of housing stock have also been revised down somewhat, which will place further upward pressure on resale home prices in the years ahead. In December it was also announced that the mortgage lending regulations will be amended at the turn of the year, including a reduction of the equity requirement for housing loans from 15 to 10 per cent. This is likely to result in increased demand for homes from 2025, as more groups of buyers enter the market. All else being equal, households will now be able to purchase more expensive dwellings. On balance, we are revising our house price projections up somewhat compared with our previous report. This means we foresee a rise in house prices of about 2.4 per cent this year and around 4.4 per cent next year. The projection scenario implies growth of around 9 per cent for 2026 and 2027 combined. Real house prices will therefore begin to rise again next year, after falling substantially in recent years. Real prices will then be just on 6 per cent higher in 2027 than in 2024.

Petroleum investment will peak next year

The petroleum companies' investment plans for the current and following year are reviewed in Statistics Norway's quarterly investment intentions survey (KIS). In the most recent survey, from November, the nominal projection for 2024 is NOK 256 billion, which is NOK 1 billion lower than the projection in the previous survey. This indicates nominal growth of 18.4 per compared with last year. We assume that operators will not be able to complete all the investments they have planned for Q4, and forecast nominal growth of 16.5 per cent this year. Given a projected 6.5 per cent rise in investment prices, this will result in 10 per cent growth in volume this year, which means a small downward revision of the figure published in our

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



Source: Statistics Norway

last economic report. The downward revision is a consequence of somewhat weaker than expected accrued investment for Q3.

In the survey's projection for 2025, investment is now forecast to be about NOK 252 billion, which is NOK 12 billion higher than in the previous survey. The increase for 2025 is largely attributable to a higher field development projection, but there are also higher projections for the other main categories. The higher field development figure is mainly due to the reporting of higher costs than previously forecast for some development projects. These are additional investments that will probably not add to future production capacity. In addition, a small project in fields in operation is now being spun off as an independent project and is now included in the category field development.

We assume that investments will arise in 2025 from projects for which plans for development and operation (PDOs) have not yet been delivered. Experience of previous developments indicates that there is also a risk of some of the new developments incurring higher costs than those in the initial investment plans. It may be a matter of higher investment prices, which will therefore not affect the investment volume. Costs may also increase through the accumulation of real capital demanding greater investment activity than previously expected, which will increase the investment volume. The sum of the projections for the other investment categories is also expected to be somewhat higher than the figures in the last survey. We are revising up our projection for investment volume growth in 2025 to 2 per cent, from 1 per cent in our previous economic report. As we have revised down the projection for growth in 2024 by 1 percentage point, this means the same investment level in 2025 as forecast in our previous report.

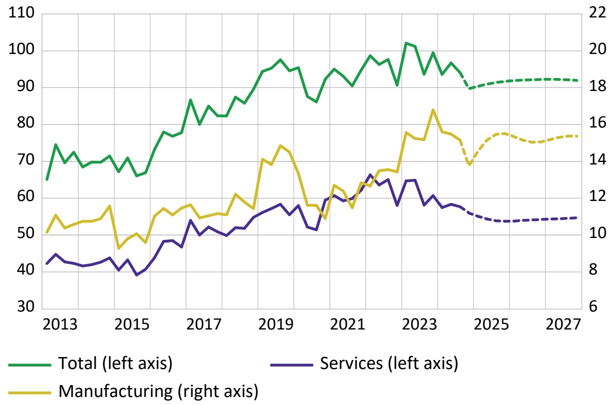
The development projects that were decided upon at the end of 2022 will involve steadily less investment in 2026 and 2027. This reduced investment will not be fully compensated for by investment in new projects, but we assume that the decline in investment will be slowed through the level of activity in 2025 being largely maintained. We forecast that investment in 2026 and 2027 will fall by 4 and 5 per cent, respectively. The investment level in 2027 will then be slightly lower than forecast in our previous report.

In the first three quarters of this year, oil and gas extraction was 5.4 per cent higher than in the same period last year. Liquid production fell 0.1 per cent during this period, while gas production was as much as 11 per cent higher than in the same period last year. Earlier this autumn, the Norwegian Petroleum Directorate forecast that petroleum production would increase by 2.4 per cent this year and 1.5 per cent in 2025. Production for September and October was somewhat higher than forecast by the Norwegian Offshore Directorate. In light of this information, we now forecast a 3.1 per cent increase in production this year followed by growth of just under 1 per cent in 2025. Petroleum production is expected to increase by 2.2 and 2 per cent in 2026 and 2027, respectively.

Stable business investment in the years ahead

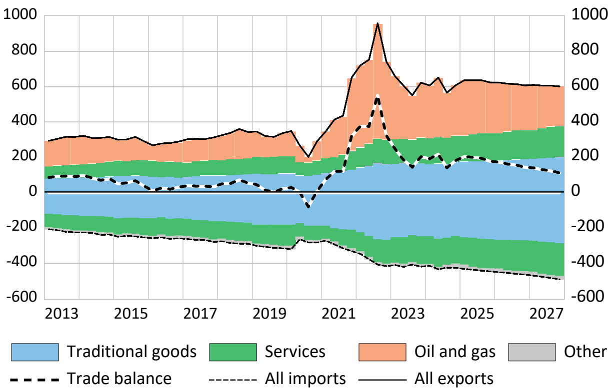
Business investment has moved on a weaker trend through 2024 after growing substantially in the two previous years, and is now back at the level in 2019, before the Covid pandemic. From a historical perspective, however, business investment is at a high level only previously observed just before the financial crisis. According to preliminary national accounts figures, growth in business investment was depressed by manufacturing and mining in particular, which saw weaker growth in the first three quarters of 2024 than in the previous two years. Investment in goods production and services for the extraction industry have curbed this decline to some extent. Nonetheless, growth in goods production varies considerably, and in Q3 this year

Figure 13. Investments Mainland Norway
Seasonally adjusted, billion 2022 NOK, quarter



Source: Statistics Norway

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

it was this industry in particular that led business investment to fall by 2.7 per cent.

Businesses in manufacturing, mining and quarrying, power supply and oil and gas report regularly to Statistics Norway's investment intentions survey on planned and completed investment. The most recent projections for 2024 point to substantial growth in power supply this year and next. Businesses forecast nominal growth of 25 per cent this year, particularly attributable to investment in the transmission and distribution of electricity. They forecast nominal growth of 35 per cent for 2025. Manufacturing companies, which have seen pronounced investment growth in recent years, report somewhat lower activity this year, but expect a considerable increase in investment next year.

Norges Bank's survey of businesses' outlook for the period ahead, Regional Network, gathers data on their planned investments. In the most recent report, published in September 2024, businesses attribute reduced investment this year to high investment and financial costs in particular. Wholesale and retail trade and other services expect a decline in investment both this year and in 2025.

On balance, we expect a decline in business investment of 5.6 per cent in 2024. This is approximately in line with the decline envisaged in our previous economic report. We foresee a decline next year as well, but with growth picking up further out in the projection period. In isolation, greater uncertainty regarding global demand and prices for factor inputs in the global market will dampen investment activity going forward. At the same time, increased domestic economic activity and lower interest rates will exert upward pressure on the interest rate level. Our projections indicate that the level of business investment will remain close to the current level up to and including 2027.

Expected fall in the current account balance despite strong growth in the value of the petroleum fund

Exports and imports of both goods and services fell in Q3 after an upswing in Q2. There was a decline in volumes and prices, both before and after adjustment for seasonal fluctuations. A sharp decline in the prices and volumes of oil and gas reduced the trade surplus (unadjusted) by 8.5 per cent, to NOK 166 billion in Q3.

Exports of large product groups such as engineering products, basic chemicals, chemical and mineral products, basic metals and food products and beverages fell in Q3. Conversely, exports of another large group of export goods, agriculture, forestry and fisheries products, increased substantially. The price index for mainland goods exports barely edged up, so the value of exports also fell slightly. There was no growth in the volume of service exports, and the price fall reduced the value of the exports.

A weaker krone has improved competitiveness this year. In isolation, it stimulates exports of mainland goods and services. The growth projections for 2024 have been revised up substantially relative to the previous projection in September as a result of revised national accounts figures. This year service exports are set to increase, while we expect them to fall back in the years 2025–2027. Growth in mainland exports, which are impacted by fluctuations in service exports, is nonetheless higher than forecast growth in demand among our trading partners, which indicates that Norway could win market shares abroad. Production factors determine oil and gas exports, which are expected to fall slightly from next year. Imports appear likely to grow less than mainland exports this year. A weak krone is pushing up import prices and depressing import growth.

Mainland Norway has had a growing trade deficit for several decades. Oil and gas exports have more than compensated for this, since the pandemic yielded very large trade surpluses. The surplus is falling back from the record surplus in 2022, largely as a result of lower oil and gas prices. It is still expected to remain appreciably higher than the pre-pandemic peak through the projection period. A growing petroleum fund will add to the income and current transfers surplus. The current account balance, which is the sum of the trade surplus and the income and current transfers surplus, estimated as a share of GDP, is expected to fall from over 18 per cent this year to just over 12 per cent in 2027.

The mainland economy will pick up next year

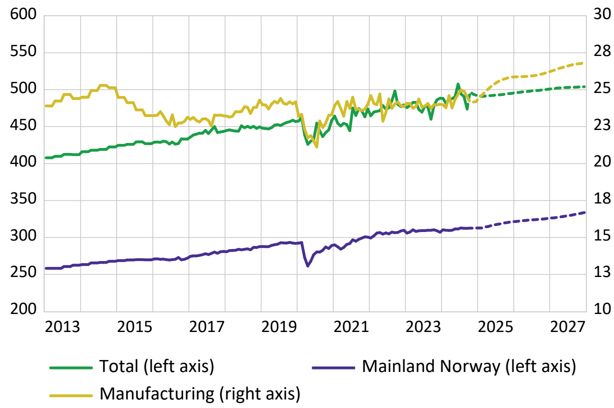
Preliminary national accounts figures reveal that mainland GDP increased by 0.5 per cent from 2024 Q2 to Q3. This growth is higher than in the preceding quarters, which may be a sign that the mainland economy is entering a period of stronger growth than in 2023, which saw moderate developments.

Growth varied across the various mainland industries in Q3. The fisheries industry and electricity production are particularly impacted by non-cyclical factors that often result in large variations over time. Value added in the power sector fell in Q3 due to low hydropower production, curbing growth in mainland GDP. However, fishing and aquaculture pushed up mainland economic growth, mainly through increased mackerel fishing following the low volumes caught in Q2.

Value added in the construction industry has fallen steadily since 2023 Q2. The decline is attributable primarily to reduced residential construction,

Figure 15. Gross domestic product

Seasonally adjusted, billion 2022 NOK, month



Source: Statistics Norway

where new housing starts in particular have plummeted.

Manufacturing and mining and quarrying posted growth of 2.3 per cent in Q3, despite a decline in mining and quarrying. However, there are considerable differences across manufacturing segments. Manufacture of metal products, electrical equipment and machinery, shipbuilding and repair and installation of machinery and equipment all reported growth of over 4 per cent in Q3. At the same time there was a slight decline in the production of basic metals and the manufacture of furniture and rubber and plastic products.

Statistics Norway's October business tendency survey for manufacturing, mining and quarrying reveals positive prospects. This survey of the expectations of industrial leaders shows that manufacturers of all product types are optimistic regarding the future following a period of unchanged or weakly falling manufacturing production. Manufacturers of capital goods report the most positive outlooks, with growth in output and employment and an increased supply of orders from both the domestic and the export market and a rise in the overall stock of orders. Manufacturers of intermediate and consumer goods report more moderate prospects. They expect moderate growth in both production and the supply of orders from both the domestic and the export market, while the overall stock of orders is expected to remain unchanged.

The economic activity in the various industries reflects the demand in the economy. For example, goods consumption fell by 1.7 per cent in Q3, while consumption of services increased by 1.4 per cent. These changes are reflected in value added, with wholesale and retail trade falling by 0.5 per cent while accommodation and food service activities increased by 1.7 per cent.

Value added in general government remained almost unchanged in Q3. The defence sector reported the largest increase, with growth of 1.3 per cent.

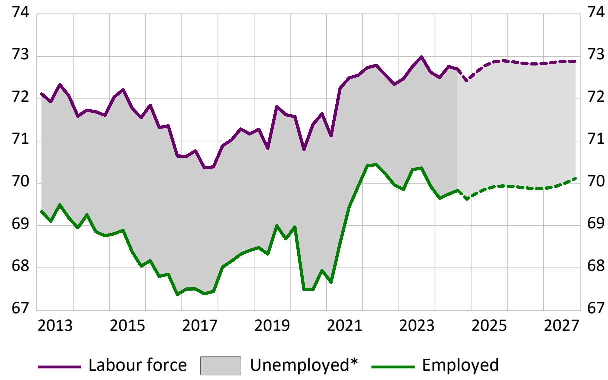
The service industries reported positive developments in Q3. Administrative and support services and insurance and financial services saw the highest growth, at 0.6 and 0.5 per cent, respectively. Professional, scientific and technical services increased by a moderate 0.3 per cent. Property management stood out with a decline of 0.5 per cent in Q3. In aggregate, these industries contributed to growth in the mainland economy.

Our projections show that growth in mainland industries will pick up in 2025, driven mainly by stronger growth in household consumption, while the weak krone will boost manufacturing activity. We expect growth to normalise from 2026. We forecast that the construction industry will detract from growth in mainland industries through 2025. From 2026, however, we expect increased household disposable income and lower interest rates to provide impetus for a pronounced increase in housing starts. This turnaround will then lead to high growth in construction.

The increase in household disposable income will contribute to wholesale and retail trade growing more rapidly in the projection period than trend growth in the mainland economy, which is around 1.7 per cent. This will also boost growth in private services. Manufacturing is expected to grow at a higher rate than trend, mainly driven by the persistently weak krone. Power production is expected to be high through the whole projection period. The increase in the petroleum fund helps to improve the budget balance and maintain general government activity at a high level.

Growth in the mainland economy is picking up, and the outlook is for a normalisation of capacity utilisation.

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

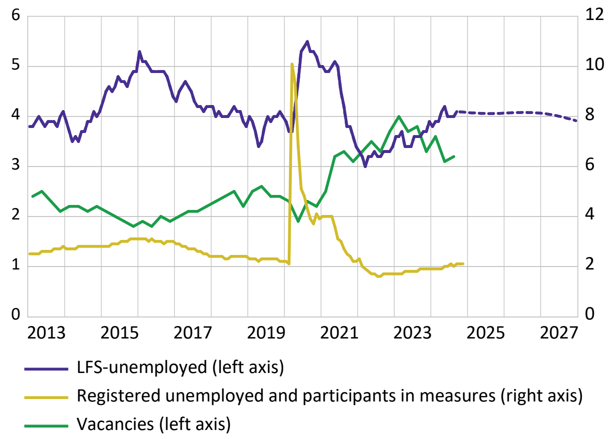
Unemployment will remain at around the current level

As a consequence of the increase in economic activity, employment according to the Labour Force Survey (LFS) stabilised in Q3 at a level of around 4.0 per cent, which is roughly the same as the average for the 2010s. Unemployment is expected to remain at around the current level in the years ahead. Labour force participation, defined as the share of the population forming part of the labour force, is at a high level, where it is expected to remain in the near term. Labour force participation has thus been revised up compared with our previous report, due to a revision of the population figures.

According to the LFS, unemployment increased in 2023 and early 2024 and subsequently declined from 4.2 per cent in Q2 to 4.0 per cent in Q3. The trend LFS figures show that unemployment was 4.0 per cent in October 2024, unchanged since March the same year. The trend figures represent long-term developments, and greatest uncertainty is associated with the figures at the end of the time series.

Registered unemployment as published by the Norwegian Labour and Welfare Administration (NAV) was 2.1 per cent in November. This was unchanged from October, but 0.2 percentage point higher than the same month the previous year. The NAV figures are based on a total count of all those registered by NAV as fully unemployed, while LFS figures are based on responses to interviews with a representative sample of the population.

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

The figures differ, despite the same criteria forming the basis for being defined as unemployed in the two sets of statistics.[4] Among new job-seekers (fully unemployed, partly unemployed or on labour market programs) registering with NAV in November, former construction employees constituted the largest group of those who had previously been in work and where the industry of their last job was known.

The difference in developments between registered unemployment and LFS unemployment through 2023 and the beginning of 2024 is probably attributable to LFS unemployment increasing in some groups with little incentive to register with NAV. One such group is youngsters with no right to unemployment benefit. A substantial portion of the increase in LFS unemployment in 2023 and early 2024 was due to increased labour market participation among persons aged 15–24, which often occurs when demand for labour is high. In the same period, the number of under-25s registered as unemployed only increased marginally.

The number of vacancies is at a lower level than in 2023, but is still close to a historic high following a pronounced increase in vacancies through 2021 and 2022. According to figures from Statistics Norway›s survey of job vacancies, there were 102 000 vacancies in 2024 Q3, roughly unchanged from the previous quarter. According to the NAV figures, the number of new vacancies has fallen this year but is still somewhat higher than the level prior to the pandemic. Statistics Norway publishes figures on the stock of vacancies, while NAV publishes figures on new vacancies.

LFS figures put the employed at 69.9 per cent of the population in 2024 Q3, up 0.2 percentage point on the previous quarter. This increase followed a period of decline. Whereas the level remained virtually unchanged from 2024 Q1 to Q2, the employment rate dipped during the latter half of 2023 and up to 2024 Q1, as employment growth in this period was weaker than population growth.

According to preliminary national accounts figures, developments in the number employed have remained fairly flat this past year, edging up 0.2 per cent from 2024 Q2 to Q3. Annual growth in 2024 Q3 was 0.6 per cent, roughly on a level with the three preceding quarters. The number employed and the number of hours worked in 2023 and 2024 have been revised down somewhat.

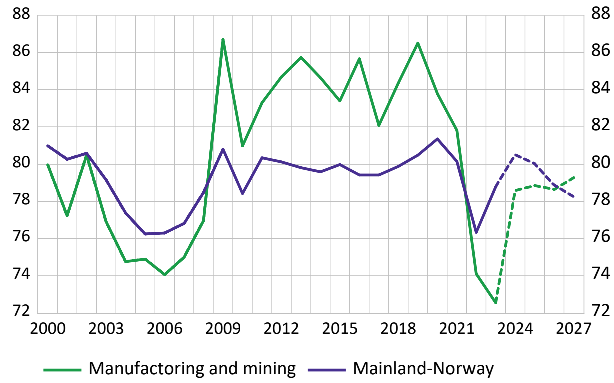
According to figures from Statistics Norway on job numbers and earnings, in September there were 12 900 immigrants from Ukraine who had immigrated after the full-scale invasion in 2022 and who were in work and receiving wages. They accounted for 30 per cent of Ukrainians aged 20-66 who have immigrated 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. According to NAV, over half of those registered as fully unemployed or as job-seekers on labour market programmes have an immigrant background, with Ukrainians constituting the largest group (press release in Norwegian only).

The number in the labour force continued to increase through 2023 and 2024, to a historically high level, according to NAV. Labour force participation has hovered around 72.7 per cent so far in 2024, which is a little lower than the level in the latter half of 2023, but still historically high.

After two years with a tight labour market, the situation is now more normal. We forecast a slight increase in employment in 2024, and that growth will remain slow through the remainder of the projection period. According to our projections, employment in the period from 2025 and for the

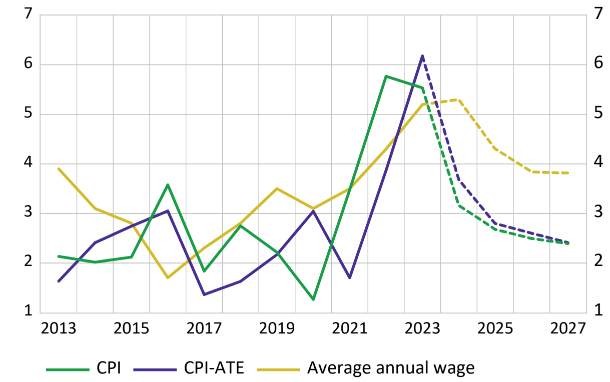
[4] See the article “Hvorfor ulike arbeidsledighetstall [Why different unemployment figures]?” (Norwegian text).

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



Source: Statistics Norway

Figure 19. Consumer price indices and annual wage
Change from previous year in percent



Source: Statistics Norway

remainder of the projection period will keep pace with the increase in the population, with the result that the employment rate will remain more or less unchanged. We forecast that unemployment will remain broadly unchanged at the current level and lie at around 4 per cent through the entire projection period. The labour force will probably grow weakly in 2024 and through the years 2025–2027.

High, but declining wage growth

Growth in average monthly basic earnings in 2024 Q3 was 5.2 per cent compared with the same quarter last year. Growth was thus more subdued in Q3 than in the two previous quarters, when figures were 5.4 and 6.1 per cent, respectively. Conversely, wage growth in 2024 Q3 for persons with the same job as the previous year remained stable at 6.2 per cent, the same as 2024 Q2.[5] Although wage growth in 2024 Q3 was lower than in the previous two quarters, the growth rate remains at a high level. The two big industries construction and technical services pushed up average wage growth in 2024 Q3, with contributions of 5.6 and 5.5 per cent, respectively. However, education and wholesale and retail trade pushed the growth rate down, with contributions of 4.9 and 5.1 per cent, respectively. Despite some differences across industries, growth in average monthly basic earnings in 2024 Q3 was broad-based across industries.

The rulings for the compulsory arbitration between Akademikerne and the central government and Unio and the central government, and on the voluntary arbitration between LO Stat and the central government, were handed down on 20 November. The basic collective agreements between Unio and Akademikerne and the central government were extended up to 2026, while LO Stat is to follow YS Stat's basic collective agreement with the central government up to 2026. The financial norm for the settlements was established as following the wage-leader norm of 5.2 per cent. Local negotiations are to be conducted by 15 February 2025, which means that for many central government employees, disbursements ensuing from the settlements will not be paid until 2025 Q1. The delayed disbursements may thus push down wage growth in 2024 Q4.[6]

As a result of persistently high wage growth thus far in 2024, the projection for annual wage growth is being maintained at 5.3 per cent, unchanged from our previous report. Although the projection for nominal wage growth is still being kept unchanged, the downwardly revised projection of 3.2 per cent for the rise in the consumer price index (CPI) points to real wage growth of about 2 per cent this year. The forecast high wage growth for the current year means that the labour share in manufacturing and mining, which measures how large a percentage of value creation in this industry accrues to the employees, increases to about 79 per cent. Between now and 2027 we expect that both nominal wage growth and CPI inflation will fall back somewhat, but that the forecast high nominal wage growth will result in annual real wage growth of just over 1 per cent going forward.

[5] Bye, K. S. (2024): Lønnsveksten fortsatt på vei ned [Wage growth continues to fall] (Norwegian text))

[6] See Economic Survey 3/2024 p. 24 'Continued high earnings growth' for how this will affect the growth rate for disbursed annual earnings and accrued annual earnings.

The inflation rate will continue falling at a moderate pace

Inflation since our last economic report has been lower than expected, which has led to our revising down our projections for the annual rise in both the consumer price index (CPI) and the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) by 0.2 percentage point for 2024. We forecast that the CPI and CPI-ATE will rise by 3.2 and 3.7 per cent, respectively, in 2024, as negative price movements for energy products as a whole will dampen CPI inflation by 0.5 percentage point. This implies a major downward revision of the inflation projections published early this year, when CPI and CPI-ATE inflation were forecast to be 4.0 and 4.3 per cent, respectively.

The 12-month rise in the CPI-ATE fell from 5.3 per cent in January to 3.2 per cent in August and down further to 2.7 per cent in October, but rose again to 3 per cent in November. Measured in terms of the price level, the CPI-ATE was virtually unchanged from October to November. The most recent upswing in the 12-month rise is largely due to the fall in prices at seasonal sales in November being steeper last year than this year for a number of product groups. If we consider the underlying groups of goods and services, price movements for imported goods, which have a weight of about a third of the CPI-ATE, stand out as having depressed the rise in prices in recent months. According to the CPI-ATE, the 12-month rise for imported goods has fallen from 2 per cent in August to 1 per cent in November. Despite a weak krone exchange rate, prices for some import-related groups of goods and services are lower now than they were a year ago. Some examples are cars, holidays abroad and clothing and footwear. According to the CPI-ATE, movements in prices for Norwegian goods and rental prices contribute most to inflation. The 12-month rise in prices in November was 5.2 per cent for Norwegian goods and 4.4 per cent for rents.

We regularly use new, updated data in our model to revise all leading indicators that determine inflationary developments. A somewhat stronger krone coupled with slightly lower wage growth will lead to lower inflation next year. Lower than previously estimated inflation in the current year will add to this effect, resulting in a lower inflation carryover into next year. The annual rise in prices for import goods is forecast to be about 2 per cent in the years ahead, given the global price inflation and exchange rates forming the basis for calculations. The projections deviate from previous estimates in some areas. This applies, for example, to developments in car prices, where there is reason to believe that escalating market competition combined with technological advances and continued falling battery prices will result in a very moderate rise in prices going forward.

With a weight of 12 per cent in the CPI, a year-on-year rise in prices for food products and non-alcoholic beverages of about 4 per cent helps to maintain inflation at a high level. Last year's harvests reflected a lot of extreme weather, which led to crop failure both in Norway and on the Continent. For example, the most recent forecast from market regulator Felleskjøpet Agri shows a 40 per cent increase on 2023 for grain harvests, which is higher than a 5-year average. Several factors suggest that the inflation level will come down. According to the final records from the negotiations between the central government and farmers' unions following this year›s agricultural settlement, the isolated impact of higher prices for raw materials on consumer prices, including the impact of products without a guide price, is estimated to be 0.5 percentage point on the price index for food and non-alcoholic beverages. Given better harvesting weather than last year, the supply of raw materials is expected to increase, and the Norwegian krone has strengthened a little against the euro. However the level of prices for food products exhibited a falling trend from November 2023 and up to March 2024. We regard it as unlikely that the fall in prices from November this year to March 2025 will be larger than last year. We therefore assume that the 12-month rise in prices for the consumption group food products and non-alcoholic beverages will be relatively high for a good while to come.

The house rent index has a weight of about 21 per cent in the CPI-ATE and consists of both actual rent and imputed rent. The annual rise in rents will probably have to slow considerably from the most recent observations of around 4.5 per cent if we are to come down to the inflation target. 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 measured on the rental index. In the past, the change in actual rents has largely shadowed the CPI with a time lag. Given lower CPI inflation and an expected lower interest rate level, we assume that the inflation rate for rents will also fall. Population growth and a shortage of rentals may have a countering effect. Developments in the years ahead for municipal charges for water supply, waste water and sanitation services may also affect the inflation rate. We assume that the rise in rental prices will slow and will not approach CPI inflation for some years to come. Rents are thus still among the groups of goods and services that contribute most to inflation further out in the projection period.

In previous years, services featuring a substantial labour component have largely shadowed wage growth. A reduction in parents' own contributions for daycare centres and the before- and after-school care programme have contributed to a break in this relationship. In many areas, national rates form the basis for parental payments. These include payment for places in day-care and in the before- and after-school programme and a number of statutory health services. In the fiscal budget for 2024, the Storting decided on a cut in parental payments for day-care from 1 August 2024. The reduction brought down the 12-month rise in the CPI by about 0.3 percentage point from July to August. In the fiscal budget for 2025 the Government proposes maintaining the parental payment rates for day-care at the same low level. The Government also proposes maintaining the offer of free ferries for routes with less than 100 000 travellers annually next year. Policy-related price cuts mean a change in the price level and are reflected in the 12-month rise for the first 12 months after the change.

With lower temperatures and higher consumption, spot prices for electricity rose through November and into early December from very low levels in early autumn. At the beginning of December this year, the Nordic forward contract for 2025 Q1 was being traded for about 60 øre/ kWh in the financial market. In December we again have very much of a two-track power market in Norway, with high prices in Southern Norway and lower prices in Central and Northern Norway. The annual contract for Nordic power in the financial market for 2025 is priced at just over 40 øre/kWh, increasing a little for the years 2026–2027. We make developments in prices for Nordic power contracts for future delivery in the financial market the basis for developments in the Nordic System Price for the years ahead, and adjust for deviations from the System Price in the various price areas. We take as our starting point forward prices that cover the difference between the area price and the System Price in the bidding area in question. Forward prices in the power market indicate that the average spot price for Norway will be a little higher next year than in 2024, and will increase very moderately up to 2027.

The regulatory authority for energy, the Norwegian Water Resources and Energy Directorate (NVE) forecast earlier this year that, on average, grid charges would increase by just under 25 per cent by 2030. The increase in grid charges is attributed to increased investment in the main grid. Temporary regulations on the use of bottleneck income entered into force on 1 November 2022, and have been extended. The scheme is intended to ensure that customers in areas with high electricity prices do not experience higher grid charges as a consequence of high costs due to losses in the grid when spot prices are high. In November NVE decided that companies in areas with high electricity prices are to be paid bottleneck income equivalent to NOK 781 million for 2024 by Statnett, the system operator of the Norwegian power system. This is the first disbursement of bottleneck income in the current year. According to NVE, grid charges increased a good deal through 2024. In view of the bottleneck income, we have made a preliminary assumption of a moderate increase in grid charges next year and in the years ahead.

The Government proposes increasing the threshold for household energy support next year by 2 øre/kWh, to 75 øre/kWh. Households will receive energy support in the form of a 90 per cent deduction on spot prices of over 75 øre/KWh, with a monthly consumption ceiling of 5 000 kWh. Support is calculated on the basis of the hourly spot price. Next year it is again proposed reducing excise on electricity in the period January– March, and it will be increased by an annualised 3 per cent. We have assumed for technical reasons that these schemes will be extended through the projection period. According to our projections, the average household electricity prices will rise somewhat next year and then increase in 2026 and 2027 roughly in pace with general inflation.

In the Government›s draft fiscal budget 2025, most special taxes are adjusted in line with the Government's inflation projection of approximately 3 per cent. The Government proposes reducing the traffic insurance tax (annual tax) for cars with combustion engines further next year. The lowest air passenger tax rate will be reduced in 2025. This applies to travel inside Norway and to Europe. The Government also proposes reducing value-added tax on water supply and waste water services from 25 to 15 per cent from May next year. 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 differential between the CPI and the CPI-ATE. On balance, we forecast that tax reductions will reduce CPI inflation in 2025 by 0.1 percentage point, measured as the difference between the rise in the CPI-ATE and the rise in the consumer price index excluding energy products (CPI-AE).

In our projections for the years ahead, fuel prices shadow the crude oil price in NOK, but a large premium of special taxes dampens the effect of the underlying movements in the crude oil price. There are several levels of fuel taxes. In the draft fiscal budget for 2025, the CO2 tax is increased by about 20 per cent on both petrol and diesel, but the Government proposes cutting road tax at the same time, with petrol and biodiesel getting the largest 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 prices at the pumps are forecast to decline overall as an annual average from 2024 to 2025. Given an expected increase in electricity prices next year, we assume on balance that the annual rise in energy prices will increase in pace with CPI inflation in 2025. This means that our projections for CPI and CPI-ATE inflation are almost the same next year.

Annual CPI inflation is forecast to fall to 2.7 per cent in 2025, 0.5 percentage point lower than the projection for 2024. Tax cuts will reduce CPI inflation by 0.1 percentage point, such that annual CPI-ATE inflation is forecast to be 2.8 per cent. Both CPI and CPI-ATE inflation in 2025 have accordingly been revised down somewhat in relation to our previous report, in which both were forecast to be 3.3 per cent.

CPI-ATE inflation is forecast to slow gradually to 2.4 per cent in 2027. We have adjusted the special tax rates for inflation for the years 2026– 2027 and assume that they have a neutral effect on CPI inflation. A moderate expected reduction in energy prices as a whole will lead to CPI inflation being slightly lower than CPI-ATE inflation in 2026.

Table 4. Main economic indicators 2015-2027. Accounts and forecasts[1, 2]

										Forecasts			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Demand and output													
Consumption in households etc.	2.7	1.1	2.2	1.4	1.0	-6.2	5.1	7.8	-0.9	1.1	3.1	3.4	3.2
General government consumption	2.4	2.3	1.9	0.6	1.1	-0.5	3.6	1.8	3.2	3.1	1.5	1.8	2.1
Gross fixed investment	-4.0	3.9	2.6	2.2	9.5	-4.1	0.7	0.3	-0.5	-2.3	-0.9	1.3	1.6
Extraction and transport via pipelines	-12.2	-16.0	-5.4	0.7	14.3	-3.3	-0.9	-6.0	10.6	10.1	2.0	-4.1	-4.7
Mainland Norway	-0.2	9.0	6.8	1.5	6.3	-3.1	1.6	1.7	-1.4	-5.9	-2.0	2.9	3.4
Industries	-2.8	12.6	9.2	3.1	10.3	-5.3	3.2	2.7	3.4	-5.6	-2.6	1.0	0.1
Housing	3.2	6.6	7.3	-6.5	-1.1	-1.6	3.5	0.4	-18.3	-19.8	-9.0	7.0	13.2
General government	0.2	6.4	2.6	8.1	7.5	-1.1	-2.5	1.5	7.7	4.1	2.8	3.3	2.3
Demand from Mainland Norway[3]	2.0	3.1	3.1	1.2	2.3	-3.9	3.9	4.7	0.1	0.1	1.5	2.8	2.9
Exports	3.9	0.4	1.6	-1.5	2.1	-2.3	6.1	5.2	0.2	5.5	0.4	0.2	0.4
Traditional goods	6.5	-11.2	0.9	2.0	5.1	-0.8	6.7	-1.8	5.3	3.3	2.6	2.3	3.2
Crude oil and natural gas	1.3	5.4	5.2	-4.6	-2.9	10.5	0.2	0.3	-1.8	7.4	-0.8	-1.3	-1.6
Imports	1.9	1.9	1.8	1.4	5.3	-9.9	1.8	13.3	-1.6	1.4	1.6	2.5	3.3
Traditional goods	2.7	-1.4	3.5	2.8	6.2	-2.7	5.4	6.2	-6.2	0.8	0.1	2.7	3.2
Gross domestic product	1.9	1.2	2.5	0.8	1.1	-1.3	3.9	3.2	0.0	2.2	0.9	1.1	1.1
Mainland Norway	1.4	0.9	2.2	1.9	2.3	-2.8	4.5	4.3	0.6	0.9	1.8	2.3	2.2
Manufacturing	-4.4	-4.1	-0.1	1.6	2.1	-5.7	5.6	1.0	-0.2	1.6	4.0	2.8	2.8
GDP in current prices (NOK billion)	3 130	3 116	3 323	3 577	3 597	3 462	4 324	5 733	5 097	5 165	5 450	5 555	5 678
Labour market													
Total hours worked. Mainland Norway	0.6	0.6	0.5	1.6	1.5	-2.1	2.4	3.5	0.6	0.9	1.1	0.8	1.5
Employed persons	0.4	0.3	1.1	1.6	1.6	-1.5	1.1	3.7	1.3	0.6	0.8	0.4	0.4
Labor force	1.5	0.2	-0.2	1.4	1.0	0.4	2.2	1.4	1.3	0.9	0.8	0.4	0.4
Participation rate (level)	71.0	70.4	69.7	70.2	70.5	70.4	72.1	72.6	72.8	72.7	72.9	72.9	72.9
Unemployment rate (level)	4.5	4.7	4.2	3.8	3.7	4.6	4.4	3.2	3.6	4.0	4.1	4.1	4.0
Prices and wages													
Wages per standard man-year	2.8	1.7	2.3	2.8	3.5	3.1	3.5	4.3	5.2	5.3	4.3	3.8	3.8
Consumer price index (CPI)	2.1	3.6	1.8	2.7	2.2	1.3	3.5	5.8	5.5	3.2	2.7	2.5	2.4
CPI-ATE[4]	2.7	3.0	1.4	1.6	2.2	3.0	1.7	3.9	6.2	3.7	2.8	2.6	2.4
Export prices, traditional goods	2.6	4.5	4.7	5.1	0.1	-3.5	12.6	30.4	0.0	-2.6	4.2	2.7	2.7
Import prices, traditional goods	5.0	2.5	3.2	4.1	2.5	4.3	5.0	15.9	5.5	0.9	2.2	1.3	1.7
House prices	6.1	7.0	5.0	1.4	2.5	4.3	10.5	5.2	-0.5	2.4	4.4	4.6	4.1
Income, interest rates and excange rate													
Household real disposable income	5.3	-1.6	2.0	0.9	2.0	1.1	4.1	-3.6	-1.6	4.7	3.7	2.9	3.0
Household saving ratio (level)	9.8	6.9	6.6	5.9	7.1	12.9	13.8	4.7	4.4	8.1	8.4	7.7	7.2
Money market rate (3 month NIBOR) (level)	1.3	1.1	0.9	1.1	1.6	0.7	0.5	2.1	4.2	4.7	4.2	3.5	3.5
Lending rate, credit loans (level)[5]	3.2	2.6	2.6	2.7	3.0	2.6	2.1	2.9	5.0	6.0	5.7	5.0	4.8
Real after-tax lending rate, banks (level)	0.1	-1.6	0.1	-0.7	0.2	0.7	-1.8	-3.3	-1.5	1.4	1.7	1.4	1.7
Importweighted krone exchange rate (44 countries)[6]	10.5	1.8	-0.8	0.1	2.9	6.7	-5.3	1.2	8.5	0.7	1.3	0.0	0.0
NOK per euro (level)	8.95	9.29	9.33	9.60	9.85	10.72	10.16	10.10	11.42	11.62	11.74	11.74	11.74
Current account													
Current balance (bill. NOK)[7]	282	163	210	320	136	38	644	1 699	907	943	908	784	693
Current account (per cent of GDP)	9.0	5.2	6.3	9.0	3.8	1.1	14.9	29.6	17.8	18.2	16.7	14.1	12.2
International indicators													
Exports markets indicator	5.3	3.8	5.6	4.3	3.4	-7.5	10.1	8.2	1.7	2.2	2.1	2.3	3.4
Consumer price index, euro-area	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.5	1.8	2.0	2.0
Money market rate, euro (level)	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.5	2.0	2.3
Crude oil price US dollar (level)[8]	53	45	55	72	64	43	71	99	82	80	71	70	69
Crude oil price NOK (level)[8]	431	379	452	583	564	407	609	951	867	855	792	774	764

[1] Percentage change from previous year unless otherwise noted.
[2] Some time series may have been revised after the publication of the Economic Survey.
[3] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Credit lines. secured on dwellings.
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 11 December 2024.