

June, 2007

INFORMATION ABOUT THE KINGDOM OF NORWAY AND THE NORWEGIAN ECONOMY

KINGDOM OF NORWAY

General

Norway forms the western and northern part of the Scandinavian Peninsula and has common borders with Sweden, Finland and Russia. Norway's area is 323,802 square kilometers (approximately 125,100 square miles), excluding the Svalbard Island group in the Arctic Ocean and other overseas territories.

The population of Norway was estimated at 4,681,000 as of January 1, 2007. The average population density is approximately 15 persons per square kilometer (about 39 persons per square mile). Oslo, the capital and largest city of Norway, had a population of 548,617 as of January 1, 2007. Greater Oslo had an estimated population of 1,057,794 as of January 1, 2007.

Norway is a constitutional monarchy, originally adopted in 1814. The executive power of the Government is vested in the King, who exercises his authority through a cabinet. The legislative power is vested in the Storting (parliament). Members of the Storting are elected for four-year terms through general elections based on universal suffrage. The Storting has 165 members and cannot be dissolved by the King or otherwise during its four-year term.

Membership in International Organizations

Norway is a party to the Agreement on the European Economic Area (EEA), which generally includes Norway in the internal market of the European Union (EU).

Norway is a founding member of the United Nations and its affiliate organizations and has been a member of the North Atlantic Treaty Organization (NATO) since 1949. Norway is a member of the European Free Trade Association (EFTA), an international free trade partnership.

Norway is a member of a number of other international organizations, including the International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), International Bank for Reconstruction and Development (World Bank) and the World Trade Organization (WTO). Norway is also a member of the Inter-American Development Bank (IADB), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB), Nordic Investment Bank (NIB), Nordic Development Fund (NDF), Nordic Council, Nordic Project Fund (Nopef) and Nordic Environment Finance Corporation (NEFCO).

European Integration

On January 1, 1994, the EEA Agreement between the member states of the EU and the then-existing EFTA states (except Switzerland) entered into force. The purpose of the EEA Agreement is to create a comprehensive economic partnership that extends the internal market of the EU to the participating EFTA states. The EEA Agreement provides for free movement of goods, persons, services and capital among the signatory countries. The enlargement of the EU on May 1, 2004 and January 1, 2007 had direct impact on the EEA Agreement. The Agreement explicitly states that a country becoming a member of the EU shall also apply for membership of the EEA. As from 2007, there are three EFTA states (Iceland, Liechtenstein and Norway) and 27 EU member states participating in the EEA.

The EEA Agreement does not provide for participation by the EFTA countries in certain areas of cooperation among the EU member states, such as taxation, agricultural and fishing policies, economic and monetary policies and EU customs union.

In December 1996, Iceland and Norway signed a cooperation agreement with the so-called "Schengen states", a group consisting of 13 EU member states, which inter alia provides for common rules for movement of persons into and among participating countries. From May 1, 1999, the Schengen cooperation was integrated into the EU framework. Norway and Iceland have negotiated an agreement concerning institutional solutions for continuing participation in the Schengen cooperation after its integration in the EU. This agreement took effect on March 25, 2001.

SUMMARY INFORMATION

	2002	2003	2004	2005	2006(1)	2007(2)
	NOK billion					
THE ECONOMY						
Nominal GDP (3).....	1,532	1,594	1,743	1,943	2,148	2,161
Real GDP (% change) (4)	1.5%	1.0%	3.9%	2.7%	2.8%	2.5%
Unemployment rate	3.9%	4.5%	4.5%	4.6%	3.4%	2.5%
Inflation rate (5).....	1.3%	2.5%	0.4%	1.6%	2.3%	0.8%
Balance on current account.....	192	196	222	301	359	279

(1) Preliminary national account statistics

(2) Estimates of the Ministry of Finance, Revised National Budget 2007, May 2007.

(3) Based on current market prices.

(4) Percentage change from previous year.

(5) Year-on-year change in the consumer price index.

	2002	2003	2004	2005	2006(1)	2007 (1)
	NOK billion					
PUBLIC FINANCES						
Fiscal Budget revenues	691	700	746	861	995	979
% of GDP.....	45.1%	43.9%	42.8%	44.3%	46.3%	45.3%
Fiscal Budget expenditures	584	593	622	650	684	717
% of GDP.....	38.1%	37.2%	35.7%	33.5%	31.8%	33.2%
Fiscal Budget, surplus before loan transactions and net transfers to the Government Pension Fund - Global .	107	108	124	211	311	263
General government financial balance	141	116	194	296	391	336
% of GDP.....	9.2%	7.3%	11.1%	15.2%	18.2%	15.5%

(1) Account estimates, Revised National Budget 2007, May 2007.

	2002	2003	2004	2005	2006	2007(1)
	End year					
EXCHANGE RATE						
NOK per U.S. dollar	6.97	6.68	6.04	6.77	6.26	6.04
NOK per euro	7.29	8.42	8.24	7.99	8.24	8.12

(1) May 31, 2007.

THE NORWEGIAN ECONOMY

Economic sectors

Norway is a diverse industrial society with a free market economy and generally low trade barriers. A significant share of the Norwegian economy consists of service industries, including wholesale and retail trade, banking, insurance, engineering, transport and communications and public services. In 2006, the service sector as a whole accounted for approximately 49 per cent of GDP. Norway's petroleum industries, including crude oil and gas extraction, accounted for 24.5 per cent of GDP and about 50 per cent of exports in 2006. Manufacturing accounted for approximately 8.4 per cent of GDP in 2006.

The major manufacturing industries are industrial and agricultural machinery, construction of oil platforms and ships, paper products, metal products, basic chemicals and electrical and electronic equipment. All of these industries are highly export oriented. The paper industry, the metal industry and the chemical industry have benefited from the availability of raw materials and hydroelectric power.

Following the discovery of substantial petroleum deposits in the Norwegian sector of the North Sea in the late 1960's, and the commencement of North Sea oil production in 1971, a substantial petroleum and related service sector was developed in Norway. From the beginning of the 1970's, this sector has been the predominant growth sector in the Norwegian economy.

The exploration and production of petroleum resources on the Norwegian continental shelf has had a major impact on the Norwegian economy. In 2006, Norwegian petroleum production totaled approximately 249 million standard cubic meters of oil equivalents (scm oe.). Norway ranks as the world's third largest oil exporter after i.a. Saudi Arabia and Russia, and the tenth largest producer.

In the 35 years of oil and gas production in Norway, approximately 4.6 billion scm oe. has been produced – or 35 per cent of the estimated resource base. As of December 31, 2006 Norway's reserves were approximately 3.7 billion scm oe. Unsanctioned resources, possible future improved recovery measures and undiscovered resources are estimated at approximately 4.9 billion scm oe. Development of the new resources will depend upon a number of factors including government policies, expectations regarding future oil and gas prices, cost reductions and technological advances.

General Economic Developments

The Norwegian economy experienced strong economic expansion in the period from 1993 to 1998. Growth slowed down after 1999, and the economy reached a cyclical trough in 2003. Growth in the mainland economy picked up again in the second half of 2003, driven by strong growth in private consumption and an upswing in mainland fixed business investments and investments in the petroleum sector.

The activity in the Norwegian economy is high, and 2007 is projected to be the fourth consecutive year of above-trend growth. Domestic demand has been fuelled by low interest

rates and strong growth in petroleum investments. At the same time, new orders in the manufacturing and construction industry are high, and profitability in the mainland business sectors is good. However, capacity utilization is high, and some sectors are now experiencing labour shortages. The government expects a real GDP growth of 2.5 per cent in 2007. Mainland GDP is expected to increase by 3.7 per cent in 2007.

After a significant fall over a seven year period from 1993 to 2000, the rate of unemployment in Norway increased to about 4 ½ per cent in 2005, as measured by the Labour Force Survey. Even though the economy was surging, unemployment did not start to fall until late 2005. Unemployment has since fallen rapidly, to 3.4 per cent in 2006. Due to continued strong economic growth and high capacity utilization, the unemployment rate is estimated to decline further to 2.5 per cent in 2007.

Consumer price inflation has been relatively low for the past years, driven to a large extent by a continued fall in the prices on imported consumer goods and slower growth in the prices on domestically produced goods. Growth in consumer prices is expected to pick up as these effects abate. However, the government expects the consumer price index to decline from 2.3 per cent in 2006 to approximately 0.8 per cent in 2007. The reduction is largely due to reduced electricity prices.

Following several years of strong growth in labor costs, wage growth has been more moderate since 2003. In 2006, overall wage growth was 4.1 per cent. On the basis of agreements concluded so far this year, the Government forecasts a somewhat stronger wage growth in 2007, at 4¾ per cent.