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.

Gross Domestic Product by Industry. Current prices (1)

	2003	2004	2005	2006(2)	% of GDP 2006(2)	% of Man-Hours Worked 2006(2)
			NOK million			
Agricultural Sector						
Agriculture and hunting	10 368	11 159	10 250	10 416	0.5 %	3.3 %
Fishing and fish farming	6 368	8 999	11 615	14 082	0.7 %	0.8 %
Forestry and logging	4 944	4 852	5 796	4 876	0.2 %	0.2 %
Total Agricultural Sector	21 680	25 010	27 661	29 374	1.4 %	4.4 %
Industrial Sector						
Oil and gas extraction	271 178	335 772	439 819	526 887	24.5 %	1.1 %
Manufacturing	148 981	158 923	165 176	180 676	8.4 %	12.4 %
Electricity, gas and steam supply	35 504	34 706	41 750	50 666	2.4 %	0.6 %
Construction	62 308	70 228	78 594	88 045	4.1 %	7.9 %
Mining and quarrying	2 996	3 657	3 762	3 862	0.2 %	0.2 %
Total Industrial Sector	520 967	603 286	729 101	850 136	39.5 %	22.1 %
Service Sector						
Wholesale and retail trade	120 213	126 041	135 164	145 296	6.8 %	13.1 %
Hotels and restaurants	19 865	21 119	21 716	23 564	1.1 %	2.7 %
Ocean transport	23 640	26 465	28 476	29 505	1.4 %	2.5 %
Pipeline transport incl. services	24 178	25 490	28 637	32 035	1.5 %	0.8 %
Other transport activities	77 071	80 005	82 287	85 264	4.0 %	6.9 %
Financial intermediation, insurance	55 769	66 710	68 254	71 216	3.3 %	2.3 %
Dwelling services	72 547	71 857	75 699	79 959	3.7 %	0.0 %
Business activities	138 263	146 448	162 380	183 180	8.5 %	10.6 %
Other services	80 868	85 894	92 916	99 832	4.6 %	8.6 %
Activities in general government	254 260	264 508	277 129	293 360	13.6 %	26.0 %
Total Service Sector	866 674	914 537	972 658	1 043 211	48.5 %	73.6 %
Correction items (3)	184 505	200 208	213 469	228 950	10.6 %	
Total GDP	1 593 826	1 743 041	1 942 889	2 151 671	100.0 %	100.0 %

Source: Statistics Norway

(1) Prices received for goods and services, minus any tax payable and plus any subsidy receivable with respect thereto.

(2) Preliminary figures.

(3) Comprises net taxes on products (including VAT) not allocated by industry.

Foreign trade and the balance of payments

Norway has a very open economy, with per capita foreign trade among the highest in the world. Norway's total exports and imports of goods and services in 2006 represented 47 and 28 per cent of GDP, respectively. Crude oil and natural gas constitute the single most important commodity group, representing almost half of total merchandise exports in 2006.

Since 1990, Norway has recorded current account surpluses every year except in 1998. In 1998, the current account balance dropped to NOK -3.5 billion due to the collapse in the oil price and high imports. The Government forecasts a surplus equivalent to 12.9 per cent of GDP in 2007.

The EU member states have historically been among Norway's most important trading partners. In 2006, about 82 per cent of merchandise exports were shipped to the EU members, and 69 per cent of the merchandise imports came from the same area. Pursuant to the 1973 free trade agreement between Norway and EU, tariffs on most industrial products were eliminated. The 1994 EEA agreement has led to the elimination of a number of the remaining tariffs.

The following table shows the principal items of the balance of payments of Norway for the periods indicated.

Current Account and Capital Account of the Balance of Payments

	2003	2004	2005	2006(1)
		NOK million		
Current Account:				
Exports	642 191	732 669	865 268	1 002 486
Crude oil and natural gas	280 800	337 274	427 938	498 355
Ships	10 391	6 785	7 059	9 627
Petroleum activities, various goods	3 768	1 034	4 031	2 314
Other goods	188 437	211 712	229 869	272 411
Gross income, shipping, drilling and pipeline transport	86 813	96 471	104 791	108 040
Travel	18 775	21 138	22 516	24 113
Other services	53 207	58 255	69 064	87 626
Imports	435 599	496 783	546 340	609 675
Ships	6 984	5 804	7 270	11 913
Petroleum activities, various goods	2 655	6 523	4 548	2 494
Other goods	282 777	326 052	355 178	405 806
Gross expenses, shipping and drilling	45 689	50 339	53 075	51 884
Travel	48 014	59 420	69 507	77 830
Other services	49 480	48 645	56 762	59 748
Net goods and services	206 592	235 886	318 928	392 811
Compensation of employees	-7 349	-8 636	-10 719	-13 431
Interest	16 569	21 281	9 627	25 503
Dividends etc.	-9 371	-12 709	-2 032	-31 092
Reinvested earnings	10 056	3 420	3 432	1 300
Current transfers	-20 594	-17 625	-18 445	-21 638
Net interest and transfers	-10 689	-14 269	-18 137	-39 358
Current external balance	195 903	221 617	300 791	353 453
Capital Account (net):				
Net capital transfers	-4 717	1 021	1 878	919
Net acquisitions of patents, licenses etc.	5	7	0	0
Net lending	200 615	220 589	298 913	352 534

Source: Statistics Norway
(1) Preliminary figures

Structural Policy Reforms

Pension reform

The current pension system is facing growing challenges due to weaker growth in the labour force, higher average pension benefits and increased longevity - factors that imply that the system is not financially sustainable in the long run. In addition, the current pension system gives too weak work incentives and has some unfair aspects, e.g. a gradual weakening of the correlation between income and pension and the fact that identical incomes over the course of a lifetime can result in quite different pensions. The need for a pension reform is therefore obvious and similar to the situation in other countries.

A pension commission was appointed in spring 2001. The Commission was given a very broad mandate to look into all important aspects of the pension system, both related to the social security system and supplementary pensions. The final report from the Commission was released in January 2004, with broad consensus on the main principles for a pension reform.

The former Bondevik II Government presented a white paper to the Storting in December 2004. Their proposals were discussed in the Storting in the spring of 2005, and an agreement of the main principles was agreed upon between the parties in the former government, the Labour Party and the Centre Party. The current Stoltenberg II Government presented a new white paper in October 2006, based on the parliamentary agreement. A broad based agreement on a pension reform was reached in the Storting in April 2007. The reform is planned to be implemented from 2010.

In order to make the system sustainable in the long run, a life expectancy factor will be introduced. Pension benefits will be reduced in line with longevity. In addition, the benefits after retirement will be indexed by an average of wage and price indexation (and not wage indexation as today). Another main element is lifelong pension accrual, in that all employment years contribute equally to the pension benefit.

Today, the retirement age in the national insurance old age system is fixed at 67 years. In the new system there will be a flexible retirement age from 62 years, and early retirement implies actuarial adjustment of the annual pension benefit. There will be no means testing of pensions against employment income.

Old age pensions is estimated to be reduced by 3 percentage points in 2050 (or 20 per cent) compared to present system, to about 12 per cent of mainland GDP.

Product Market Reforms

Product markets have undergone considerable reforms through the 1990s and early 2000s. The principal objectives of these reforms have been to improve the efficiency of markets while securing provision of services in all parts of the country. Competition has been enhanced through a strengthening of competition law and authorities, and reform of sector regulation especially in network industries. Generally, co-operation within the context of the EEA Agreement, which came into force on January 1, 1994, has promoted reviews and reforms of a number of regulations.

A new Competition Act entered into force on May 1, 2004 (replacing the Competition Act of 1993). This implies the text of Norway's competition law was brought into accordance with the competition principles of the EU Treaty of Amsterdam.

The Energy Act of 1990 allowed deregulation of the electricity market in one step. Electricity generation, supply and trade are based on competition, whereas transmission and distribution are regulated monopolies. Telecom markets have been deregulated gradually, with the last exclusive rights of the former monopoly supplier abolished on January 1, 1998. A few sectors, especially agriculture and fisheries, remain strictly regulated. In these sectors, regulations are used to achieve certain policy goals, such as settlement in sparsely populated areas. However, as a general description, product markets and business operations are not strictly regulated in Norway.

Government engagement in manufacturing industries was largely abolished in the 1980s and early 1990s through restructuring and full or partial privatization of state owned companies. State ownership is still extensive, primarily due to the importance of the petroleum and hydroelectric power sectors in the Norwegian economy. The banking crisis in the late 1980s and early 1990s resulted in state takeover of major commercial banks. Shares have later been sold except for a position in the largest bank, DnB NOR ASA, currently at 34.0 per cent. The telecoms incumbent (Telenor ASA) and the largest national petroleum company (Statoil ASA) were partly privatized in 2000 and 2001 respectively, with subsequent further sell-offs. Remaining state interests are 54.0 per cent in Telenor and 70.9 per cent in Statoil.

With an upcoming merger of Statoil and the oil and gas activities of Norsk Hydro ASA (with aluminum activities of Norsk Hydro remaining a separate company), the Government has decided to increase the state share in the new company from 62.5 per cent (state interest after a hypothetical merger without share transactions) to 67 per cent. This is in accordance with the decision of the Storting from 2001 of at least 67 per cent state interest in Statoil.

Government policy on state ownership was presented in Report no. 13 (2006–2007) to the Storting. The Government aims at securing a strong public and national ownership. State ownership interests will be maintained in Statoil, Telenor, Norsk Hydro and DnB NOR. Statkraft (hydro power generation), Statnett (electricity transmission) and Statskog (national forests) will remain fully state owned. The Government will later request the Storting to withdraw authorizations for further privatization through sale of shares in companies such as Cermaq (aquaculture, 43.5 per cent interest), Telenor and Statoil. However, state interests may still be reduced within the authorized limits as part of industrial restructuring or mergers.

Legislation and organization of state owned companies were reformed throughout the 1990s and early 2000s. A main feature was the separation of activities exposed to competition from natural monopolies or government administration. State ownership was transferred from regulatory ministries to the Ministry of Trade and Industry for most companies in the commercial and industrial area. As a principal rule, state ownership of commercial activities is organized as limited liability companies, pursuant to the Companies Act or the Joint Stock Public Companies Act. This implies state owned companies generally compete with private companies on equal terms. The exception is in areas where state owned companies have been granted monopolies, such as electricity transmission (central grid), national forests, passenger rail transport, airports (there are also some private airports) and letter post under 50 grams.

Tax Policy

The 1992 tax reform entailed lower global tax rates and reduced distortions in taxation of various types of savings and investments. Since this reform, the Norwegian tax system has been based on a two-tier structure, in which income tax is levied on two different concepts of income: ordinary income and personal income. Capital income (except shareholder income) earned by personal tax payers is taxed as ordinary income at a flat tax rate of 28 per cent, and income from labour and pensions are taxed progressively as both ordinary and personal income (top rate 47.8 per cent, employers' social security contributions not included)). The flat 28 per cent tax rate is also applied on the income of limited companies and other corporate tax payers.

In March 2004, the former Bondevik II Government presented a white paper on tax reform which was followed up in the 2005 budget and in the present Stoltenberg Government's 2006 budget. The reform was necessary in order to reduce the growing problem of tax arbitrage between labour and capital income and to address the possible conflict between the system for eliminating double taxation of share income and Norway's obligations under the EEA agreement (European Economic Area). Furthermore, the reform aimed at simplifying the tax system by scaling back some allowance schemes and special provisions.

Main features of this tax reform were:

- Replacing the so-called split model by a share income taxation of personal shareholders, whereby dividends and gains exceeding a computed risk-free return on the investment are subject to double taxation.
- Reduction of the marginal tax rates for labour income (personal income). These rates are made applicable also on profits exceeding risk free return in solely owned enterprises (self employed individuals). The highest marginal tax rate (including employers' social security contributions) has been reduced to 54.3 per cent, effective from 2006.
- Tax exemption for limited companies' income (dividends and capital gains) from shares, in order to avoid chain taxation.

The necessary amendments to the General Tax Act were passed by the Storting in the autumn of 2004 and in the spring of 2005, and came into force on January 1, 2006. The tax exemption for companies' income from shares was made effective from 2004. In addition, the tax rates for personal income (the surtax) were reduced both for the fiscal year 2005 and for the fiscal year 2006.

In the White Paper of March 2004, the former Bondevik II Government signalled an intention to halve the net wealth tax in connection with the tax reform, and thereafter continue to scale it back with the intention of a later abolishment. This policy did however not gain support from the current Stoltenberg II government. On the contrary, the Fiscal Budgets for 2006 and 2007 included increases in the valuation of non-listed shares and of real estate including houses, as measures to diminish the inequalities arising from different valuation of various components of the taxable net wealth.

The Government is committed to improving the availability of government provided communal benefits, instead of offering tax reductions. Good governmental welfare schemes are of particular importance to those on the lowest incomes. In line with this, the Government is pursuing a different tax policy direction than the previous government and it has brought the tax level back to the 2004 level in 2007, as announced before taking office. The Government will now be keeping overall direct and indirect taxes unchanged.

In order to strengthen the distributional profile of the tax system, the surtax thresholds were reduced in 2007. For the same reason there was also an increase in the basic allowance.

Monetary and Exchange Rate Policy

During most of the post World War II period, Norway adhered to a fixed exchange rate policy. With effect from October 1990, the Krone was linked to the ECU and was effectively pegged to the currencies of countries whose long-term goal was price stability. Following the tensions within the European Monetary System (EMS) in the fall of 1992, the Norwegian Krone came under increasing pressure. In December 1992, the Ministry of Finance temporarily suspended Norges Bank's obligation to intervene in foreign exchange markets, effectively allowing the Krone to float.

A new regulation regarding the exchange rate system was issued in May 1994. The regulation represented a formalization and continuation of the policy pursued after December 1992. Norwegian monetary policy was aimed at maintaining a stable Krone exchange rate against European currencies, based on the range since the Krone was floated in December 1992 until the new regulation was issued in May 1994. In the event of significant changes in the exchange rate, monetary policy instruments were oriented with a view to returning the exchange rate over time to its initial range. Fluctuation margins were not established, nor was there an appurtenant obligation on Norges Bank (the Central Bank) to intervene in the foreign exchange market.

The monetary policy regulation of March 2001 stipulates a flexible inflation targeting regime for monetary policy. The long-term role of monetary policy is to provide the economy with a nominal anchor. In the short and medium term, monetary policy shall balance the need for low and stable inflation against the outlook for output and employment. The operational target is defined as an annual increase in consumer prices of close to 2.5 per cent over time.

The key policy rate (the sight deposit rate) has gradually been raised by 2.75 percentage points to currently 4.5 per cent since the summer of 2005.

International Reserves held by Norges Bank (1)

	December 31, 2002	2003	2004	2005	2006
	NOK million				
Gold	2 808	3 277	0	0	0
Foreign exchange (2)	211 374	238 066	260 911	314 035	349 804
Claims on the IMF	9 941	9 598	7 449	4 128	4 132
Total international reserves....................................	224 123	250 941	268 360	318 163	353 936
Memo:					
Investments in Government Pension Fund – Global (3)	604 592	847 052	1 011 540	1 390 118	1 782 829

Source: Ministry of Finance and Norges Bank.

(1) Fair value.

(2) Valued at exchange rates prevailing on the dates for which information has been provided. Including bonds subject to repurchase agreements.

(3) Assessed at market value.

Banking System

At the end of the first quarter of 2007, the Norwegian banking system (including subsidiaries of foreign banks) comprised of 16 commercial banks**,** 123 savings banks and a small number of state owned banks that provide financing for particular purposes. The other principal financial institutions are mortgage companies, finance companies and insurance companies. The Financial Supervisory Authority of Norway (Kredittilsynet) supervises all commercial banks, savings banks and other financial institutions in Norway.

Mergers between financial institutions require approval of the Ministry of Finance, who takes into account factors such as the effect on competition in domestic markets and financial soundness.

Foreign banks have been allowed to establish subsidiaries in Norway since 1985. Foreign credit institutions with their head office in a state not encompassed by the European Economic Area (EEA) needs authorization to establish branches in Norway. Credit institutions with their head office in another EEA-country, which are authorized and supervised by the authorities of that state, may establish a branch in Norway by notifying the Norwegian authorities. There were 9 branches of foreign banks in Norway at the end of the first quarter 2007. Norway has revised the regulation relating to financial institutions as a result of the EEA Agreement. With respect to financial services, the EEA Agreement provides for full adaptation to EU regulations.

All Norwegian banks are generally required to comply with the Bank for International Settlements' capital adequacy rules (and the more detailed EU directives in this field), which include a minimum standard ratio of capital to risk-weighted assets of 8 per cent. At the end of the first quarter of 2006, the ratio of capital to risk-weighted assets of all Norwegian banks averaged 11.5 per cent**.**

Commercial banks and savings banks are members of the Norwegian Banks' Guarantee Fund. The Fund is responsible for ensuring that the member banks fulfils their obligations for deposits up to NOK 2 million per bank per individual depositor. Membership in the Fund is compulsory for banks with head offices located in Norway, and for subsidiaries of foreign banks.

Fiscal Policy and Public Finance

The objective of the Government's economic policy is to contribute to high employment, sustainable growth throughout the country, fair distribution and a strengthening of public sector services and welfare. The Government is committed to the Nordic model, with a well-functioning welfare system, close cooperation with and between social partners and a competitive business sector. Sound management of the petroleum wealth is important in order to support both short-term and long-term policy objectives.

The guidelines for economic policy require fiscal policy to be geared towards a gradual and sustainable use of petroleum revenues. Over time the structural non-oil deficit shall correspond to the expected real return on the Government Pension Fund - Global, estimated at 4 per cent. Long-term budget challenges, due to future increases in pension costs in the National Insurance Scheme and other age-related expenses, underline the need for a prudent fiscal policy.

Since the fiscal guidelines were established in 2001, the use of petroleum revenues has exceeded the expected real return on the Pension Fund – Global. However, state accounts show that the use of petroleum revenues was on par with the 4 per cent fiscal rule in 2006.

The Fiscal Budget follows the calendar year and is proposed to the Storting by the Ministry of Finance in the autumn the year before. The Approved Fiscal Budget is subject to revision by the Storting, caused by changes in macroeconomic conditions and in budget revenues and expenditures. Such revisions are presented in the Revised National Budget submitted by the Ministry of Finance to the Storting in May, and in the final budget revision in November/December.

The Government proposes a revision of the Fiscal Budget 2007 with a structural, non-oil budget deficit at NOK 67.8 billion, which is NOK 3.2 billion lower than in the approved budget for 2007 and NOK 3.5 billion lower than the expected 4 per cent real return on the Government Pension Fund – Global.

For 2007, the consolidated surplus in the Fiscal Budget and the Government Pension Fund – Global, including interest and dividends, is estimated at NOK 338 billion, or 15.6 per cent of GDP. Government estimates for the state accounts for 2006, including the Government Pension Fund – Global, show a surplus of NOK 375.5 billion, or 17.5 per cent of GDP.

The general government financial balance consists of the Fiscal Budget, other central and local government accounts not included in the Fiscal Budget and net direct investment in state enterprises. It has generally shown a surplus since World War II, resulting in the accumulation of substantial assets by the Government. However, during 1992 and 1993, deficits in general government financial balances amounted to an average of 1.8 per cent of GDP. The general government financial balance recovered significantly in the following years. In 2006, the surplus was 18.2 per cent of GDP, and is expected to reach 15.5 per cent of GDP in 2007.

Fiscal Budget and the General Government Financial Balance

	2005	2006	2007(1)
	(NOK million)		
Fiscal Budget surplus	5 830	13 370	0
+ Surplus in Government Pension Fund – Global	241 817	362 144	338 312
+ Surplus in other central government and social security accounts	6 018	-8 896	-2 499
+ Definitional differences between central government accounts and national accounts(2)	31 444	14 382	-2 852
= Consolidated central government surplus, accrued value	285 110	380 999	332 962
+ Direct investment in state enterprises	8 473	5 469	5 365
= Consolidated central government surplus	293 583	386 468	338 327
+ Local government surplus, accrued value	2 029	4 398	- 2 689
= General government financial balance	295 612	390 866	335 638
As a % of GDP	15.2%	18.2%	15.5%

Source: Statistics Norway and Ministry of Finance
(1) Estimates for accounts, Revised National Budget 2007, May 2007.
(2) Including consolidated central government accrued, unrecorded taxes.

The Government Pension Fund

The Government Pension Fund was established in January 2006 and consists of the Government Pension – Global, which is a continuation the Petroleum Fund and the Government Pension Fund – Norway, previously known as the National Insurance Scheme Fund.

The Storting has decided that the revenues from petroleum activities shall be transferred to the Government Pension Fund – Global. Accumulation of capital in the Pension Fund – Global largely involves converting North Sea oil and gas resources into financial assets abroad. Consequently, the ongoing proceeds from the petroleum activities are of a different nature than the other revenues of the State – partly because of the corresponding reduction the State's petroleum wealth. The proceeds also vary considerably in line with fluctuations in the oil price.

To ensure that the petroleum revenues are contributing to a stable development of the Norwegian economy, the revenues shall be gradually phased into the economy. The Pension Fund – Global is fully integrated into the Fiscal Budget, and the non-oil budget deficit is covered by an annual transfer from the Fund. According to the fiscal guidelines, the use of petroleum revenues shall over time correspond to the expected real return on the Pension Fund – Global. The Fiscal Budget and the Mainland-Norway economy are thus shielded from the effects of oil price fluctuations. At the same time, depletion of the Fund's assets is avoided, thereby enabling the petroleum revenues to maintain welfare levels for future generations.

Since a large portion of the petroleum revenues is invested abroad, the Government Pension Fund – Global contributes to capital outflow that counteracts a large and varying currency inflow from the petroleum sector. The capital outflow helps to stabilize the Krone exchange rate and to maintain a varied industrial structure that can lay the basis for a balanced development in the Norwegian economy.

Under the Pension Fund Act, the Ministry of Finance is responsible for the management of the Pension Fund. The Ministry decides on the general investment strategy of the Fund as well as its ethical and corporate governance principles and the follow-up on the operation management. The operational management of Government Pension Fund – Global is delegated to Norges Bank, which invests in the Fund in accordance with guidelines issued by the Ministry of Finance. Folketrygdfondet (National Insurance Scheme Fund) has been charged with the operational management of the Government Pension Fund – Norway.

There is a broad political consensus that the Pension Fund shall be managed with a view of achieving the maximum possible return with a moderate level of risk. The Ministry of Finance has formulated a long-term investment strategy ensuring that the capital is invested in a broadly based portfolio comprising securities from many countries. The long investment horizon of the Fund means that the portions invested in various assets classes and geographical regions can be determined on the basis of assessments of expected long term returns and risks.

The Pension Fund is one of the largest funds in the world, and its assets are growing rapidly. The Fund is also large relative to the size of the Norwegian economy, and the return on the Fund will make important contributions to the funding of state expenditures in coming years. The investment strategy of the Pension Fund, and its ethical and corporate governance guidelines, has the firm backing of the Storting. The Ministry reports regularly on the management of the Fund, most recently in a white paper that was presented to the Storting on 13 April 2006.

At the end of 2006, the market value of the Government Pension Fund – Global was NOK 1,783bn (equivalent to about USD 285bn). The value is estimated to reach NOK 2,160bn by the end of 2007, equivalent to 100 per cent of GDP. Including the Pension Fund – Norway, the value is estimated to reach NOK 2,273 bn. by the end of 2007.

Government Debt

On December 31, 2006, central government's direct debt amounted to NOK 269.3 bn. NOK 184.6 bn. was funded debt and NOK 84.7 bn. was floating debt.

According to the state accounts, central governments' gross financial assets totaled NOK 2,614 bn. by the end of 2006 while net financial assets amounted to NOK 2,235 bn.

Based on Norwegian national account statistics, general government net financial assets, including assets and liabilities of local government and certain entities under direct public control, was estimated on par with GDP by the end of 2005. The assets are primarily invested in the Government Pension Fund, in loans by state banks, cash balances deposited with the central bank, and in the State's Direct Financial Interest in the petroleum sector.

The following table shows the direct funded and floating debt of the Kingdom of Norway outstanding at the dates indicated.

Central Government Direct Debt

	Dec 31, 2002	2003	2004	2005	2006 (3)
	NOK Million				
Total funded debt (1)	199 615	224 299	207 245	241 092	184 640
Internal...	196 088	224 028	207 241	241 092	184 640
External (3)...	3 514	261	0	0	0
Total funded debt...	199 615	224 299	207 245	241 092	184 640
Floating debt	91 424	115 541	113 514	93 040	84 723
Total debt...	291 040	339 841	320 758	334 132	269 362

Source: Ministry of Finance

(1) Funded debt consists of debt that matures one year or more from the date of incurrence. Floating debt consists of debt which matures less than one year from the date of incurrence or which is payable on demand or on less than one year's notice by the holder of such debt.

(2) Excluding net swap liabilities. Exchange rates on the dates indicated are used for measuring external debt in NOK.

(3) The Government Pension Fund – Norway's mandatory deposit with the Treasury was discontinued on Dec 29, 2006.

General Government Financial Liabilities

	December 31, 2001	2002	2003	2004	2005
	Per cent of nominal GDP				
Gross (1)(2)..............................	29.2	36.1	44.4	46.3	44.7
Net (2)......................................	-71.4	-70.7	-82.2	-86.6	-100.0

Source: Statistic Norway

(1) According to the Maastricht definition of gross debt.

(2) Including repurchase agreements of the Government Pension Fund - Global**,** implying increases in both assets and liabilities.