See the Disclosure Appendix for the Analyst Certification and Other Disclosures.

Outlook for Monetary Policy In Norway

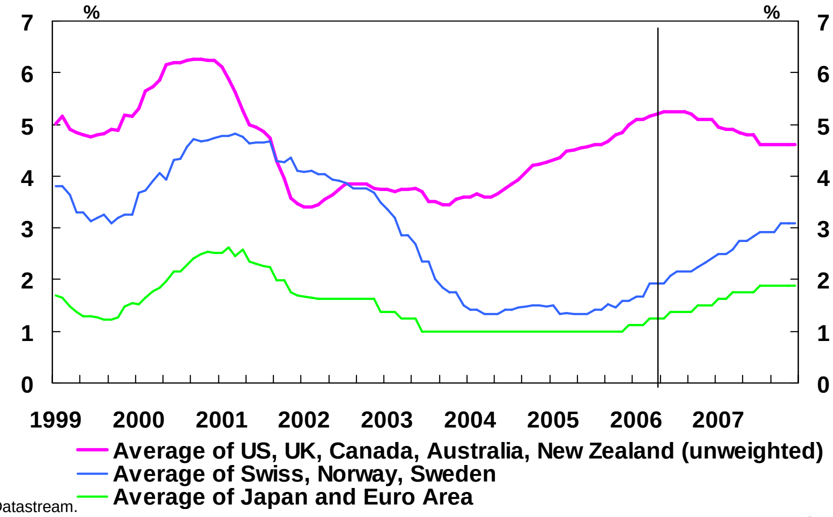
Michael Saunders
Head of European Economics
Norges Bank Conference March 2006
44 20 7986 9297
michael.saunders@citigroup.com

Monetary Policy Outlook In Norway

- Norges Bank started to hike rates – how far to go?
- Disinflationary external forces likely to persist
- The framework for monetary policy in Norway – can it be improved? Challenge is how to set policy with persistent inflation undershoot and tension between inflation target and "stability" aims.

Global

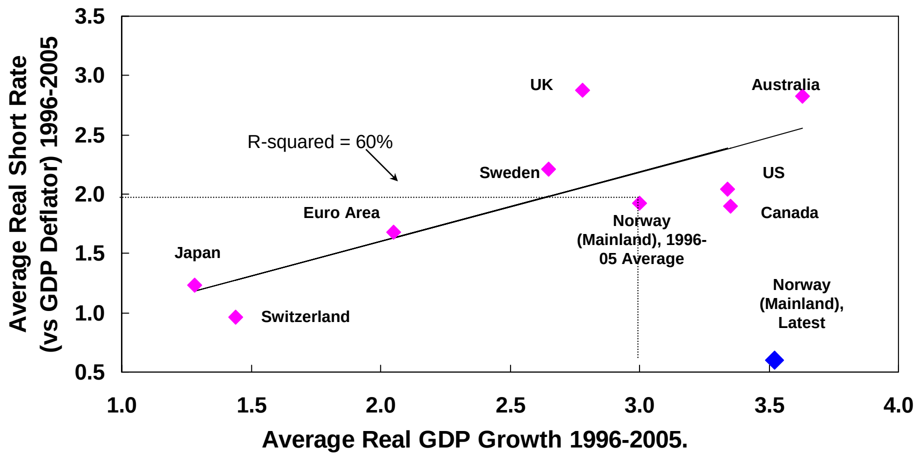
Short Term Policy Rates – Divergence and Convergence



Source: Datastream.

Selected Countries

High Growth Economies Usually Have Higher Neutral Real Interest Rate



Source: OECD Economic Outlook. Dec 2005

Norges Bank
Monetary Policy Framework

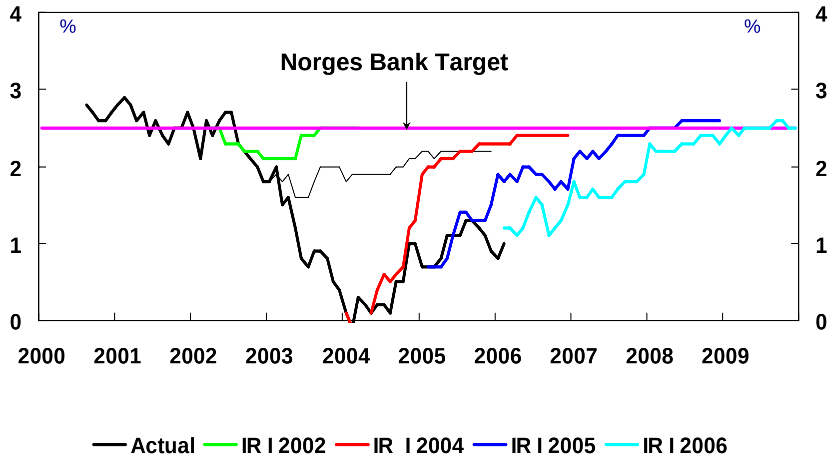
Sets the Standard in Technical Aspects of inflation targeting

- Highly transparent, with detailed forecasts
- Forward looking, with lengthy horizon (at least 3 years)
- Flexible inflation targeting, balancing growth with speed of returning inflation to target
- Use of market interest rates and NB optimal interest rate path

- But inflation "misses" – the deviations from forecast and target – have been relatively large.

Norway

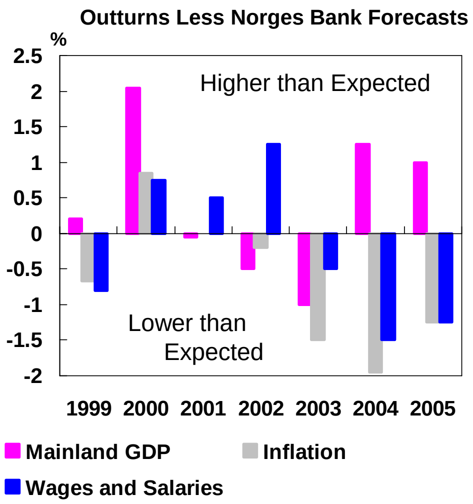
CPI-ATE Inflation: Norges Bank Forecasts and Outturns

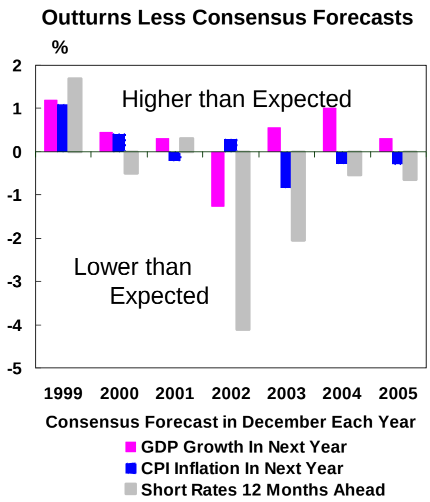


Sources:Statistics Norway and Norges Bank

Norway

Economic Outturns Less Forecasts: Growth, Inflation, Wages, Interest Rates

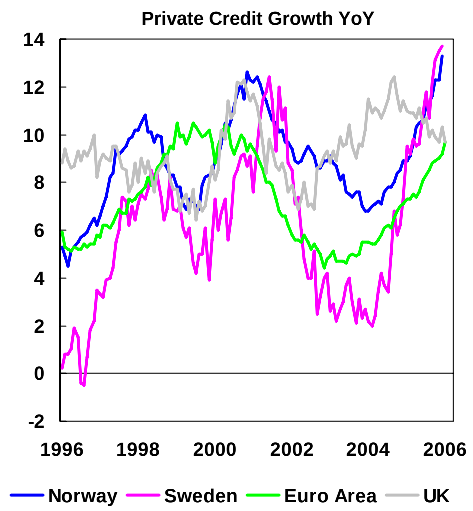


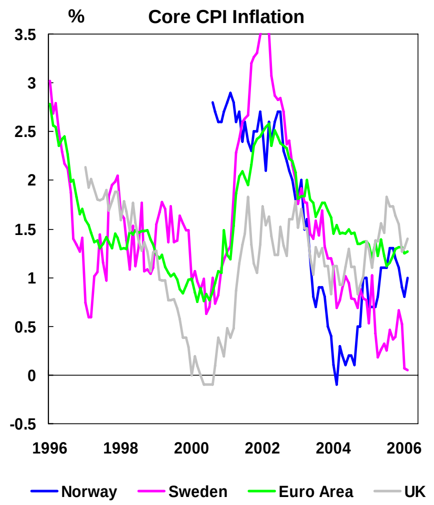


Note: Norges bank forecasts measured at end of year T-2. Inflation measured by CPI-ATE since 2002, CPI for the rest.
Sources: Norges Bank Inflation Reports and Citigroup.

Selected Countries

Credit and Core Inflation

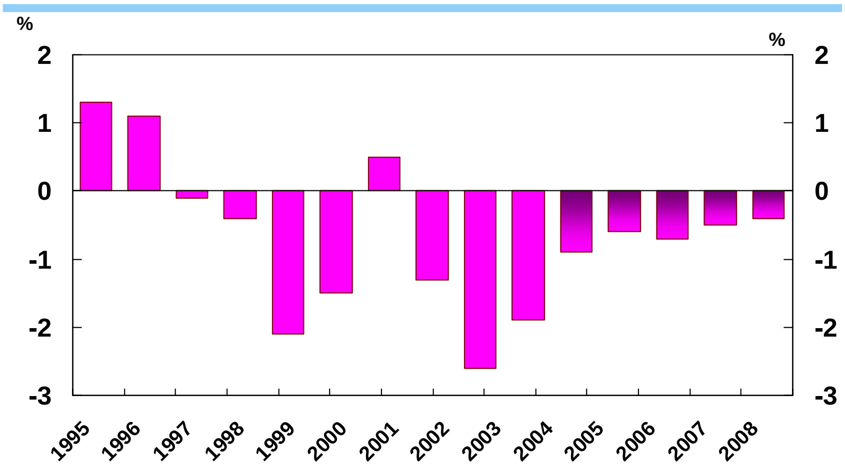




Note: Core inflation measured by CPI-Ate for Norway, Undix1 ex energy for Sweden, CPI ex food, drink, energy, tobacco for UK, CPI ex energy, unprocessed food, tobacco and health for euro area.

Norway

Norges Bank Indicator of external price impulses to imported consumer goods measured in foreign currency. Annual figures. Per cent.1995 – 2009[1)]

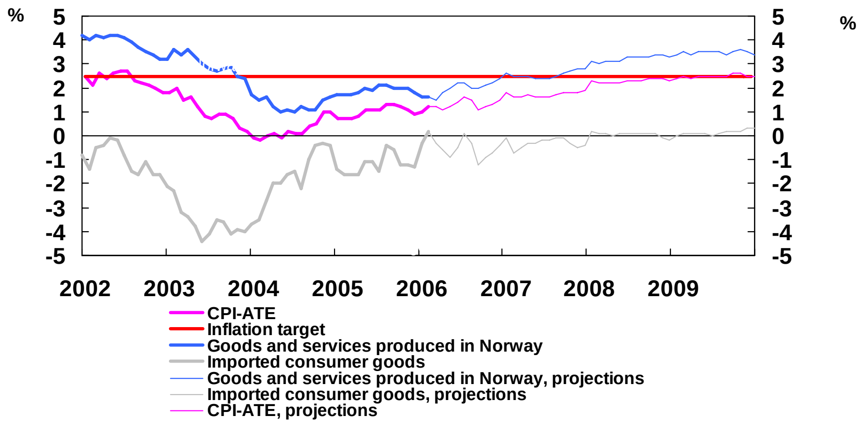


[1)] Projections for 2005 – 2009.

Source: Norges Bank Inflation Report 1/2006.

Norway

Norges Bank Forecast for CPI-ATE[1)]. Total and by supplier sector[2)]. 12-month change. Per cent. Jan 02 – Dec 09[3)]

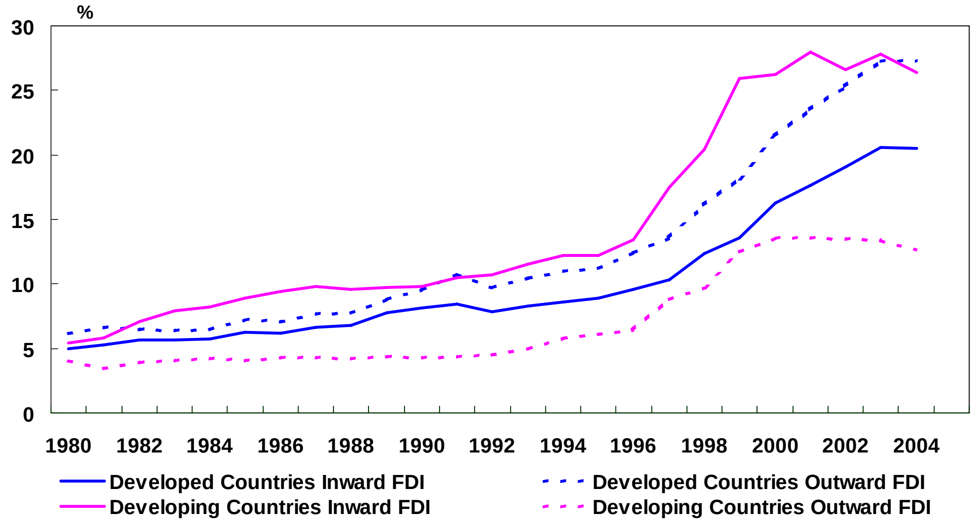


[1)] CPI-ATE: CPI adjusted for tax changes and excluding energy products. A further adjustment is made for the estimated effect of reduced maximum day-care rates from January 2006.
[2)] Norges Bank's calculations.
[3)] Projections for Mar 06 – Dec 09.

Sources: Statistics Norway and Norges Bank Inflation Report 1-2006.

Global

Global Level of Foreign Direct Investment (FDI) as Pct of GDP



Selected Countries

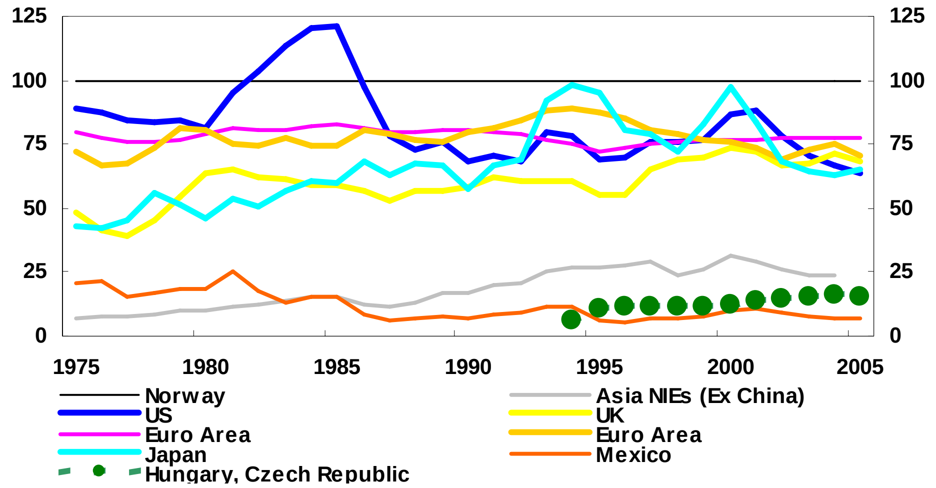
World Bank Indices of Regulatory Business Climate

Country	World Bank "Doing Business"Ranking 2004	2005	Labour Costs /Hour in 2004 (Manufacturing % of US Level)
New Zealand	1	1	56
Singapore	3	2	32
US	2	3	100
Canada	4	4	92
Norway	8	5	150
Australia	7	6	100
Hong Kong	5	7	24
Denmark	15	8	146
UK	6	9	107
Japan	10	10	95
Germany	24	19	140
Korea	21	27	50
Spain	27	30	74
Taiwan	17	35	26
France	36	44	103
Czech Republic	32	41	23
Italy	33	70	88
China	41	91	6

 Source: World Bank

Global

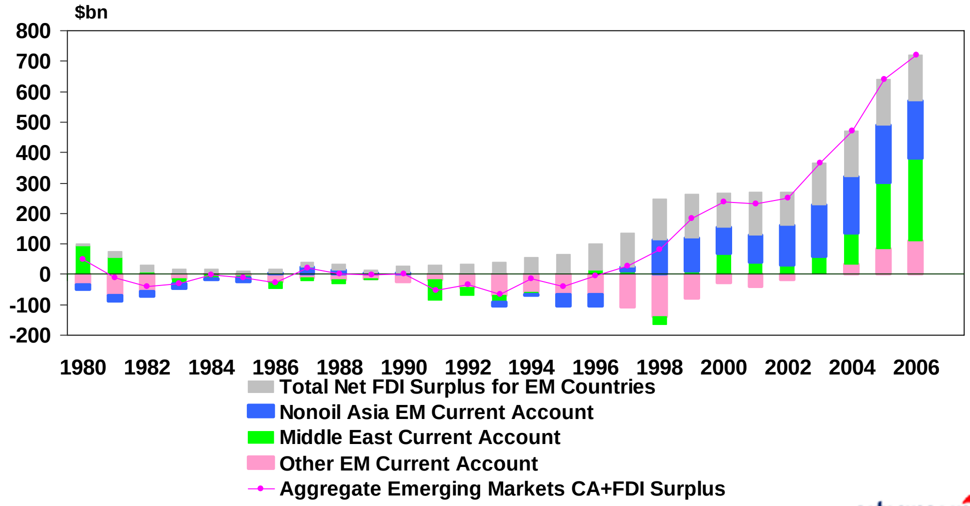
Level of Hourly Labour Costs (Incl Non Wage Costs) For Manufacturing Industry, Norway = 100



Asian NIEs are HK, Korea, Singapore, Taiwan. Sources: BLS and Citigroup.

Global

The Surplus Savings Countries, $bn



Data from UN and IMF. Current account for 2006 is IMF forecast, FDI surplus assumed stable at 2004 level.

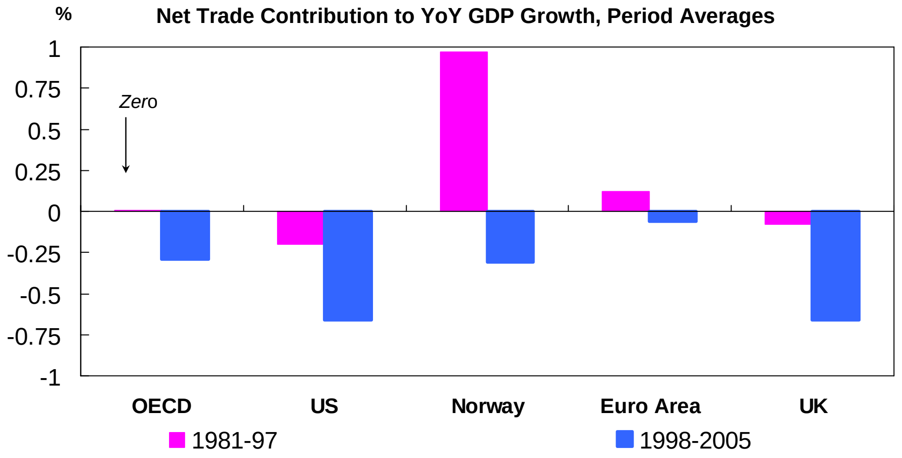
Disinflationary Effects of Globalisation and Increased Openness

- Drag from net trade across industrial countries
- Business investment relatively subdued
- Cheap imports cap CPI nonoil goods prices – enhanced by relatively high price level in Norway
- Sluggish euro area supports Norway's real exchange rate
- Inflow of low cost migrant labour caps pay growth

Selected Countries

Disinflationary Effects of Globalisation
1. Drag on GDP Growth from Net Trade

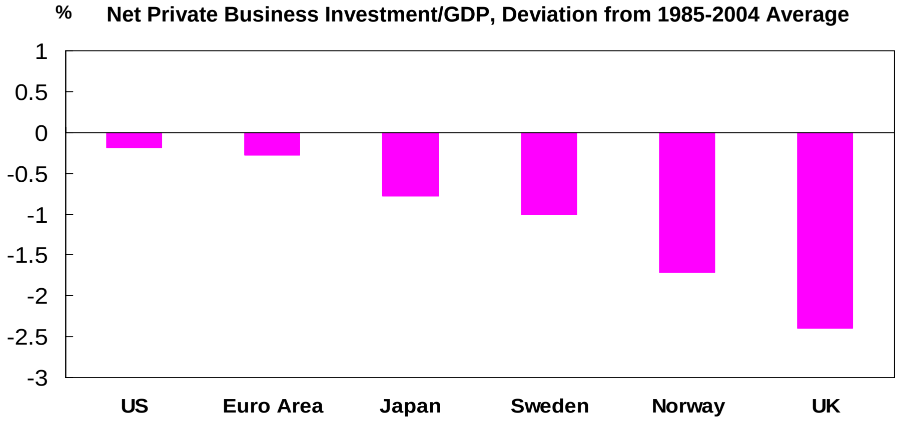
Net Trade Contribution to YoY GDP Growth, Period Averages



Note OECD Ex Czech Republic, Hungary, Poland, Slovak Republic, Korea, Turkey. Source: OECD

Selected Countries

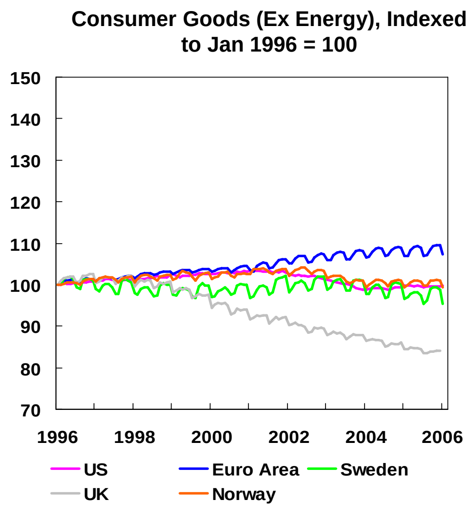
Disinflationary Effects of Globalisation:
2. Industrial Country Business Investment Undershoots

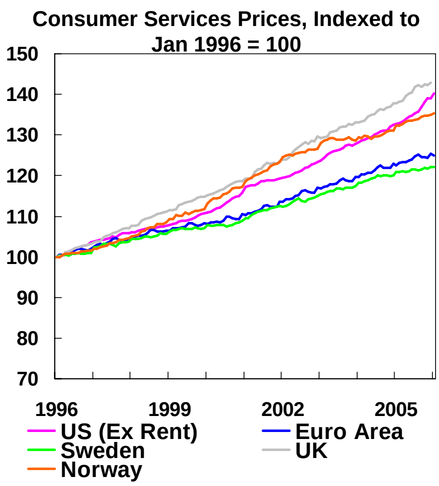


Note: Euro Area figure is deviation from 1991-2004 average.
Source: National Government Accounts

US, Euro, Sweden, UK, Norway

Disinflationary Effects of Globalisation:
3. Flat/Falling Consumer Goods Prices…



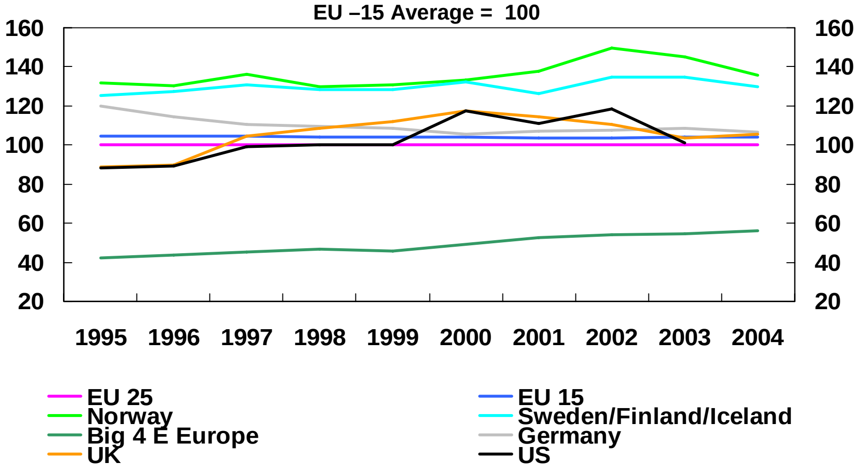


Source: Eurostat and Citigroup.

Selected Countries

…Enhanced By Relatively High Level Of Prices

Absolute Level of Consumer Prices (Goods and Services), EU –15 Average = 100

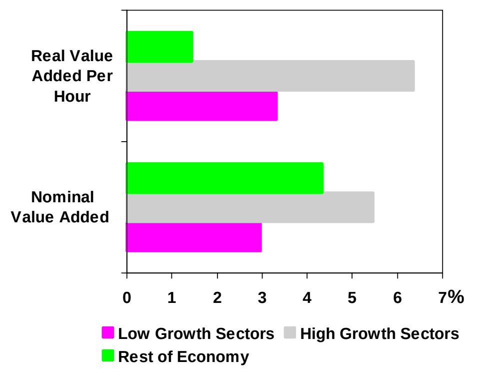


Source: Eurostat and Citigroup.

Selected Countries

Disinflationary Effects of Globalisation: 4. Euro Area Lags In High Growth Sectors…

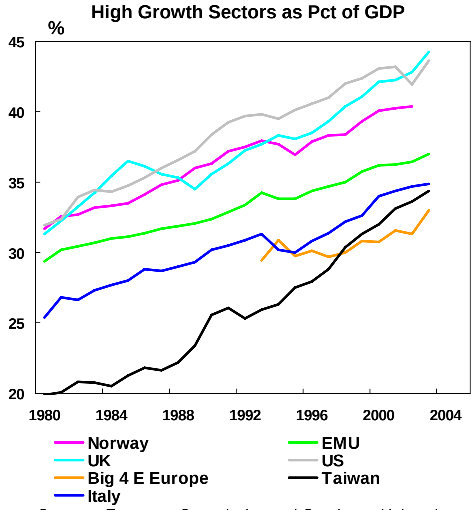
Average Growth of EU Economic Sectors, 1994-2003



High growth sectors are knowledge intensive services and high tech manufacturing.

Low growth sectors are agriculture, fishing, low-tech and mid-tech manufacturing.

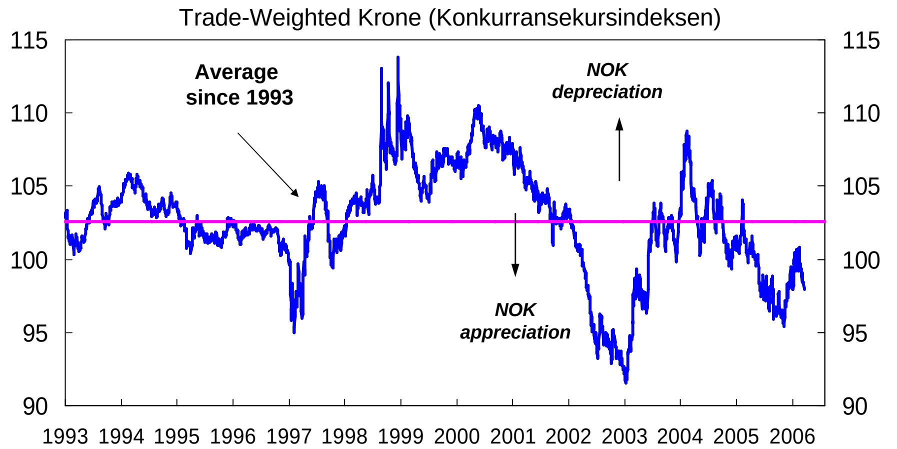
High Growth Sectors as Pct of GDP



Sources: European Commission and Groningen University

Norway

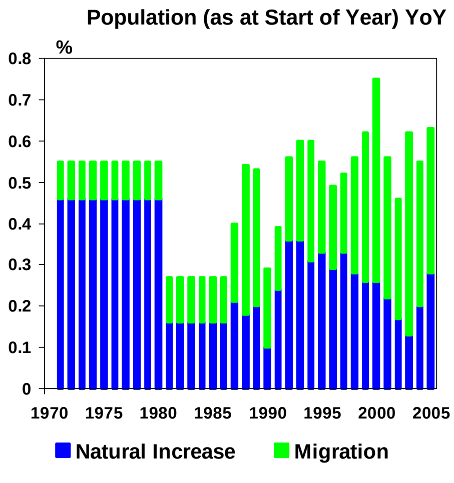
...Which Underpins the Krone, even with low interest rates

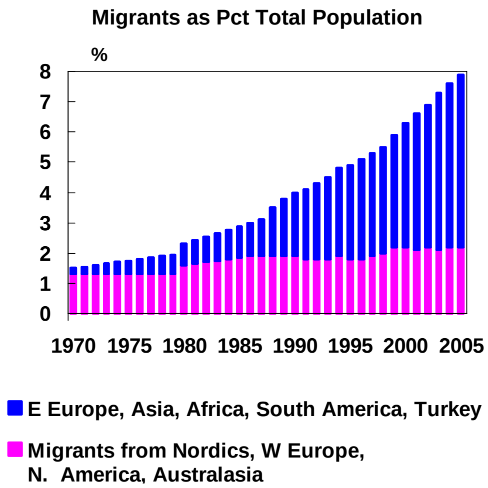


citigroup

Norway

Disinflationary Effects of Globalisation: 5. Inward Migration of Low Cost Labour



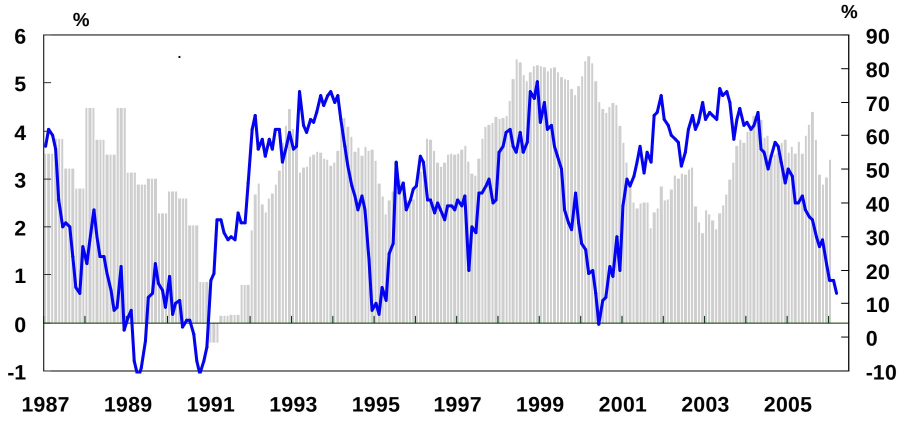


Source: Statistics Norway

citigroup

United States

Monetary Policy Starting to Bite

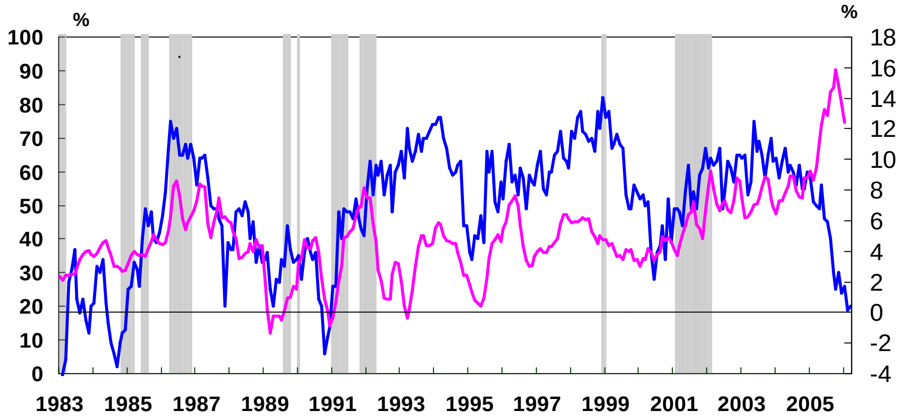


Real Consumer Spending YoY (left)

Net Balance of Consumers Who Believe Interest Rates are Low-High (right)

United States

Marked Drop in Intentions to Buy A House Points to End of House Price Gains and Probable End to Tightening



Shaded Periods Denote Periods When Fed Funds Fall At Least 50bp QoQ

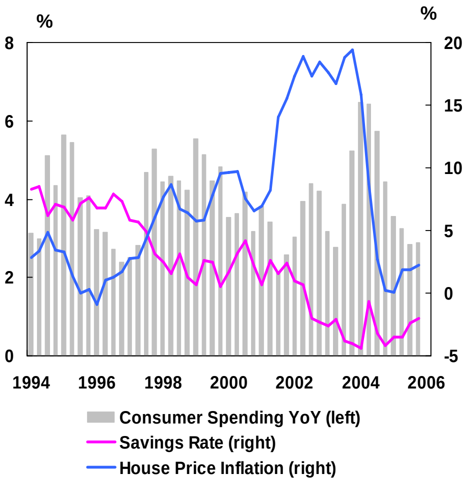
Michigan Survey -- Net Balance of Consumers Believing Buying Conditions for Houses are Good/Bad (left)

Median House Price YoY (right, 3 mo avge)

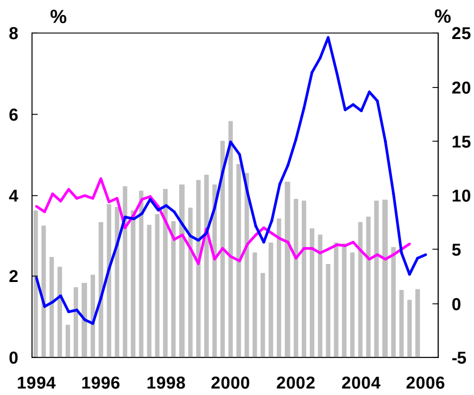
UK, Australia

Housing and Savings

Australia



UK



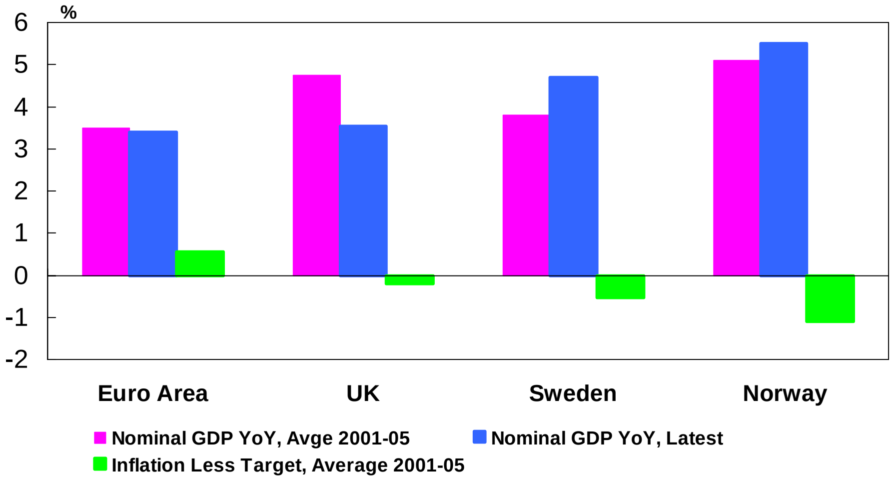
Setting Monetary Policy With Uncertain -- But Probably Disinflationary – Nonoil Global Forces

Possible Framework	Advantages	Disadvantages
1. Assume external disinflationary forces fade soon, lengthen forecast horizon to 2-3 years (NB, RB, BoE, SNB)	Keeps inflation target as anchor for expectations	Repeated inflation undershoots may cost central bank credibility and reputation
2. BIS View: Change emphasis from inflation target to avoiding domestic excess. Stabilise credit growth and asset prices rather than inflation.	Reduces problem of domestic debt buildup	Even bigger inflation undershoots. Could destabilise inflation expectations. Which asset price to stabilise?
3. Shift from CPI-ATE to CPI target	CPI higher than CPI-ATE. Incorporates both inflationary (oil) and disinflationary aspects of globalisation	Vulnerable to supply-driven oil shocks
4. Assume external disinflationary backdrop continues, aim to stabilise inflation at current target (BoE mid 2003).	Maintains inflation target framework, less risk of large and repeated inflation undershoots than (1)	May require tolerance of destabilising asset/credit boom
5. Be explicit about the issues. Lengthen forecast horizon further, assume very gradual return to "normal" external backdrop. .	Keeps inflation target, less likely to produce big nearterm inflation forecast errors than (1)	Implies some tolerance of debt buildup, less than (4)

Under any assumption, greater focus on stabilising nominal GDP growth as intermediate anchor against uncertain external shocks

Selected Countries

Nominal GDP Growth YoY



Disclosure Appendix

ANALYST CERTIFICATION

I, Michael Saunders, hereby certify that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities, issuers, currencies, commodities, futures, options, economies or strategies. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report.

Other Disclosures

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

Citibank, N.A., London Branch and Citigroup Global Markets Inc, including its parent, subsidiaries and/or affiliates ("the Firm"), may make a market in the securities discussed in this report and may sell to or buy from customers, as principal, securities recommended in this report. The Firm may have a position in securities or options of any issuer recommended in this report. An employee of the Firm may be a director of an issuer recommended in this report. The Firm may perform or solicit investment banking or other services from any issuer recommended in this report.

Within the past three years, the Firm may have acted as manager or co-manager of a public offering of the securities of any issuer recommended in this report. Securities recommended, offered, or sold by the Firm : (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. The Firm are regular issuers of, and trade in including position taking), traded financial instruments linked to securities which may have been reported on in the preceding research report.

Investing in non-U.S. securities, including ADR's entails certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations.

Although information has been obtained from and is based upon sources the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute the Firm 's judgement as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. This research report does not constitute an offer of securities. Any decision to purchase securities mentioned in this research must take into account existing public information on such security or any registered prospectus

Investing in non-US securities by US persons may entail certain risks. Investors who have received this report from the Firm may be prohibited in certain US States from purchasing securities mentioned in this report from the Firm; please ask your Financial Consultant for additional details.

This report is distributed in the United Kingdom by Citibank, N.A. London Branch or Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, UK. This material is directed exclusively at market professional and institutional investor customers and is not for distribution to private customers, as defined by the rules of the Financial Services Authority, who should not rely on this material. Moreover, any investment or service to which the material may relate will not be made available to such private customers. This material may relate to investments or services of a person outside of the United Kingdom or to other matters which are not regulated by the Financial Services Authority and further details as to where this may be the case are available upon request in respect of this material. If this publication is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("The Firm Canada"), the Firm Canada has approved this publication. If this report was prepared by the Firm (excluding Nikko Citigroup Limited) and distributed in Japan by Nikko Citigroup Limited, it is being so distributed under license. This report is made available in Australia, to non-retail clients through Citigroup Global Markets Australia Pty Limited (ABN 64 003 114 832), and to retail clients through Smith Barney Citigroup Australia Pty Ltd (ABN 10 009 145 555), Licensed Securities Dealers. In New Zealand it is made available through Citigroup Global Markets New Zealand Limited, a member firm of the New Zealand Stock Exchange. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. Citigroup Global Markets (Pty) Limited is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at Citibank Plaza, 145 West Street, Sandown, Sandton, 2196, Republic of South Africa. The investments and services contained herein are not available to private customers in South Africa. This publication is made available in Singapore through Citigroup Global Markets Singapore Holdings Pte Ltd, a licensed Dealer and Investment Advisor. This report is being distributed in Hong Kong by or on behalf of, and is attributable to Citigroup Global Markets Asia Limited, 20th Floor, Three Exchange Square, Hong Kong.