

Economic Survey 4/92

Economic Trends

Central Bureau of Statistics of Norway

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Economic Survey

is published four times a year by the Research Department of the Central Bureau of Statistics of Norway. The issues contain comments and analysis of economic trends in Norway, based on the latest quarterly national accounts data.

Economic Survey no.1 presents the first set of preliminary national account figures for the previous year.

The publication also contain articles on other topics, selected from the outcome of various projects in the Research Department.

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Subscription orders for Economic Survey should be sent to Sales- and subscription service in the Central Bureau of Statistics.

Subscription price NOK. 120,-

The publications are issued on commission by Akademika and are also available through booksellers.

Single copy NOK. 40,-

Akademika – Department for Official Publications
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The current issue of Economic Survey contains a review of current economic trends in Norway and an outlook for 1992 and 1993. The main source of information is the quarterly national account system. The quarterly calculations are carried out on a less detailed level than the annual national accounts. The cut-off date for information used in the publication was 1 December 1992.

Economic Trends has been prepared by the Research Department in the Central Bureau of Statistics. Please acknowledge the source if quoting from this publication. Inquiries should be directed to Ådne Cappelen or Knut Moum.

Economic Trends

According to preliminary quarterly national accounts figures for Norway, mainland demand showed approximately no change from the second to third quarter (seasonally adjusted). An increase in general government demand is offset by decline in fixed capital formation in the mainland economy. However, the underlying tendency of the decline of mainland investment is receding. Private consumption picked up in 1991 and into 1992, but shows an unchanged level (seasonally adjusted) from the second to third quarter of this year. Strong growth in household income, partly as a result of tax relief, is an important factor behind the rising consumption. Exports of traditional goods rose by 1 per cent in the third quarter of this year, after a small decrease in the preceding quarter. Gross Domestic Product will show only very moderate expansion in 1992. After edging down in 1991 and up to the first quarter of 1992, preliminary quarterly national accounts figures show a sharp expansion of mainland GDP in the second quarter, but a renewed contraction in the third quarter. Total GDP also grew markedly from the first to the second quarter of this year (seasonally adjusted), and the growth continued in the third quarter, as a result of higher oil production.

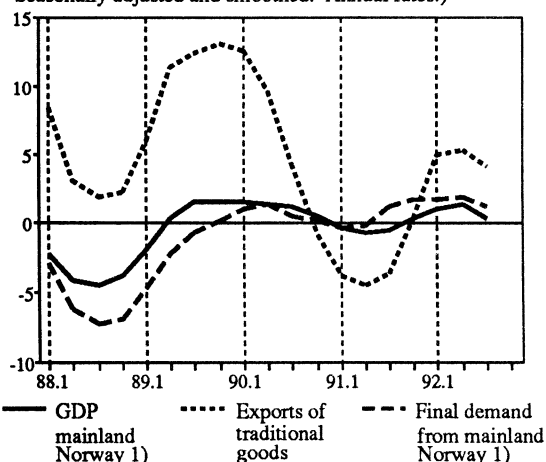
The labour market survey (AKU) for the first three quarters of 1992 shows a continuing rise in unemployment, although the rise levelled off in the last quarter. Man-weeks worked remain on a downward trend, but at a more moderate pace than pre-

viously. However, numbers employed (seasonally adjusted) increased somewhat in the last quarter, as did the total labour force. The underlying tendency suggests that the deterioration in the labour market may be coming to a halt.

The rate of inflation in Norway, measured by the twelve-month rise in the consumer price index, was 2.2 per cent in October and 2.3 per cent in the third quarter. The underlying monthly rate of increase continues to recede. In the first ten months of the year, consumer prices were 2.4 per cent higher than in the same period last year.

According to preliminary calculations the surplus on the current account of the balance of pay-

CYCLICAL DEVELOPMENT
(Per cent growth from previous quarter.
Seasonally adjusted and smoothed. Annual rates.)



Source: CBS.

MACROECONOMIC INDICATORS

Growth from previous quarter, seasonally adjusted.
Per cent¹⁾

	91.4	92.1	92.2	92.3
Demand and output volume indicators				
Final domestic use of goods and services	3.7	-6.0	4.8	0.9
- Demand from				
mainland Norway	0.6	-0.7	1.5	-0.0
Private consumption	0.6	-0.5	1.5	-0.0
Government consumption	-1.9	4.5	-1.3	2.1
- Gross fixed capital formation, mainland Norway	4.3	-9.3	6.2	-3.3
Exports	1.7	6.1	2.2	-4.0
- Traditional goods	-0.9	5.9	-0.3	1.0
Imports	9.2	-8.1	9.4	-3.8
- Traditional goods	5.3	-1.2	-0.1	6.9
GDP	0.8	0.5	1.9	0.3
- Mainland Norway	0.2	-0.4	2.1	-1.1
Labour market				
Man-hours worked	-0.9	-0.7	-0.5	-0.3
Employed persons	-0.6	-0.8	-0.2	1.2
Unemployment rate ²⁾	5.7	5.7	6.1	6.0
Prices				
Consumer Price Index ³⁾	2.7	2.4	2.4	2.3
Income				
Current balance, NOK bn ⁴⁾	2.4	5.3	0.5	9.4

1) See "Technical comment".

2) Seasonally adjusted levels in per cent.

3) Growth from same period previous year.

4) Unadjusted levels in NOK bn.

ments measured about NOK 15 billion in the first three quarters of this year, compared with last year's figure of NOK 30 billion. The decline is partly attributable to a deterioration in the terms of trade due to a fall in the price of crude oil and of other Norwegian exports (commodities) and partly to sizable payments of dividend from the oil sector to foreign shareholders.

International economy: Upturn in the USA, continued decline in Europe

After seasonally-adjusted GNP figures for the USA showed surprisingly moderate growth since early 1991, third quarter figures for 1992 revealed far quicker GDP expansion. Other indicators, such as order inventories and consumer expectations of economic development ahead, also suggest that the

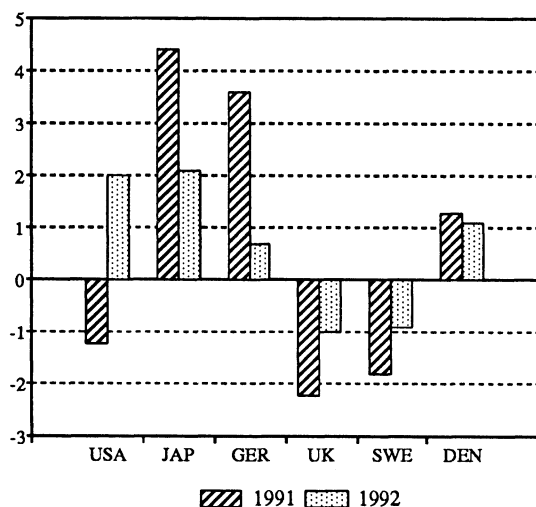
upturn in the US economy long awaited by many observers is now materialising. Moreover, many expect a more expansionary fiscal policy with Clinton as president. The question is whether this will be gradually offset by a somewhat tighter monetary policy. Short rates in the USA are very low, and the interest rate fall has probably contributed to the upturn in the economy. With higher economic growth the US interest rate level may be expected to rise somewhat. This is also expected to result in a strengthening of the dollar vis-à-vis the German mark and other European currencies in addition to the strengthening that has already ensued from the events of this autumn. If the cyclical upturn in the USA is truly under way, it will probably take half a year before a similar turnaround is registered in western Europe, although there are also examples of an almost simultaneous turnaround in the two areas.

In Japan growth rates remain moderate, and GDP is now expected to grow by about 2 per cent from 1991 to 1992. Domestic demand in particular has faltered, and realignment of fiscal policy in an expansionary direction has been proposed. The proposal has yet to be considered owing to controversy between the government and parliament. The moderate growth in GDP is expected to continue in 1993.

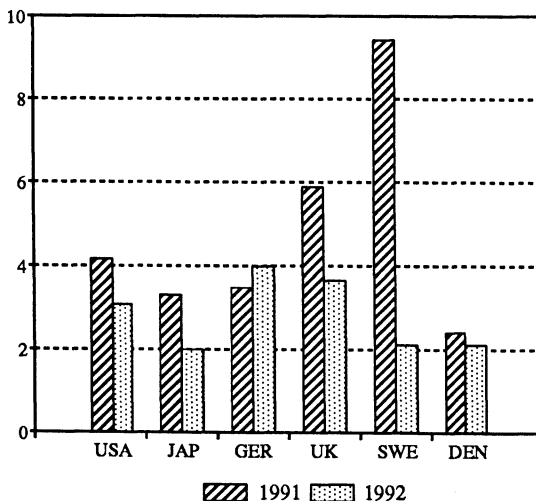
The cyclical picture in Europe is still marked by very weak growth and rising unemployment in most countries. In the United Kingdom GDP is subsiding for the second year running and unemployment is expected to rise from 9 per cent in 1991 to 12 per cent in 1993. Important factors behind the contraction of GDP are a steep fall in investment and also declining private consumption. In Germany GNP growth of about half a per cent is now expected both in 1992 and 1993, but the increase in the rate (and level) of unemployment is far slower than in the United Kingdom. In Sweden the contraction of GDP continues and unemployment will probably more than double from 1991 to 1993, thereby reaching the "Norwegian" level. Forecasts for 1993 diverge widely depending on what effects the depreciation of the Swedish krona can be expected to have on the economy.

The substantial exchange rate changes this autumn and the weakening of the European Monetary System have partly been a reaction to the German policy of high interest rates. The system could probably have survived if the German mark had been sufficiently revalued at an earlier stage. Some countries have let their currencies float. This has made a lower interest rate level possible in these countries in the short term. However, if the authorities in these countries retie their currencies to the German mark or the Ecu, the interest rate level will probably rise anew. An upturn in the European

GNP/GDP GROWTH FOR SELECTED COUNTRIES
Per cent



GROWTH IN CONSUMER PRICES
Per cent



economy has been linked to hopes of an upturn in the USA and a fall in German rates. From August to November both the short and long interest rate level in Germany fell about 1 percentage point. However, the unrest in the foreign exchange market has so far prevented a similar fall in interest rates in other countries, with the exception of the United Kingdom where rates at the short end of the market have fallen since pound sterling was detached from the Exchange Rate Mechanism. Hence, forecasts up to and including November point clearly to very moderate growth for western Europe as a whole both in 1992 and 1993. GDP in the United Kingdom and Sweden - two of Norway's main trading partners - is set to fall in 1992 for the second year running, and both countries have allowed their currencies to float. If the estimates of GNP growth among our main trading partners are weighed together with trading weights, the figures show an expansion of about 1/4 per cent both in 1991 and 1992, rising to 1 1/4 per cent in 1993.

In recent months the oil price has fluctuated around USD 20 p/b. At the end of November the price of Brent Blend was slightly above USD 19. The price fall is due to weak demand owing to low growth in the OECD area combined with high production in OPEC countries. Production quotas agreed by the last Opec meeting for the first quarter of 1993 are probably consistent with prices around USD 20 this winter, even though the adopted cut in production is by no means large.

Norway: Moderate growth in output and domestic demand

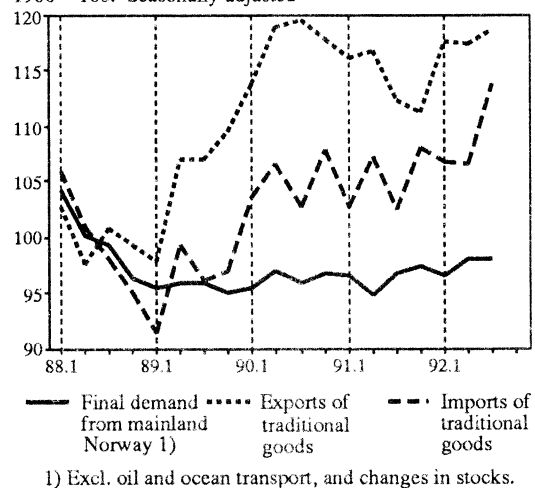
Traditional exports follow the market trend

According to preliminary quarterly national accounts figures, traditional exports increased by 1 per cent (seasonally adjusted) from the second to third quarter of this year. Altogether exports of traditional goods so far this year have stood about 3 per cent higher than in the same period last year. Even so, with an unchanged seasonally adjusted level from the third to fourth quarter, annual growth in 1992 will reach 3.5 per cent, because exports in the fourth quarter of 1991 were low due to maintenance work at the Mongstad refinery. With an unchanged seasonally adjusted level from the third to fourth quarter of this year, traditional exports apart from energy-intensive goods will rise by a good 3 per cent on an annual basis, which is in line with the rate of market growth. In the past four quarters exports of such goods have risen by almost 6.5 per cent, compared with average annual figure of more than 7.5 per cent during the boom lasting from the second quarter of 1986 to the third quarter of 1990.

Exports of crude oil and natural gas showed a moderate increase in the second and third quarter of this year (seasonally adjusted), after the phasing-in of production at the Gullfaks and Oseberg fields which contributed to marked growth in the fourth quarter of last year and the first quarter of this year. With an unchanged level from the third to the fourth quarter (seasonally adjusted), exports of oil and gas will increase by a good 11 per cent this year. Oil output is set to show a further increase next year, while gas output will remain approximately unchanged. Total oil and gas exports will therefore increase in 1993 too, but at a slower rate than this year.

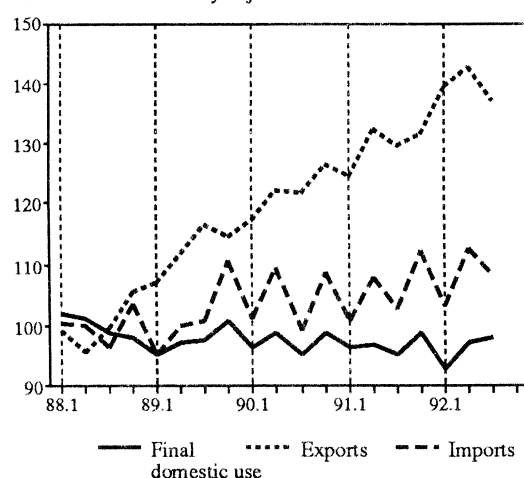
As a result of the international recession, exports of shipping services have declined in both value and volume terms over the past four quarters. With an

EXPORTS, IMPORTS AND FINAL DEMAND FROM MAINLAND NORWAY
1988 = 100. Seasonally adjusted



Source: CBS.

TOTAL EXPORTS, IMPORTS AND FINAL DOMESTIC USE
1988 = 100. Seasonally adjusted



Source: CBS.

unchanged seasonally adjusted level to year-end, the export volume of such services will fall by about 8 per cent from 1991 to 1992.

As a result of the reorganisation of foreign exchange statistics the export volume was revised sharply upwards for a number of services from the fourth quarter of last year to the first quarter of this year. This change is partly matched by an upward revision of import estimates. The reorganisation makes it difficult to interpret the trend in export of services, and entails *ceteris paribus* a contribution to growth in both total exports and total imports in 1992 which has no basis in changes in the Norwegian economy.

Moderate increase in mainland demand in 1992

Demand in the mainland sector showed virtually no change from the second to the third quarter of this year, after an increase of 1.5 per cent in the previous quarter. As a result of this, and of some growth in the second half of last year, demand in mainland Norway will expand by 1.2 per cent this year, even in the absence of a further increase in the fourth quarter. Not since 1986 has appreciably stronger growth been recorded. The factor behind the rise in mainland demand is total consumption, while gross investment in fixed capital continues to fall.

Fixed capital formation apart from in oil and shipping fell by 3.3 per cent in the third quarter of this year, and the level in the first three quarters of the year was 2.6 per cent lower than in the same period last year. The decline for the year as a whole could be of the same order, i.e. much as in 1991. However, general government investment is increasing in 1992 too, and the National Budget for

1993 estimates growth on an annual basis at slightly more than 5 per cent, after last year's increase of almost 16 per cent. Investment in private services has shown some increase from the first three quarters of last year to the same period of this year. Investment in manufacturing and mining, which was fairly high around the end of 1990, fell throughout last year and the first half of this year. The fall levelled off in the third quarter; even so the decline from 1990 to 1991 could be about 10 per cent. Residential investment has also subsided so far in 1992, after a steep decline in the three preceding years. However, the decline appears to be bottoming out. The sharp drop in 1991 will nonetheless contribute to a fall of almost 20 per cent this year on an annual basis.

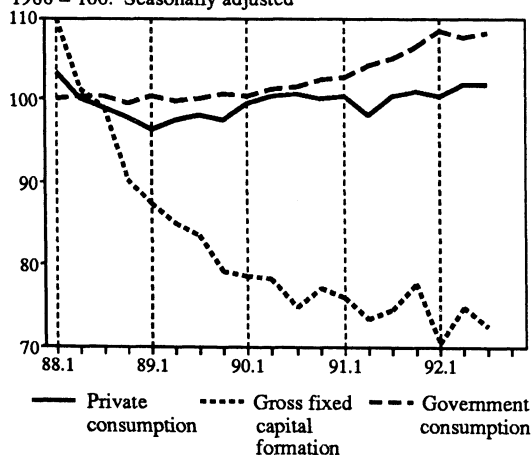
Private consumption showed little change in the third quarter of this year, after rising 1.5 per cent (seasonally adjusted) in the preceding quarter. Since there was also some increase in consumption in the second half of last year, the stage is set for 1 1/2 to 2 per cent growth on an annual basis. Partly as a result of tax relief and continued strong increase in transfers from the public sector, growth in household real disposable income will probably approach 5 per cent. The saving ratio will therefore rise to almost 6 per cent this year, from last year's level of about 3 per cent. With a continued decline in household net investment, especially in dwellings, this points to an increase in household net assets of more than NOK 15 billion on an annual basis. Figures from the credit market statistics indicate that households are now both paying off debt and increasing their bank deposits and other claims on financial institutions.

As a result of the revision of the tax rules, real after-tax interest rates are set to increase by about 2.5 percentage points this year, to a level of about 7 per cent, for large groups of the population. Next year nominal interest rates will probably subside somewhat and borrowing costs fall back again. This may cause a rise in house prices and some increase in residential investment. However, as a result of weaker income growth next year, private consumption will rise by only about the same rate as this year, and households will continue to consolidate their net asset position.

In the Revised National Budget for 1992 the government planned a 2.8 per cent increase in general government consumption for the current year. In the National Budget for 1993 this figure was revised upwards to 3 per cent. Quarterly national accounts figures suggest that this may be on the low side. Next year, however, general government consumption will be appreciably weaker, partly as a result of a fall in procurement of military equipment.

CONSUMPTION AND FIXED CAPITAL FORMATION IN MAINLAND NORWAY 1)

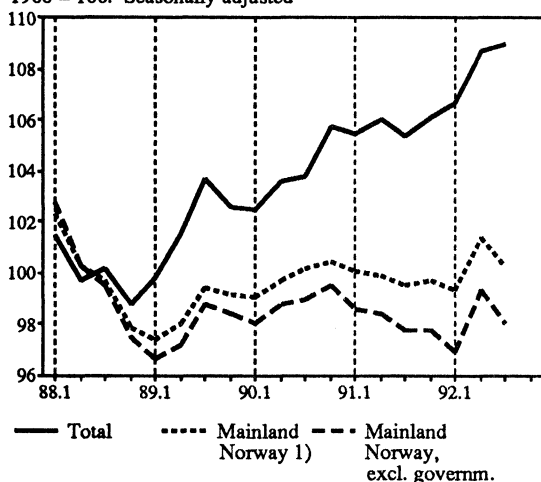
1988 = 100. Seasonally adjusted



1) Excl. oil and ocean transport, and changes in stock.

Source: CBS.

GROSS DOMESTIC PRODUCT 1988 = 100. Seasonally adjusted



1) Excl. oil and ocean transport.

Source: CBS.

Marked upturn in imports in the third quarter

Imports of traditional goods rose by almost 7 per cent (seasonally adjusted) in the third quarter of this year, after a weak decline in the two preceding quarters. Three quarters of the increase in imports in the third quarter are attributable to a sharp upturn in imports of a broad range of engineering products. In 1990 and 1991 traditional imports showed wide fluctuations as a result of periodic deliveries of submarines and purchases of new civilian aircraft. If these cyclically insensitive items are disregarded, traditional imports in the two years showed only a moderately larger increase than mainland demand. This tendency will be interrupted this year. As a result of the strong increase in the third quarter, imports of traditional goods will probably reach the 4 per cent mark on an annual basis.

PRODUCTION AND EMPLOYMENT 1988=100. Seasonally adjusted volume indices



Source: CBS.

Weak trend in mainland GDP

Mainland GDP contracted by 1.4 per cent (seasonally adjusted) in the third quarter of this year, after a somewhat stronger expansion in the preceding quarter. The decline was particularly marked in the construction sector and primary industries. The latter was related to the poor growth season for plant products this year. Gross product in manufacturing edged down in the third quarter, but import-competing manufacturing, especially the engineering industry, posted a sharp increase in output. The latter is attributable to vigorous investment growth in the oil sector. For the year as a whole, GDP is likely to expand by a slightly more than 1/2 per cent, which is appreciably weaker than the expansion in mainland demand. The difference is due to the continued reduction of inventories and relatively strong increase in imports. The vigorous rise in crude oil output contributes to an expected overall GDP expansion of about 2 1/2 per cent.

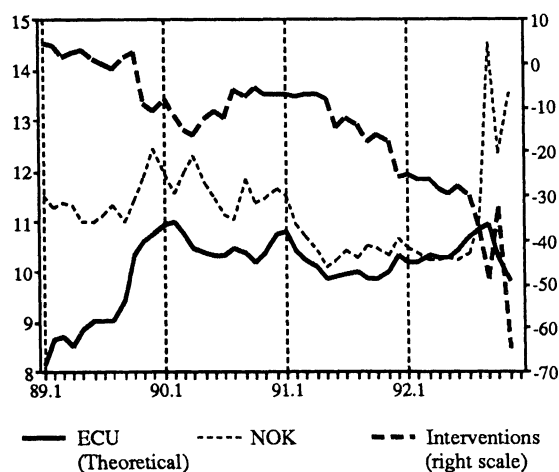
Continued strong growth in oil investment

According to the Central Bureau of Statistics' investment survey, accrued investment costs in oil activity including pipeline transport for the third quarter of this year are set to rise more than 16 per cent from last year to this year in real terms, after an increase of almost 30 per cent from 1990 to 1991. Oil investment will show a further increase next year, to a level corresponding to 8 per cent of total GDP. The increase in 1993 represents a real demand stimulus for Norwegian and foreign suppliers of more than 1 per cent of mainland GDP, whereas growth this year will provide a total stimulus of about 1.5 per cent.

The decline in employment levels off, but unemployment continues to rise

According to the Central Bureau of Statistics' labour market survey (AKU), man-hours worked showed little change from the first three quarters of last year to the same period of this year. While the AKU is a sample survey, and the figures are therefore conjectural and must be treated with caution, they nevertheless suggest that so far there has been no turnaround to growth in man-hours worked. However, the marked fall in the second half of 1990 and the first half of 1991 appears to have levelled off. This tendency is also apparent in the number of persons in employment. The total labour force looks, however, to be on a weak rising trend, and changes in the population's age structure may am-

THREE MONTHS EURO INTEREST RATES AND THE CUMULATED SPOT FOREIGN EXCHANGE INTERVENTIONS BY BANK OF NORWAY



Source: Bank of Norway.

plify this trend in the period ahead. Hence the clear-cut tendency of rising unemployment will not be interrupted in the current year. Unemployment as measured by the AKU survey will reach about 6 per cent on an annual basis, i.e. an increase of 0.5 percentage points on last year.

Price inflation falling towards 2 per cent

The results of this year's wage round point towards a marked slowdown in wage growth from 1991 to 1992. The central increments awarded under the annual settlement and the wage overhang at the start of the year are estimated to contribute to an average annual wage growth of slightly below 2 per cent for workers encompassed by negotiations between the main worker (LO) and employer (NHO) organisations. Last year's figure was slightly above 3 per cent. The weak cyclical situation suggests that wage drift this year will be weaker than last year, and wage growth for manufacturing workers is likely to exceed 3 per cent. The public sector will record a wage growth of 3-3 1/2 per cent, with a potentially slightly higher figure for the economy as a whole.

The slowdown in wage growth in recent years and a very moderate increase in import prices have contributed to slowing the rate of inflation. In the twelve months to October the consumer price index rose by 2.2 per cent. The average rise for the first ten months of the year was 2.4 per cent, compared with 3.6 per cent in the same period last year. For 1992 as a whole consumer prices are set to increase by 2.3 per cent, unless price inflation in November and December should prove higher than the underlying rate of price increase of the past six months. The rise in consumer prices is also subsiding among our main trading partners; in December it was down to 2.9 per cent. The fall in the exchange rates of the

Finnish markka, pound sterling and Swedish krona may prompt an initial further fall in Norwegian import prices. However, inflation in these countries must be expected to climb somewhat, thereby partially reversing the immediate impact of the exchange rate changes. Even so, the prospect of continued decline in hourly wage growth in Norway and rapid productivity growth points to a further fall in inflation next year.

Currency unrest prompts high interest rates

Interest rates in Norway in the past four months have been heavily affected by the unrest in European currency markets. The speculation against the Swedish krona in mid-September led to pressure on the Norwegian krone. The interest rate differential vis-à-vis the three-month Ecu widened from about zero in the first eight months of the year to more than 3.5 percentage points in September, and Norges Bank sold foreign currency for more than NOK 11 billion, net, in September. After the pressure on the Swedish currency receded, Norwegian money market rates also fell, and Norges Bank repurchased foreign currency. In the first three weeks of November the three-month rate stood at the same level as before the advent of the currency unrest in August, albeit 0.5 percentage points higher than the Ecu rate.

After the Swedish central bank on 19 November abandoned its effort to maintain a stable exchange rate against the Ecu, the Norwegian krone again came under pressure. Norges Bank raised its overnight lending rate (the D-loan rate) from 10 to 25 per cent, and the calculation base was reduced. The overnight rate rose to a very high level, and in a short space of time Norges Bank sold foreign currency for about NOK 50 billion. As of 1 December the pressure on the Norwegian currency appears to be abating. On 30 November Norges Bank lowered its overnight rate to 17 per cent, and the following day the calculation base for overnight loans was increased. Nonetheless, Norwegian money market rates will probably remain appreciably above the corresponding Ecu rates for the rest of the year, and the upward pressure on Norwegian lending and deposit rates is unlikely to subside until early in 1993.

The depreciation of the pound sterling, Swedish krona, Finnish markka and Italian lira, as well as the write-down of the Spanish peseta and Portuguese escudo, contribute *ceteris paribus* to weakening the competitive position of Norwegian industry. However, this weakening is largely offset by an appreciation of the remaining currencies in the Exchange Rate Mechanism and the US dollar, so that at end-November the effective exchange rate for manufacturing was approximately on a par with

the level in effect before the currently unrest started in August.

Increased current account surplus in the third quarter

Preliminary balance of payments figures show a current account surplus of NOK 15 billion for the three first quarters of the year as a whole. The surplus on the goods and services balance is reduced by more than NOK 11 billion compared with the same period of last year, while the deficit on the interest and transfers balance is increased by NOK 3.5 billion. The decline in the trade deficit is mainly attributable to a deterioration in the terms of trade caused by falling prices on important Norwegian export products from last year to this year. The larger deficit on the interest and transfers balance is primarily due to increased payments of share dividend by oil companies to foreign shareholders. Both the deterioration of the terms of trade and the increased share dividend mean that Norway's real disposable income declined by 2.8 per cent from the first three quarters of 1991 to the same period of this year.

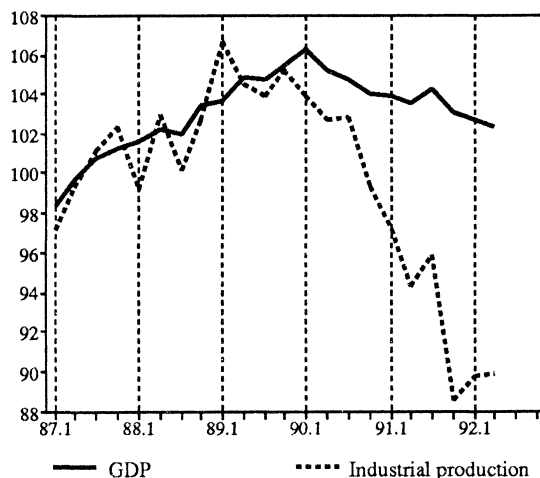
Prospects: Stronger growth in the mainland economy in 1993?

Continued moderate growth in private consumption, buoyant investment in the oil sector plus a cyclical upturn in the international economy will help to reverse the decline in investment in the mainland economy and encourage some measure of growth in exports apart from energy-intensive products. This will create a potential for quicker expansion of mainland GDP in 1993 than in 1992. However, relatively strong productivity growth means that the labour market situation and the unemployment rate are unlikely to show any substantial change from the second half of this year. As a result of the weak labour market, wage growth could be about 1 percentage point lower than this year, and the rate of consumer price rise will subside towards the 2 per cent mark. With a cyclical turnaround in the international economy and a rising dollar exchange rate, the terms of trade could show a substantial improvement next year. Together with continued growth in oil production this holds out the prospect of a current account surplus in excess of NOK 25 billion next year.

Sweden: fiscal contraction and devaluation

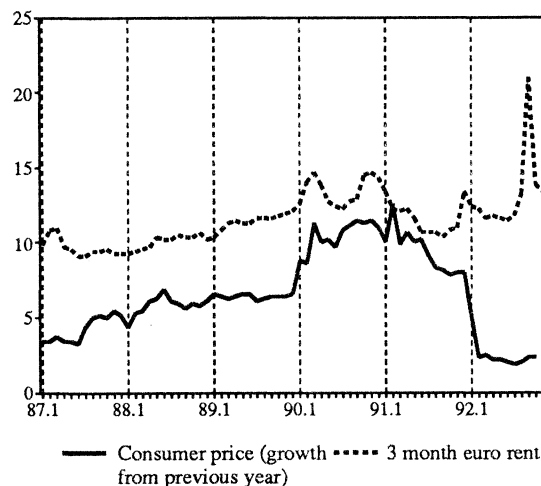
The turmoil in foreign exchange markets this autumn has prompted the Swedish government to introduce several "crisis packages" with fiscal mea-

SWEDEN: GDP AND INDUSTRIAL PRODUCTION
1987=100. Seasonally adjusted



Source: OECD.

SWEDEN: INTEREST RATE AND GROWTH IN CONSUMER PRICES



Source: OECD and Bank of Norway.

asures involving readjustments on both the revenue and expenditure side of the budget. The first package, presented on 20 September, was designed to cut the budget deficit by bringing in about SEK 28 billion in increased revenues in 1993, rising to SEK 40 billion in 1997. On 30 September a new, fiscally neutral, package aiming to improve cost competitiveness was presented which proposed a reduction of the employer's contribution, fewer vacation days per year, increased value-added tax and reduced "basic allowance" in the income tax system.

Following renewed currency unrest in week 46 and 47, the government presented on 19 November a third fiscal package proposing a further 7 percentage point cut in the employer's contribution. In the short term this was to be financed by depleting the

pension funds, and from 1995 via reduction of social security benefits. The Swedish decision on the same day to float the krona makes the actual implementation of this last package uncertain.

Since 1990 the Swedish economy has experienced a recession both deeper and more protracted than previous Swedish recessions. GNP growth slowed from 2.4 per cent in 1989 to 0.4 per cent in 1990. In 1991, according to revised national accounts figures, GNP contracted by 1.8 per cent. A further contraction of about 1 percentage point is likely in 1992.

After rising 2.6 per cent in the second half of 1991, private consumption dropped 1.2 per cent in the first half of 1992, prompting a downward revision of the forecasts for growth in consumption this year. Decreases in purchases of cars and consumer durables were the main contributory factors. For 1992 as a whole private consumption is expected to fall by 2 to 2.5 per cent.

Gross investment contracted by about 7 per cent last year, and a similar fall is likely this year. After expanding in 1991, residential investment is expected to fall by about 2 per cent in 1992.

Exports of goods rose by 0.5 per cent in the first half of this year. The forecasting institution, Konjunkturinstitutet, put overall export growth for 1992 at almost 3 per cent, as against the Ministry of Finance estimate of a mere 1 per cent. However, the improvement in the trade balance is expected to be countervailed by increased net interest expenditure, leaving this year's current account deficit, like last year's, at about SEK 20 billion, or some 1.5 per cent of GNP.

Despite increased resources being devoted to various labour market measures, unemployment has risen sharply - from an average of 2.7 per cent for 1991 to 5.2 per cent in October this year.

The forecasts for 1993 were published prior to the decision of 19 November to float the Swedish krona. What effects the exchange rate changes will have on the economy are conjectural. One uncertainty is how far Swedish exporters and importers will choose to let the devaluation be reflected in prices. Experience in Finland is that importers, competing in a weak domestic market, do not respond fully to the exchange rate loss by raising prices. Konjunkturinstitutet expects a 10 per cent devaluation to result in a consumer price rise of about 2 percentage points. Combined with the effects of higher value added tax as from 1 January, this means that price inflation will be appreciably higher next year than in 1992. Equally, it should not be taken for granted that improved competitiveness in the export market will be reflected in prices. Many Swedish exporters have performed poorly in recent years, partly as a result of the high cost of capital. It is possible that some of them will now

take the opportunity to widen their margins and leave prices in foreign currency more or less unchanged.

The devaluation of the krona will make the ongoing wage negotiations more difficult than previously envisaged. Employers appear to favour earliest possible completion of the settlements, while the unions want more time to calculate the effects of the devaluation. Although Swedish unemployment is currently at the highest level ever, there is little to suggest that it will be possible to pass the entire cost of inflation on to wage earners.

Another uncertainty is the difficult political situation that has arisen after the Social Democrats refused to support the government's third crisis package. Without support from the largest opposition party, which was unable to accept further cuts in public spending, the fate of the latest package is uncertain. The first major test for the government will come in January with the presentation of the government budget.

Denmark: will no to Maastricht put a brake on growth?

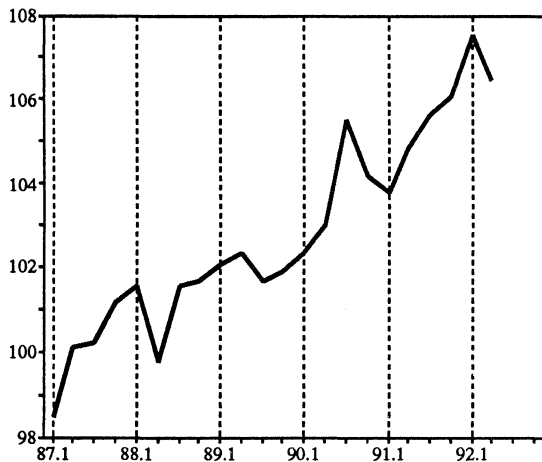
As in most countries in Europe, the forecasts for GNP expansion in Denmark for 1992 and 1993 have been revised down, partly because of expected weaker growth in the international economy. Moreover, the Danish no to the Maastricht treaty may have put a further brake on domestic demand. This is especially true of investment demand, where higher interest rates and uncertainty about Denmark's future relationship with the EC have led to the postponement of a number of investment projects.

Increased stocks spurred production growth in the Danish economy in the first quarter, whereas GNP has contracted in both the second and third quarter. A poor autumn for Danish agriculture is estimated to reduce GNP growth in 1992 by about 1/2 percentage point compared with a normal year. For 1992 as a whole GNP is expected to expand by about 1 per cent.

In contrast to the trend in other Nordic countries, the household saving ratio in Denmark fell in 1991, and is set for further falls in 1992 and 1993. Declining prices in the housing market, partly the result of higher interest rates, could contribute to pushing down consumption growth. For 1992 private consumption is estimated to rise by a little less than 2 per cent, and a similar figure is expected next year.

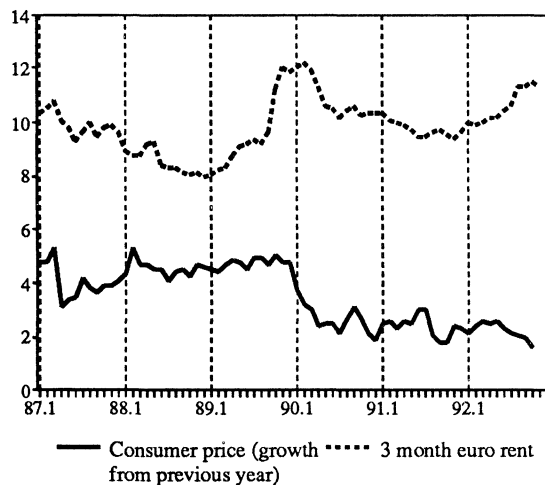
Investment rose less than expected in the first half of 1992. Higher interest rates and increased uncertainty about the economic development in Europe have further weakened the desire to invest in the third quarter. European Community demands for cuts in Danish farm production in the years

DENMARK: GDP
1987=100. Seasonally adjusted



Source: OECD.

DENMARK: INTEREST RATE AND GROWTH IN CONSUMER PRICES



Source: OECD and Bank of Norway.

ahead are putting a damper on investment growth in this sector. For 1992 a fall of between 6-8 per cent is expected in total gross investment. For 1993, lower interest rates and an improved international economic situation may help investment to expand by 1-2 per cent. This estimate is based on the assumption that a solution is found to the issue of Denmark's relationship to a future economic and monetary union.

The economic situation of several of Denmark's main export markets has deteriorated in 1992. Several years of strong growth of exports to Germany have been followed by decline in 1992. The poor autumn for agriculture affects export growth both in 1992 and 1993. Moreover, appreciation of the effective exchange rate of the Danish krone is also adversely affecting exports. However, exporters are expected to continue to be able to win market

shares thanks to Denmark's low inflation rate and rapidly rising productivity. In 1992 exports are expected to expand by some 4 per cent, falling to about 3 per cent in 1993.

Lower investment demand and reduced rate of increase in car sales mean that imports will increase at a slower rate in 1992 than in 1991. Energy imports are also expected to fall off both this year and next, partly as a result of larger Danish North Sea oil and gas production.

The current balance is expected to strengthen from about DKR 15 billion in 1991 to about DKR 25 billion in 1992 and to a figure approaching DKR 30 billion in 1993. The improvement is partly due to lower import prices (i.e. higher effective krone exchange rate), partly to weak import growth and partly to the fact that previous years' surplus means lower interest outlays on the foreign debt.

Wages are set to rise by slightly more than 3 per cent this year, but are expected to subside somewhat in 1993, partly as a result of lower price inflation. In the twelve months to October 1992, consumer prices rose 1.6 per cent. Price inflation has been receding through the year as a result of slow increase in food prices. Reduced taxes on beer and wine slowed the inflation rate (by about 1/3 of a percentage point) as from October. For 1992 consumer prices are expected to increase by 2 per cent, and the inflation rate is expected to decrease further in 1993 to about 1 1/2 per cent.

Employment has grown at a slower rate than previously estimated. This is partly due to weaker demand, but also to the fact that the size of government job-creation schemes is smaller than expected. For 1992 total employment is expected to fall by 10,000-15,000 persons, followed in 1992 by an increase of 5,000-10,000 persons. With growth of about 5,000 persons expected in the total labour force both in 1992 and 1993, unemployment will probably rise to more than 11 per cent this year before drifting down somewhat next year.

Fiscal policy has eased somewhat this year compared with the period 1989-1991. After three years of contraction, public sector demand is expected to expand by about 1 per cent from 1992 to 1993. The improvement in the Danish economy has made it somewhat easier to defend increased general government spending at the same time as the increased unemployment rate has compelled the government to initiate new measures. The general government deficit is expected to widen from DKR 16.4 billion to about DKR 20 billion in 1992. For 1993 lower unemployment and increased economic activity will reduce the surplus to between DKR 10 and 15 billion.

The currency unrest after the Swedish central bank floated the krona has also affected Danish interest rates, albeit to a smaller extent than the

Norwegian rates. Denmark's membership of the Exchange Rate Mechanism may have contributed to diminishing speculation against the Danish krone.

The interest rate differential against German long rates is now more than 2 per cent, having been as low as 1/2 per cent at the beginning of 1992.

A new government budget was presented on 25 November in which a massive programme of government investment is expected to yield 30,000 new jobs. A grant in the form of reduced tax to those who employ craftsmen to refurbish their dwellings will also help to alleviate the problems in the construction industry. The measures will be financed partly by selling public property, privatising public enterprises and cutting back some government subsidies.

Finland: dramatic fall in domestic demand, but upturn in export growth

Since exports to the former Soviet Union more or less ceased in 1990 the Finnish economy has faced major problems. Its competitive position had weakened after several years of rapidly increasing costs, at the same time as large readjustments were suddenly required. From 1989 to 1990 merchandise exports fell by 9 per cent, and the decline continued into 1991. In November 1991 the Finnish markka was devaluated by 12 per cent. This, combined with idle capacity in the export industry, led to rapid export growth in the second half of 1991 and on into 1992. In September this year the government abandoned its objective of pegging the markka to the Ecu, leading to a further depreciation of the markka by about 13 per cent. The forecasts mentioned below were published before the flotation of the Swedish krona on 19 November. To the extent Swedish industry allows the exchange rate changes to be reflected in lower prices, the Finnish export industry will meet increased competition and growth in Finnish exports may therefore be somewhat lower than estimated.

On 14 October the Finnish government presented a package of measures designed to remove the structural part of the government budget deficit over three years. The package, which will reduce the government's borrowing requirement next year by FIM 8.5 billion, will be financed partly through expenditure reductions, and partly through revenue increases. In 1993 expenditure reductions will amount to FIM 16 billion (6 per cent of total government expenditure), and in 1994 to FIM 20 billion. The package also includes a proposal of a progressive mandatory loan for all earning more than FIM 100,000, and increased petrol tax, education charges and patient's contributions in the public health sector.

After falling 6.5 per cent in 1991, GNP is expected to fall by a further 2 per cent this year, despite an estimated rise in exports approaching 10 per cent. For 1993 GNP is expected to expand by between 2 and 3 per cent, even though domestic demand growth will probably be sluggish.

Private consumption fell by almost 4 per cent in 1991 and this year consumption will show a further decline of almost 5 per cent. A low rate of wage inflation (and in some sectors reduced nominal wages), higher taxes and a sharp reduction in employment have led to a substantial fall in household disposable incomes. In 1993 consumption is expected to fall a further 2 per cent.

Gross investment has also fallen sharply in recent years, in 1991 by almost 20 per cent from the preceding year. This year investment is expected to fall by 10-12 per cent, and to remain at about this year's level next year. General government investment has also been sharply reduced in connection with the austerity packages presented in the past year. Both this year and next year reductions approaching 10 per cent are likely in general government investment.

The devaluation in 1991 and the flotation of the markka in September are expected to provide a strong impetus to export growth both this year and next. For 1992 total exports are now estimated to increase by about 10 per cent. Next year exports are expected to expand further by 11-13 per cent.

Finland has recorded the most dramatic labour market deterioration in the Nordic area. From unemployment rate of 3.4 per cent in 1990, unemployment now looks set to reach the 13 per cent mark in 1992 and 1993. In October unemployment was as high as 16.2 per cent. Plummeting domestic demand has affected industries which are far more labour-intensive than the export industries which have expanded their output. In 1992, a 7 per cent fall in employment is expected.

The rapid increase in unemployment has kept real wage increments to zero at this year's wage round. The two devaluations during the latest 12 months period have made imported goods more expensive, but the keen competition in the domestic market appears to have prevented importers from translating more than a small share of exchange rate changes into increased prices. Against this background, consumer prices are expected to increase by between 3 and 4 per cent in 1992 and 1993.

The steep fall in domestic demand and the strong increase in exports are both contributing to a substantial reduction in the current account deficit. This year, however, the improvements in the trade balance are offset by increased foreign net interest expenditure. The current account deficit for 1992 is estimated to about 4 per cent of GNP, falling to 2 per cent in 1993. Of greater concern is probably that

the foreign debt could reach FIM 217 billion, or 43.5 per cent of GNP, by the end of 1992.

In Finland, as elsewhere, the authorities have had to intervene in supporting private banks. So far this year capital transfers have totalled FIM 8 billion and guarantees and credits almost FIM 9 billion.

There is nothing to suggest that the need for assistance will be smaller in 1993 than it has been in 1992. Bank losses in 1992 are likely to total FIM 17-18 billion. On 24 November two of Finland's largest banks were merged and this trend is expected to continue in the period ahead.

NORWAY: TRENDS IN SELECTED MACROECONOMIC VARIABLES
 Percentage change in volume in 1990 prices¹⁾

	NOK billion		Growth from same period previous year				Growth from previous quarter, seasonally adjusted			
	1991	1991	91.4	92.1	92.2	92.3	91.4	92.1	92.2	92.3
Private consumption.....	336.4	-0.3	0.8	0.7	3.8	1.5	0.6	-0.5	1.5	-0.0
Goods	208.1	-0.6	0.2	0.3	3.4	1.2	-0.3	-0.2	1.4	0.5
Services	118.9	2.7	2.1	0.2	2.3	1.2	0.2	-1.3	2.3	0.1
Norwegian consumption abroad	20.7	-8.6	6.8	13.3	14.7	9.3	12.3	-5.5	1.9	1.0
- Non-residents' consumption	11.3	7.9	15.6	9.4	0.3	8.8	1.4	-13.9	10.9	12.2
Government consumption	142.4	2.3	-0.2	5.0	3.6	3.1	-1.9	4.5	-1.3	2.1
Central government.....	56.7	1.1	-5.5	4.2	4.2	3.5	-6.6	8.7	-1.8	4.4
Civilian	35.0	2.7	-5.5	10.1	9.2	1.2	-10.2	17.2	-2.8	-0.9
Military	21.7	-1.4	-5.5	-7.8	-3.9	8.2	-0.4	-4.4	0.1	14.2
Local government.....	85.7	3.2	4.0	5.5	3.1	2.8	1.3	1.9	-0.9	0.6
Gross fixed capital formation.....	125.9	1.0	0.2	-18.6	42.2	-0.9	12.7	-11.9	32.8	-24.5
Oil and shipping	31.9	11.4	-7.1	-60.0	133.1	7.2	46.4	-19.4	118.4	-57.6
Mainland Norway.....	94.0	-2.1	2.7	-5.4	0.6	-3.2	4.3	-9.3	6.2	-3.3
Manufacturing and mining.....	15.6	6.0	-11.3	-15.3	-19.0	-11.0	-5.6	-5.4	-3.0	3.0
Production of other goods.....	12.8	-3.5	9.1	4.9	-2.7	-2.5	4.0	-10.8	4.8	1.2
Other services.....	65.6	-3.5	5.0	-4.7	6.7	-1.5	6.7	-9.9	8.6	-5.4
Stocks (contribution to GDP growth ⁴⁾	5.0	(-1.0)	(-0.5)	(-1.0)	(-8.0)	(0.8)	1.5	-2.5	-2.2	4.0
Ships and oil platforms in progress (contribution to GDP growth ⁴⁾	11.1	(-0.7)	(0.6)	(-0.2)	(-5.0)	(2.1)	-0.2	0.7	-1.2	0.8
Other stocks ³⁾ (contribution to GDP growth ⁴⁾	-6.0	(-0.3)	(-1.1)	(-0.7)	(-3.0)	(-1.4)	1.7	-1.9	-1.9	4.3
Final domestic use of goods and services .	609.7	-0.5	-0.1	-3.1	3.3	2.2	3.7	-6.0	4.8	0.9
- gross capital formation in oil and shipping (incl. stocks) ²⁾	43.0	-3.3	2.9	-41.8	46.8	51.6	77.8	-44.8	93.1	-17.2
- demand from mainland Norway.....	572.8	0.1	0.9	0.8	3.2	1.1	0.6	-0.7	1.5	-0.0
Exports	311.1	6.3	4.1	14.5	2.4	4.5	1.7	6.1	2.2	-4.0
Traditional goods.....	112.8	-3.0	-5.7	4.4	-0.5	5.7	-0.9	5.9	-0.3	1.0
Crude oil and natural gas	103.6	17.0	11.2	13.9	7.9	15.8	8.7	5.2	0.5	1.0
Ships and oil platforms	14.3	33.9	57.1	207.4	-25.4	-56.2	-12.4	46.0	-48.8	-33.4
Services	80.5	4.1	3.1	11.1	5.2	3.0	-0.0	-0.2	22.2	-12.0
Total use of goods and services.....	920.8	1.7	1.2	2.7	3.0	3.0	3.0	-1.9	3.9	-0.8
Imports	246.8	1.3	3.2	4.0	3.7	5.3	9.2	-8.1	9.4	-3.8
Traditional goods.....	151.0	-0.1	0.2	6.6	-1.3	10.9	5.3	-1.2	-0.1	6.9
Crude oil.....	1.7	2.5	13.0	-39.6	-51.7	71.2	120.7	-50.5	76.5	-11.2
Ships and oil platforms	17.9	-5.9	-7.4	-64.3	-8.0	-48.1	72.4	-74.6	216.5	-62.5
Services	76.3	6.0	13.5	16.1	19.4	3.9	5.9	-2.1	12.2	-10.2
Gross domestic product (GDP).....	674.0	1.9	0.5	2.3	2.7	2.2	0.8	0.5	1.9	0.3
- Mainland Norway	548.4	0.1	-0.7	0.5	1.6	-0.4	0.2	-0.4	2.1	-1.1
Oil activities and shipping.....	125.5	10.5	5.9	9.9	7.5	14.6	3.3	4.2	1.0	5.9
Mainland industry	507.4	-0.2	-1.1	0.2	1.3	-0.6	0.0	-0.4	2.2	-1.4
Manufacturing and mining.....	91.5	-1.0	-1.5	1.7	-1.9	1.7	0.8	-0.5	1.0	-0.3
Production of other goods.....	68.6	-5.1	-5.7	-3.5	3.4	-6.2	0.1	0.6	3.6	-2.8
Other services.....	347.3	1.1	0.0	0.6	1.8	0.1	-0.2	-0.5	2.2	-1.4
Correction items ⁵⁾ (contribution to GDP growth ⁴⁾	41.0	(0.2)	(0.2)	(0.3)	(0.4)	(0.2)	0.1	-0.0	0.1	0.2

¹⁾ Notes, see "Technical comment".

NORWAY: PRICE INDICES FOR SELECTED MACROECONOMIC VARIABLES

	Percentage change from the same period the year before					Growth from previous quarter, seasonally adjusted, Per cent			
	1991	91.4	92.1	92.2	92.3	91.4	92.1	92.2	92.3
Private consumption.....	3.7	2.8	2.5	2.6	2.4	0.7	0.4	0.7	0.4
Government consumption.....	3.4	2.3	3.1	3.2	2.2	0.8	1.2	0.2	-0.1
Gross fixed capital formation.....	0.4	0.2	3.2	3.3	-0.5	-1.3	2.8	0.2	-2.1
- mainland Norway.....	-1.2	-0.4	1.9	0.7	-0.0	0.3	1.0	-0.9	-0.7
Final domestic use of goods and services .	2.9	1.8	3.1	2.9	1.9	-1.0	2.9	0.3	-0.9
- demand from mainland Norway	2.8	2.1	2.6	2.5	2.0	0.6	0.8	0.3	0.1
Exports	-0.8	-12.1	-8.4	-7.5	8.5	-2.2	-6.5	2.0	-1.6
-traditional merchandise exports.....	-0.4	-6.7	-8.4	-6.7	-6.6	-3.0	-3.8	0.7	-0.6
Total use of goods and services.....	1.6	-3.0	-1.1	-0.6	-1.6	-1.4	-0.5	0.9	-1.0
Imports	0.9	1.0	3.0	-0.0	-3.3	-1.2	0.6	-1.4	-1.5
- traditional merchandise imports	-0.3	0.5	3.5	-1.9	-4.5	-0.8	0.6	-2.7	-1.7
Gross domestic product (GDP).....	1.9	-4.4	-2.5	-0.9	-1.0	-1.4	-0.9	1.8	-0.8
- mainland Norway.....	3.1	1.6	0.6	2.0	2.6	0.2	0.6	0.8	0.6

TECHNICAL COMMENT ON THE QUARTERLY ACCOUNTS FIGURES

Footnotes: 2) Including ships, oil platforms and platform modules in progress. 3) Excluding ships, oil platforms and platform modules in progress. 4) Contributions to GDP growth are calculated as the difference between corresponding figures calculated as a percentage of GDP. 5) Corrected for free bank services and certain excises.

Quarterly calculations: The calculations are made on a less detailed level than the calculations for the annual national accounts, and are based on more simplified procedures. The quarterly national accounts figures for the years up to and including 1989 have been reconciled against the most recently published annual accounts figures.

Gross fixed capital formation: Total gross fixed capital formation is heavily influenced by significant fluctuations in investment in oil activities. These fluctuations are inter alia due to the fact that platforms that have been under construction for several years are counted as investment in the quarter and with the capital value they have at the time they are towed out to the field.

Seasonally-adjusted figures: The quarterly national accounts are not seasonally-adjusted, as these accounts are attempts to register the actual transactions that have taken place in each quarter. Many of the statistical series thus show clear seasonal variations. These are therefore seasonally adjusted on the detailed accounts level and then added together with the other statistical series to obtain the figures presented in the tables and charts of this volume. Seasonal adjustments for the public sector's purchase of goods and services are based on estimates, as there is not enough information available yet to map out the seasonal pattern.

Underlying trend: The Norwegian economy is so small that random or single important occurrences can give wide variations in the figures. The seasonally adjusted figures are therefore smoothed so that it is possible to find the underlying trend for each series. Smoothing is an attempt to distinguish between random and systematic variations in the series.

NORWAY: REVISIONS OF UNDERLYING TREND
Per cent growth from previous quarter. Seasonally adjusted and smoothed. Annual rates

Publ.	88.4	89.1	89.2	89.3	89.4	90.1	90.2	90.3	90.4	91.1	91.2	91.3	91.4	92.1	92.2	92.3
GDP mainland Norway																
Sept. -89	-4	-2	1													
Dec. -89	-4	-2	1	3												
Feb. -90	-3	-1	2	3	2											
June -90	-3	-1	1	1	0	-2										
Sept. -90	-3	-2	1	1	1	1	3									
Dec. -90	-3	-2	1	1	1	2	3	3								
Feb. -91	-3	-1	1	2	1	1	2	2	2							
June -91	-5	-3	0	1	1	1	1	1	0	-1						
Sept. -91	-5	-3	0	1	1	1	1	1	0	0	-1					
Dec. -91	-5	-3	0	1	1	1	1	1	0	0	-1	-1				
Feb. -92	-5	-3	0	1	1	1	1	1	0	0	0	0	1			
June -92	-4	-2	0	2	2	2	2	1	1	0	-1	-1	0	1		
Sept. -92	-4	-2	0	2	2	2	2	1	0	0	-1	-1	0	2	3	
Dec. -92	-4	-2	0	2	2	2	2	1	0	0	-1	0	0	1	1	0

Final demand from mainland Norway																
Sept. -89	-6	-4	0													
Dec. -89	-6	-5	-2	0												
Feb. -90	-6	-4	-2	0	1											
June -90	-7	-4	-2	-1	-1	-1										
Sept. -90	-7	-5	-2	0	1	2	3									
Dec. -90	-7	-5	-2	-1	0	1	2	2								
Feb. -91	-7	-5	-2	0	1	1	2	2	2							
June -91	-7	-5	-3	-1	0	1	1	0	0	-2						
Sept. -91	-7	-5	-3	-1	0	1	1	0	-1	-2	-3					
Dec. -91	-7	-5	-3	-1	0	1	1	0	-1	-2	-2	0				
Feb. -92	-7	-5	-3	-1	0	1	1	0	-1	-1	0	3	4			
June -92	-7	-5	-2	-1	0	1	1	1	0	0	0	2	2	2		
Sept. -92	-7	-5	-2	-1	0	1	1	1	0	0	0	1	2	2	3	
Dec. -92	-7	-5	-2	-1	0	1	1	1	0	0	0	1	2	2	2	1

COMMENTS ON THE REVISIONS

Revisions can either be due to new/revised quarterly figures for the current year, new/revised annual national accounts figures for previous years, or a change to a new base year for prices. Because the growth rates following the change-over to an annual rate are rounded off to the nearest whole per cent, a 1 percentage point change in the growth rate can be due to different rounding.

Published: Price basis: New annual accounts: Other comments:

June -89	1987	1986-87	
Sept. -89	"		Revised seasonal adjustment programme
Dec. -89	"		
Feb. -90	"		
June -90	1988	1987-88	
Sept. -90	"		
Dec. -90	"		
Feb. -91	"		
June -91	1989	1988-89	
Sept. -91	"		
Dec. -91	"		
Feb. -92	"		
June -92	1990	1989-90	
Sept. -92	"		
Dec. -92	"		

Outlook for 1992 and 1993

This section presents projections of macroeconomic developments in Norway for 1992 and 1993. The calculations have been made by running the Central Bureau of Statistics' macroeconomic quarterly model KVARTS. The main results from the calculations are presented in the table below, which also includes projections from other institutions. For some key variables the results from the KVARTS calculations are also shown in the diagrams as seasonally adjusted indices.

In the calculations, mainland demand is estimated to expand by a good 1.4 per cent in 1992 and 1.9 per cent in 1993. The estimate for 1992 is the highest since 1986. Growth in general government consumption and investment as well as in investment activity in the oil and gas sector are making a positive contribution to growth in the Norwegian economy in 1992. Oil investment will contribute to growth in the Norwegian economy in 1993 too, as will gradually increasing demand from our trading partners and an expected increase in investment in the mainland economy. Public sector demand and transfers to the household sector are expected to expand at an appreciably slower rate in 1993 than this year, and as a result growth in mainland demand will not be appreciably higher next year.

The projection indicates that GDP in mainland Norway will expand by 0.6 per cent in the current year and 2.4 per cent next year. The main factor behind the quickening expansion of mainland GDP is a shift in domestic demand towards Norwegian production, and the bulk of the growth will be in service trades and in primary industries. A substan-

tial share of the growth difference between 1992 and 1993 (slightly above half a per cent) is due to our assumption of a more normal agricultural production volume in the third quarter than was the case in 1992.

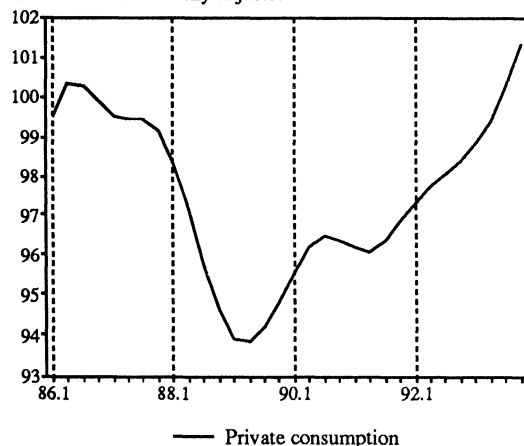
Quicker market growth in 1993

The calculations are based on the assumption that the upturn in the USA will continue into 1993 and that economic growth in western Europe will pick up in the second half of 1993. Considering the weak international economic situation, there has been a vigorous upturn in traditional exports in 1992. We expect the growth in traditional exports excluding energy-intensive goods to remain above 2.5 per cent both this year and next, but that the underlying growth rate will pick up towards the end of 1993, notably in cyclically sensitive trades. Some export prices in particular, but also import prices, are expected to climb in the second half of 1993 as a result of the expected cyclical upturn.

Stronger growth in public consumption and investment

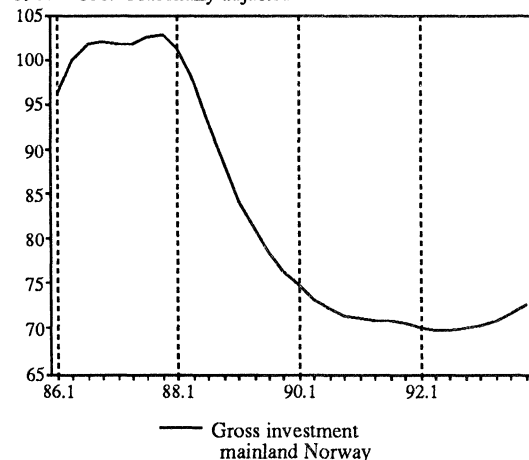
The estimates of general government consumption and investment are mainly based on the National Budget for 1993. According to the Budget, public consumption will increase by almost 3 per cent in 1992 and 1 per cent in 1993. The figures for public consumption in 1992 and 1993 are affected by the scaling-back of programmes for major military pro-

CONSUMPTION
1986 = 100. Seasonally adjusted



Source: CBS.

INVESTMENT
1986 = 100. Seasonally adjusted



Source: CBS.

curement (submarines). Hence military consumption will be reduced in both years. We assume that the growth in central government civilian consumption will remain unchanged from 1992 to 1993, whereas growth in local government consumption will recede somewhat. General government investment is expected to expand by about 5 per cent in 1992, and to contract by a little less than 1 per cent in 1993.

Low price and cost growth

Wage and price growth will be appreciably lower in 1992 than last year. According to the projection, growth in consumer prices are put at 2.3 per cent in 1992, while average hourly earnings are estimated to increase by about 3.5 per cent. The persistent high rate of unemployment means that the increase in prices and wages will slow somewhat. The effect of slow increase in labour costs on domestic prices is partly offset by some increase in the rate of price rise on imported goods towards the end of 1993. A moderate increase in indirect taxes and faster growth in productivity also contribute to a somewhat slower rise in consumer prices in 1993.

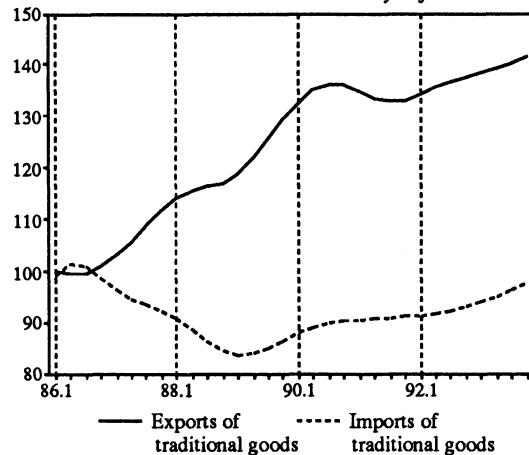
Turnaround in mainland investment in the second half of 1993

The decline in central components of fixed capital formation in the mainland economy has continued thus far in 1992. After a fall in manufacturing investment so far in 1992, we expect a moderate increase in 1993. Of greater significance for domestic demand, however, is residential investment and investment in the private services sector, especially in commercial property. We still expect the decline in such investment to come to a halt in the first half of 1993 before recovering somewhat towards year-end. Oil investment (accrued) will provide a substantial impetus to growth in the mainland economy both in 1992 and 1993.

Household demand

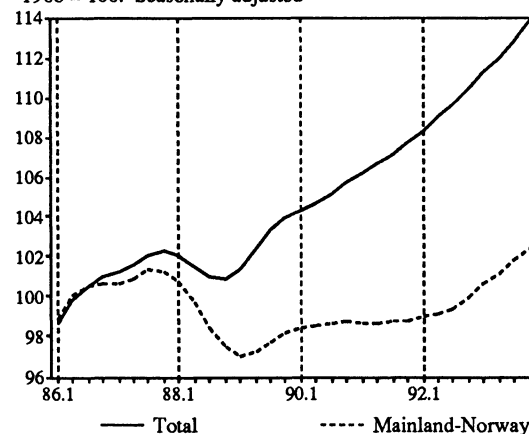
Private consumption edged down in 1991, followed by an upturn in 1992. Tax reliefs, increased government transfers and continued real wage growth are important factors behind the expected growth in household income and private consumption in 1992. The household sector will continue to consolidate its net asset position in the forecasting period. According to the calculations, growth of a little less than 5 per cent in real disposable income this year will result in a 1.8 per cent increase in private consumption and a rise to almost 6 per cent in the household saving ratio. The growth in household real incomes will subside in 1993. The main contri-

EXSPORTS AND IMPORTS OF TRADITIONAL MERCHANDISE. 1986 = 100. Seasonally adjusted



Source: CBS.

GROSS DOMESTIC PRODUCT 1986 = 100. Seasonally adjusted



Source: CBS.

butions to growth in real incomes in 1993 will derive from increased net assets and increased profits in one-man businesses. Slow increase in wage rates and in employment measured by man-hours worked means that income from work will contribute little in the way of increasing real incomes. Private consumption in 1993 is estimated to increase at about the same rate as in 1992, while the saving ratio is set to continue to rise to almost 7 per cent.

Higher output growth, but negligible impact on unemployment

The upturn in the mainland economy will be modest this year, but output growth will pick up in 1993 as a result of quickening demand growth both in the export and import market. According to our calculations, employment in 1992 will be much the same as last year. Hence the increased supply of labour will be reflected in higher unemployment. Output

growth will be insufficient to provide any notable increase in the rate of employment in 1993. Because of vigorous productivity growth, output growth will to only a modest extent generate an increase in employment in 1993. The supply of labour is set to increase by about the same margin, so that unemployment will show little change for the year as a whole. Nevertheless there is reason to expect the underlying increase in the rate of unemployment to be reversed in 1993, suggesting that the unemployment rate may be lower towards the end of 1993 than it looks to be at the end of 1992.

External economy

Oil production is expected to rise by about 14 per cent in 1992, and for 1993 we estimate it to increase

by a further 5 per cent. The projection is based on a crude oil price averaging NOK 121 p/b in 1992 and NOK 122 p/b in 1993, i.e. somewhat lower than previously assumed. Increased domestic demand and output will lead to higher imports in the forecasting period. A surplus of NOK 19 billion is expected on the current account of the balance of payments in 1992, rising to NOK 25 billion in 1993. The current account surplus implies a reduction of Norway's foreign debt and net interest expenditure. Oil companies are expected to pay smaller share dividend to foreign shareholders in 1993 than in 1992. Moreover, sale of second-hand capital and imports of ships and oil rigs are estimated to contribute to a deterioration of the current balance, so that the trade balance excluding these goods will improve by about NOK 5 billion from 1992 to 1993.

MAIN ECONOMIC INDICATORS

Percentage change in volume from previous year unless otherwise noted¹⁾

	1991		1992			1993		
	Accounts	CBS	MoF	NB	CBS	NB	MoF	
Private consumption	-0.3	1.8	2.0	1 1/2	2.0	1/2	1.7	
Public consumption	2.3	3.0	3.0	3	1.2	1	1.0	
Gross fixed capital formation ²⁾	1.0	4.4	-3.5	-1 1/2	17.9	5 1/2	26.7	
- mainland Norway	-2.1	-2.4	-1.4	-3/4	2.4	1 1/2	0.9	
Exports	6.3	6.7	4.8	2 3/4	3.1	1/2	1.0	
-crude oil and natural gas	20.0	12.0	8.9	10.0	4.7	0	1.6	
- traditional exports	-3.0	3.4	2.0	2 1/2	2.3	4	4.0	
Imports	1.3	3.2	3.2	0	3.9	3 1/4	3.4	
- traditional imports	0.0	4.5	2.8	3	4.3	4 3/4	3.1	
Gross Domestic Product (GDP)	1.9	2.3	2.4	2 1/4	2.9	1 1/2	1.4	
- mainland Norway	0.1	0.6	0.9	1	2.4	2	1.8	
Man-hours worked, employees	-1.1	0.3	-	-1/2 ³⁾	-0.1	1/2 ³⁾	-	
Unemployment rate (level)	5.5	6.0	-	-	6.0	-	-	
Rise in wages per man-hour	5.0	3.5	3.0	3 1/2	2.6	-	2 1/4	
Consumer Price Index	3.4	2.3	2.5	2 1/4	2.0	2 1/4	2	
Current account (level, bill.NOK)	32.4	19.6	15.9	24	25.4	18	17.6	
Memorandum items:								
Demand from mainland Norway ⁴⁾	0.1	1.4	1.7	-	2.0	-	1.1	
Real investment in the oil sector (accrual base) ⁵⁾	26.6	15.2	-	7 1/2	10.9	12	-	
Crude oil price, NOK (level)	133	121	120	121	122	124	127	

1) CBS: Forecast according to Central Bureau of Statistics, Economic Survey no. 9/92.

MoF: Forecast according to Ministry of Finance, National Budget Proposal 1993.

NB: Forecast according to Bank of Norway, Economic Bulletin, 1992/2.

2) Includes oil platforms. In the National Account these are measured as additions to the capital stock at the time they are installed offshore. As a consequence, the growth rates may show significant fluctuations.

3) Mainland Norway.

4) Private consumption + Public consumption + Gross fixed capital formation in mainland Norway.

5) Gross fixed capital formation in the oil sector + changes in stock of oil platforms under construction.

New Research Reports

REPORTS

Knut A. Magnussen and Terje Skjerpen :
CONSUMER DEMAND IN MODAG AND KVARTS

Rapporter 92/22, 1992. 73 pages.
ISBN 82-537-3774-2

In the Norwegian large scale macroeconomic models MODAG and KVARTS (annual and quarterly respectively), the specification of consumer demand has changed considerably over the last years. In former versions of the models total consumption expenditure was determined by real disposable income and credit expansion, while the allocation to different groups of durables and non-durables took place in a static expenditure system. Now, the demand for durables are modelled separately by single equation error-correction models which allow for a stock adjustment process. A single equation error correction model in which disposable income is the main explanatory variable is used in the determination of total consumption of non-durables. As earlier there are no wealth effects present in the consumption model. Furthermore the allocation of total expenditure of non-durables to different consumption categories is modelled by means of a two stage dynamic expenditure system. The two stage approach is adopted in order to introduce durable stock effects in the demand for different groups of energy and transport consumption. It should also be noted that the new versions of the two models are more similar than before, both with regard to the aggregation level and the econometric specification.

This report describes in detail the structure and the properties of the 1989-version of the model. Both estimation and simulation results are discussed and the models are also compared with large scale macroeconomic models of other countries.

The report has been written by the authors in common, but Knut A. Magnussen has had the main responsibility for the modelling of demand for durables and the consumption function for non-durables, while Terje Skjerpen has had the main responsibility for the estimation of the demand systems.

DISCUSSION PAPER

Knut H. Alfsen, Kjell Arne Brekke, Frode Brunvoll, Hilde Lurås, Karine Nyborg and Hans Viggo Sæbø:
ENVIRONMENTAL INDICATORS

Discussion Paper no. 71, 1992. 67 pages.

The report discusses logical structures and content of a set of environmental indicators for Norway. The emphasis is on structure; proposals for specific indicators and data presented are of a more preliminary nature.

Brita Bye and Erling Holmøy:
DYNAMIC EQUILIBRIUM ADJUSTMENT TO A TERMS OF TRADE DISTURBANCE
Discussion Paper no. 72, 1992. 45 pages.

This paper investigates how a fall in the price of imports will have dynamic effects in an open economy. We analyse the effects within an aggregated

intertemporal equilibrium model with internationally mobile capital. We assume the domestic product to be an imperfect substitute for a foreign product. Hence, the model is characterized by an endogenous domestic product price and a path dependent steady state solution. Using a numerical model calibrated to the Norwegian economy we study the effects of both anticipated and unanticipated changes in the import price.

Rolf Aaberge and Xuezheng Li:
THE TREND IN INCOME INEQUALITY IN URBAN SICHUAN AND LIAONING, 1986-1990
Discussion Paper no. 75, 1992. 34 pages.

This paper discusses in what extent the economic growth in China in the 1980's has improved the economic well-being in urban regions of the provinces Sichuan and Liaoning and moreover whether or not the economic growth has been attained at the cost of increased inequality. The study is based on individual household data from the State Statistical Bureau's Urban Household Survey during the 1986-1990 period.

John K. Dagsvik and Steinar Strøm:
LABOR SUPPLY WITH NON-CONVEX BUDGET SETS, HOURS RESTRICTION AND NON-PECUNIARY JOB-ATTRIBUTES
Discussion Paper no. 76, 1992. 49 pages.

The basic assumption in this paper is that a household labor supply decision can be considered as choice from a set of discrete alternatives, called matches. The matches are characterized by attributes such as hours of work, wages and other aspects of the jobs. This model allows for very general budget specifications, joint decisions of husband and wife as well as restrictions on job opportunities and hours of work. The model is estimated on Norwegian data from 1979 to 1986. The estimated utility function is found to be rather stable from 1979 to 1986.

John K. Dagsvik:
INTERTEMPORAL DISCRETE CHOICE, RANDOM TASTES AND FUNCTIONAL FORM
Discussion Paper no. 77, 1992. 31 pages.

An important problem in the analysis of intertemporal choice processes is to separate the effect of unobserved persistent variables from the influence on preferences from past choice behavior (state dependence).

The present paper discusses a behavioral Axiom in the presence of random preferences relative to a discrete alternative set and demonstrates that this Axiom yields joint utility processes that belong to the class of multivariate extremal processes. Specifically, the Axiom states that if there is no effect from past choice behavior on current preferences then the distribution of the current indirect utility conditional on past choice history is independent of the past choice history. When utilities are extremal processes Dagsvik (1988) demonstrates that the corresponding choice process is Markovian with transition probabilities that have a simple structure.

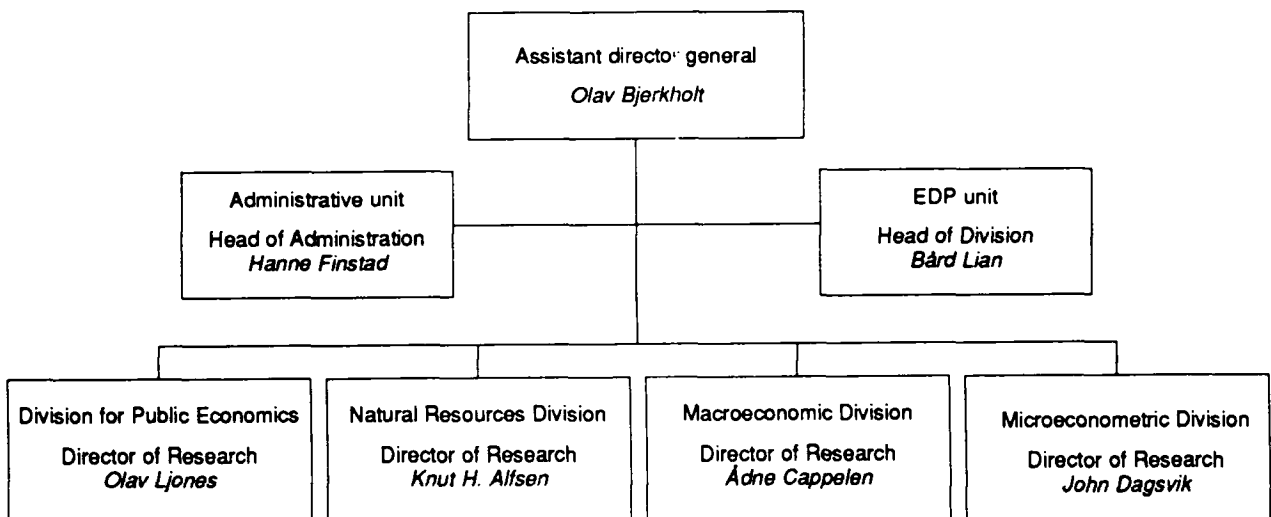
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Printed by: Central Bureau of Statistics

ISBN 82-537-3801-3
ISSN 0801-8324