Norwegian economy

Developments in 2000

The Norwegian economy exhibited a sluggish trend in the third quarter. Seasonally adjusted figures from the quarterly national accounts (QNA) show a levelling off in mainland production and demand following close to trend growth through the previous year. The number of persons employed has risen moderately through 2000, and in the third quarter it was a good half a percentage point higher than the average for 1999. Unemployment has also edged up from the trough recorded around the beginning of 1999. The consumer price index increased by 3.5 per cent in the year to the third quarter of 2000, while the year-on-year rate of price inflation was reduced to 3.1 per cent in October. The surplus on the current account reached as much as NOK 52 billion in the third quarter, primarily as a result of a further surge in oil prices.

If we look at 2000 as a whole, mainland GDP growth is now set to be a little less than 2 per cent. This is substantially weaker than the growth rates recorded during the period of expansion in the 1990s, but

Macroeconomic indicators. 1998-2000
Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	1998	1999	99.4	00.1	00.2	00.3
Demand and output						
Consumption in households and non-profit organizations	3.3	2.4	0.3	1.2	0.5	-0.2
General government consumption	3.8	2.7	-0.4	0.7	0.3	0.8
Gross fixed investment	5.8	-5.6	-13.7	9.3	-4.9	-7.2
- Mainland Norway	1.6	-2.1	-1.1	2.5	-1.0	-3.0
- Petroleum activities[1]	20.4	-12.6	-34.6	16.0	-13.9	-6.9
Final domestic demand from Mainland Norway[2]	3.1	1.6	-0.1	1.3	0.2	-0.5
Exports	0.3	1.7	3.0	-2.2	-0.8	1.4
- Crude oil and natural gas	-3.6	-0.1	6.1	0.5	-4.0	4.3
- Traditonal goods	3.3	2.6	3.8	-1.8	2.1	-2.0
Imports	9.3	-3.1	-2.5	3.0	0.8	-2.5
- Traditional goods	8.6	-2.0	3.7	-2.1	6.2	-0.5
Gross domestic product	2.0	0.9	0.3	1.2	-0.8	0.3
- Mainland Norway	3.3	0.8	-0.0	0.8	0.3	-0.4
Labour market [3]						
Man-hours worked	2.2	0.2	0.1	0.4	1.0	-1.3
Employed persons	2.4	0.7	0.7	0.0	0.6	-0.4
Labour force	1.4	0.8	1.0	0.1	0.1	-0.2
Unemployment rate, level[4]	3.2	3.2	3.6	3.7	3.2	3.4
Prices						
Consumer price index[5]	2.3	2.3	2.7	2.9	2.9	3.5
Export prices, traditional goods	1.2	0.1	2.2	4.0	4.0	0.9
Import prices, traditional goods	1.6	-2.3	1.3	4.4	-0.3	1.1
Balance of payment						
Current balance, bill. NOK	-14.3	46.9	27.2	37.3	36.5	52.1
Memorandum items (Unadjusted, level)						
Money market rate (3 month NIBOR)	5.7	6.4	6.0	5.8	6.4	7.0
Average borrowing rate[6]	7.4	8.4	7.7	7.6	7.7	8.2
Crude oil price NOK[7]	96.3	141.2	191.4	221.3	236.0	272.6
Importweighted krone exchange rate, 44 countries 1997=100	102.3	101.1	101.1	101.7	104.4	104.2
NOK per ECU/euro	8.46	8.31	8.19	8.11	8.20	8.10

1 Figures for petroleum activities cover the sectors oil and gas extraction proper, transport via pipelines and service activities incidental to oil and gas extraction.
2 Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
3. Figures for 1998 and 1999 are from the national accounts. The quarterly figures are from Statistics Norway's Labour force survey (LFS), since the new quarterly national accounts series for employment are too short for seasonal adjustment.
4 According to Statistics Norway's labour force survey (LFS).
5 Percentage change from same period previous year.
6 Households' borrowing rate in private financial institutions.
7 Average spot price, Brent Blend.

stronger than in 1999. However, almost a third of the growth in the level of activity from 1999 to 2000 reflects a very sharp rise in electricity production.

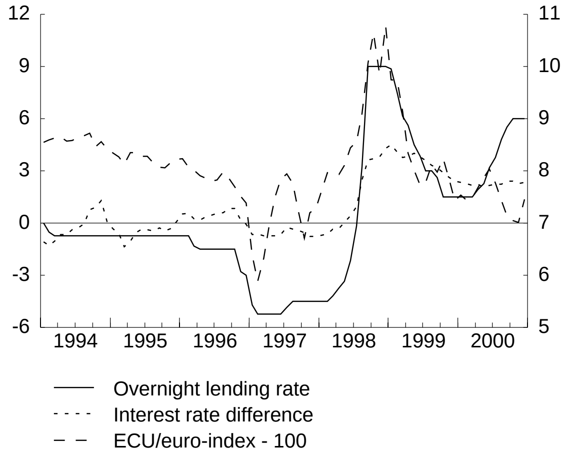
These developments are related more to the level of precipitation than to changes in activity levels in the rest of the Norwegian economy. Value added in manufacturing industry appears to be falling at about the same pace as in 1999, while the level of activity in private service industries is still boosting the average. As a result of some investment growth, mainland demand will increase slightly more in 2000 than in 1999 even though the increase in interest rates appears to be curbing growth in household demand in the second half of the year. Traditional merchandise exports will probably expand at about the same pace as last year, while developments in petroleum investment are restraining aggregate demand. Given the projection of fairly sluggish trends in the fourth quarter, employment is expected to show a rise of about half a percentage point also on an annual basis. Moderately stronger growth in the labour force may nevertheless mean that unemployment will edge up a few tenths of a point from 1999. If oil prices remain high until the end of the year, the current account surplus may reach about NOK 190 billion, equivalent to 13 1/2 per cent of GDP.

Monetary policy tightening contributes to curbing growth in the second half of 2000

According to the Ministry of Finance's budget indicator, the fiscal policy programme for 2000 may be considered cyclically neutral. Preliminary QNA figures on general government demand show developments that underpin this picture. On the other hand, monetary policy has shifted to a contractionary stance this year. Whereas Norges Bank reduced its key rates by 2.5 percentage points through the first three quarters of 1999, the central bank has increased them by 1.5 percentage points in the second and third quarter of this year. It appears that this policy shift will result in a money market rate of about 7 1/4 per cent at the end of the year. This is 3/4 percentage point above the estimated annual average and just 1/2 a percentage point below the level in the fourth quarter of 1998, which was the previous interest rate peak. Banks' lending rates have moved up with money market rates the last two quarters, and stood at about 8.5 per cent at the end of the third quarter. It is likely that these interest rates will edge up further in the fourth quarter.

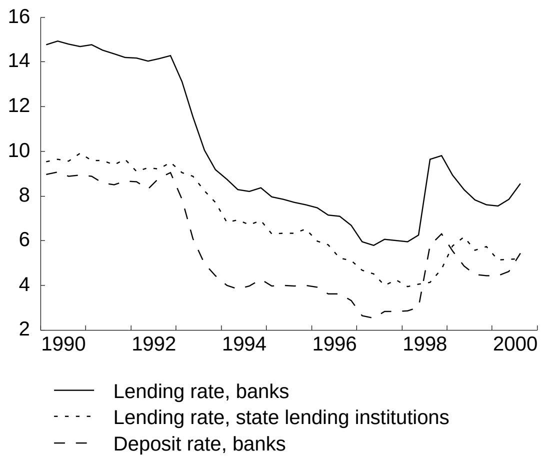
This year, the Norwegian krone has generally been stronger against the euro than in 1999, and stronger than a stabilization of the exchange rate would imply in the long term. A considerable interest rate differential between the Norwegian krone and the euro may have contributed to this situation, along with high oil prices and a strong dollar. Measured by an import-weighted basket of the currencies of 44 of our trading

Interest rate difference and exchange rate against ECU/euro, and Norges Bank's overnight lending rate
1994 - 2000



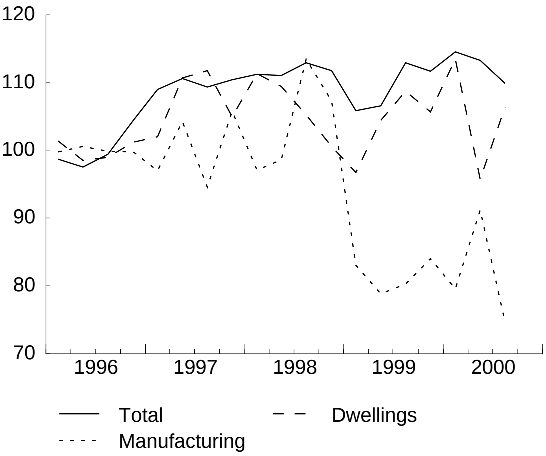
Source: Norges Bank.

Lending rate and deposit rate
Quarterly figures. Per cent



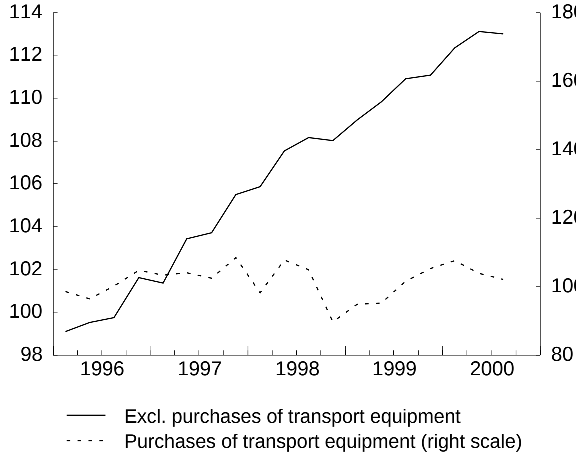
Source: Norges Bank.

Gross fixed capital formation, Mainland Norway. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



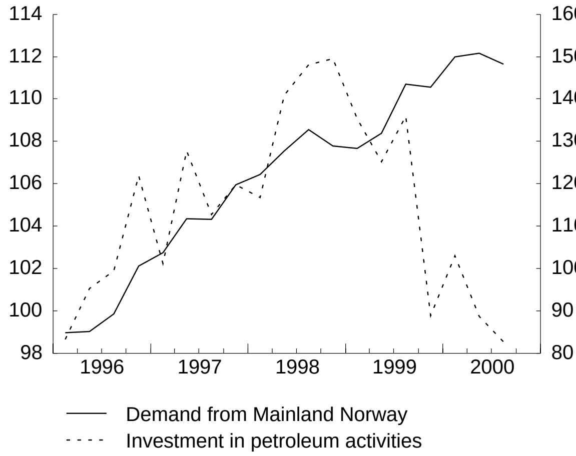
Source: Statistics Norway.

Consumption in households. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



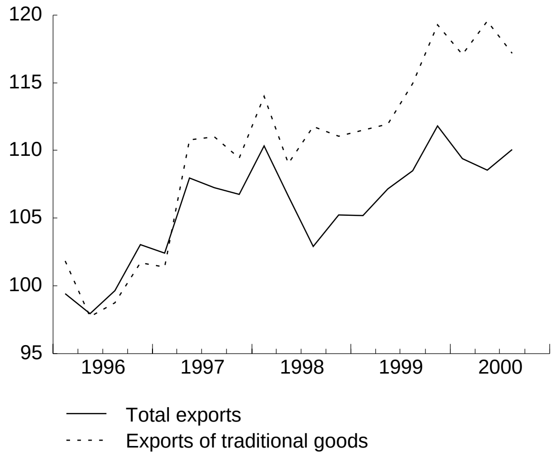
Source: Statistics Norway.

Demand from Mainland Norway and investment in petroleum activities. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



Source: Statistics Norway.

Exports. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



Source: Statistics Norway.

partners, the krone depreciated through the second half of 1999 and first half of 2000. This is partly ascribable to a substantial depreciation of the krone against the dollar and to a lesser extent against pound sterling and the Swedish krona. Over the last half year, however, the Norwegian krone has remained stable against pound sterling and strengthened against the Swedish krona. Despite a further weakening against the dollar, this has contributed to stabilizing the import-weighted krone exchange rate (measured on a quarterly basis). On an annual basis, the krone is thus likely to show a depreciation of more than 2.5 per cent measured by this exchange rate indicator.

Levelling off in mainland demand in the second half of 2000

Mainland demand fell moderately in the third quarter of 2000. This was primarily ascribable to private mainland investment, with investment in manufacturing and other goods-producing industries contracting sharply. At the same time, the estimates for investment in the first and second quarter have been revised upwards to some extent compared with the previous report: Investment in goods-producing industries, excluding manufacturing, and in private service industries, excluding dwellings, has been revised upwards, while housing investment has been revised downwards to a considerable extent. The rise in housing investment from the second to third quarter and growth in housing starts through the quarter nevertheless imply that housing investment will show an increase on an annual basis, but not as much as previously assumed. Statistics Norway's investment intentions survey for the fourth quarter of 2000 also indicates that manufacturing investment will not fall further in the fourth quarter. Viewed in the light of the relatively high level of private mainland investment around the beginning of the year, it is thus likely that total investment will show some growth on an annual basis.

A further rise in housing investment in the period ahead is likely inasmuch as sharp growth in housing demand over a number of years has not been matched by an increase in residential construction. This has had an impact on prices for existing dwellings, which in real terms have risen by an average of 7 per cent annually over the last six years. This year, the rise in prices for existing dwellings appears to be markedly higher than this even though the increase in interest rates resulted in a levelling off and even a decline in market prices in the third quarter.

Household consumption also exhibited a sluggish trend in the third quarter of 2000 after expanding by 1/2 per cent in the previous quarter. Stagnation in consumption is in evidence for both purchases of new cars and other consumption items. Estimated figures for purchases of second-hand cars from the business sector push down the total further. Movements in the retail sales index up to end-October and figures on new car registrations up to end-November do not point to a rise in consumption in the fourth quarter of this year. Total household consumption growth is thus likely to be about 2.5 per cent on an annual basis.

It is natural to view the slowdown in household consumption in the third quarter of 2000 in connection with the rise in interest rates through the second and third quarter and comments by market operators that the general interest rate level would increase further in the fourth quarter. As in 1998, it seems that households reacted so quickly to signals of higher interest rates that after the event this may appear to be an overreaction. This is particularly likely if the perception that the interest rate peak has now been reached takes root.

Household real disposable income is set to increase by a little less than 2.5 per cent this year. This means that the saving ratio will remain at about the same level as in 1998 and 1999. Transfer payments are contributing to pushing up growth in disposable income. With relatively moderate growth in household investment in dwellings and other fixed assets, it appears that net lending for the sector will remain at about the same level as in 1999. Credit market statistics for the first half of the year suggest, however, that net financial assets showed a weaker rise than this when adjusted for equity price movements. Discrepancies between these sources are not uncommon, however, even though the deviation may seem to be slightly higher than usual in 2000.

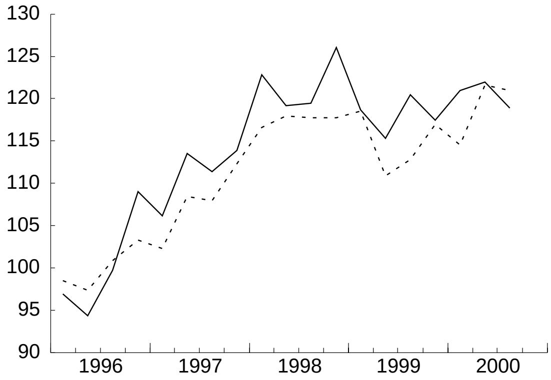
Sharp decline in petroleum investment

Petroleum investment has generally contracted the last two years, and is now about 25 per cent below the average for 1999 and almost 35 per cent below the level in 1998. The estimates in Statistics Norway's investment statistics for the fourth quarter indicate that petroleum investment will show little change through the remainder of this year. All in all, it thus appears that developments in petroleum investment entail a decline in demand for goods and services from Norwegian and foreign suppliers equivalent to 1 per cent of mainland GDP this year, following a negative demand impetus equivalent to 1 3/4 per cent of mainland GDP last year. By way of comparison, petroleum investment made a positive contribution to demand of 1 and 1.4 per cent of mainland GDP in the years of expansion 1997 and 1998.

Weak growth in traditional exports

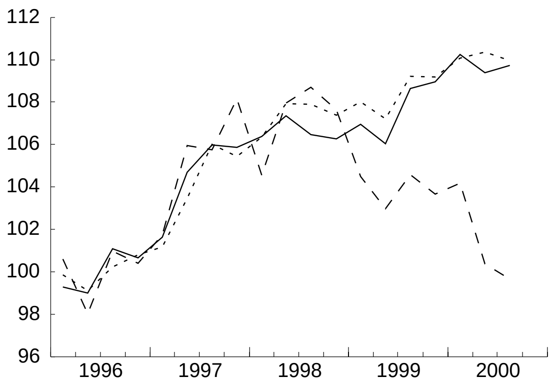
Over the last five-six years, growth in hourly wages in manufacturing has generally been higher in Norway than among our main trading partners. In the same period, the Norwegian krone appreciated against an export-weighted basket of our trading partners' cur-

Imports. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



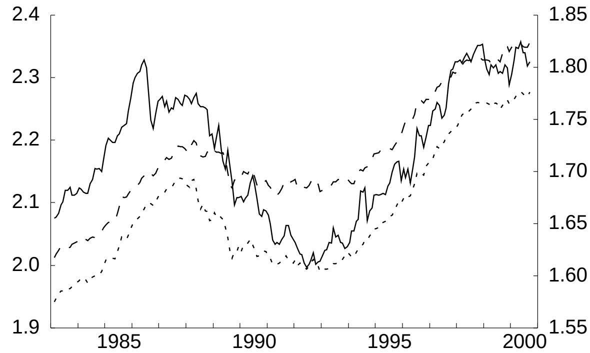
Source: Statistics Norway.

Gross domestic product. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



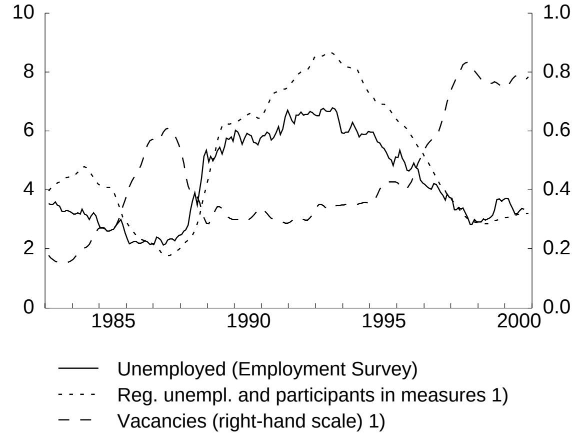
Source: Statistics Norway.

Labour force, employment and number of man-hours worked per week. 1983-2000
Millions. Seasonally adjusted and smoothed indices.



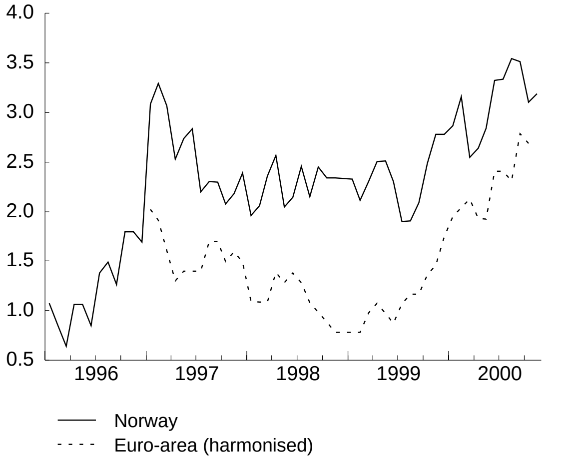
Source: Statistics Norway.

Unemployed and number of vacancies, monthly figures. 1983-2000
Per cent of labour force. Seas. adj. and smoothed



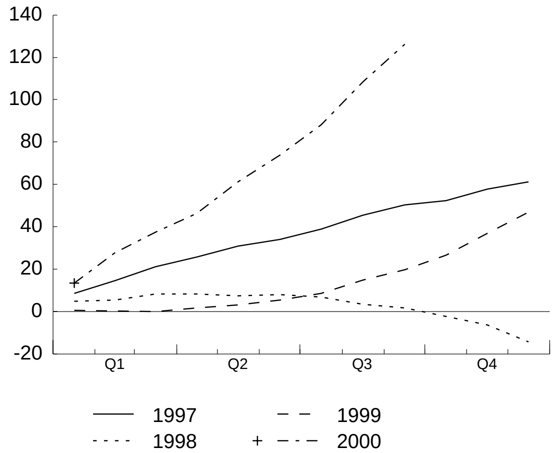
1) Backwards adjusted for breaks in the series from january 1999.
Sources: The Directorate of Labour and Statistics Norway.

The consumer price index, Norway and euro-area
Percentage change from the same month the previous year



Source: Statistics Norway .

Current external balance 1997-2000
Cumulative figures in NOK billions month by month



Source: Statistics Norway.

rencies, albeit not to the extent that prevented hourly wage costs measured in a common currency from increasing on average by a good half a percentage point faster per year in Norway than among our competitors. This may have contributed to a decline in market shares for traditional merchandise exports both in 1999 and 1998, developments that appear to have continued this year.

Measured at constant prices and adjusted for normal seasonal variations, traditional merchandise exports fell by 2 per cent in the third quarter of 2000. For the first three quarters of the year as a whole, these exports were on a par with the level recorded in the second half of 1999, but nearly 3 per cent higher than the average for 1999 as a whole. About a third of this growth is ascribable to higher exports of electricity and a third to increased exports of engineering products. External trade statistics for the period to the end of October this year do not point to any marked rise in exports in the fourth quarter. Growth on an annual basis will thus be approximately on a par with the result recorded in the previous two years, and considerably weaker than in the period 1994-1997.

Prices for Norway's traditional export goods have as a whole risen sharply over the past year after having remained fairly stable through the previous four years. In the first three quarters of the year combined, prices were about 12 per cent higher than in the same period one year earlier. About half of this rise in prices reflects changes in prices for refined petroleum products. Price movements over the past year are partly related to the sharp rise in the dollar price for crude oil and some other commodity prices and partly to the appreciation of the dollar.

Pronounced rise in traditional merchandise imports

So far this year, the volume of imports has risen approximately in step with activity in the mainland economy. However, developments in imports of traditional goods have boosted the figure. This import component rose sharply in the second quarter, which must be seen in connection with an unusually brisk rise in imports of metals (particularly aluminium), measured in volume terms. The corollary to the increase in imports of metals in the second quarter is a rise of about the same magnitude in the item inventories and statistical errors.

Prices for traditional merchandise imports rose markedly from the fourth quarter of 1999 to the first quarter of 2000, but then remained fairly stable at a level that was nearly 6 per cent above the average for last year. As with exports, crude oil prices in particular have boosted the average. Including refined petroleum products, Norway has recorded a terms-of-trade gain for trade in traditional goods of about 5.5 per cent from the first three quarters of 1999 to the same period this year. If we exclude prices for refined petroleum products, which are more important for export prices than import prices, the gain is reduced to a little less than 3.5 per cent.

Contraction in manufacturing production contributes to sluggish mainland GDP growth

So far this year, activity in the mainland economy has been growing at a slower pace than both mainland demand and traditional merchandise exports. This is naturally related to the sharp decline in petroleum investment, which has a particularly adverse impact on manufacturing. Value added in manufacturing has generally fallen since mid-1998. This year, it appears that value added will contract by about 2.5 per cent, approximately the same as in 1999. Private service industries, however, continue to show fairly high growth, albeit markedly weaker than during the cyclical upturn in the 1990s. There is considerable uncertainty, however, associated with the preliminary figures for production and demand for private service industries. So far this year, there are thus signs of a substantial deviation between the estimates for the supply and use of products from these industries. The deviations indicate that the estimated growth in production is too high and/or the estimated growth in demand (including supplies of intermediate goods to other industries) is too low.

Growth in goods-producing industries, excluding manufacturing, is set to be very high this year. This is related to a sharp rise in electricity production around the beginning of this year. With a seasonally adjusted unchanged level of activity from the third quarter until the end of the year, this industry will record output growth of nearly 20 per cent on an annual basis. Growth in this industry will thereby contribute a good half a percentage point to mainland GDP growth this year. This corresponds to nearly one third of the projected growth of 1.8 per cent on an annual basis.

Relatively stable labour market

Stronger growth in labour productivity this year compared with the previous five years points to a decline in the number of man-hours worked of around 1/2 per cent. Since there are two fewer working days this year than in 1999, employment will nevertheless probably increase by about 1/2 per cent on an annual basis. This is generally consistent with developments through the first three quarters of the year. Growth is primarily being fuelled by employment in the construction industry and in private and public service industries, while employment in primary industries and particularly in manufacturing will decline further this year.

It also appears that the labour force will expand by about 3/4 percentage point this year, i.e. moderately stronger than the growth implied by unchanged age- and gender-specific labour force activity (at the LFS publication level). Measured as a share of the population in the age group 16-74 years, the labour force may increase from 73.5 per cent in 1999 to nearly 74 per cent this year. Seen in relation to the expected growth in employment, developments in the labour force imply that unemployment will edge up from 3.2 per cent in 1999 to 3.4 per cent this year. The Directorate of Labour's figures for the sum of registered unemployed and persons participating in labour market programmes have also moved up the past year, while the number of vacancies appears to have levelled off at the level recorded in 1998. The number laid-off also seems to have stabilized after showing a sharp rise through the first half of 1999.

Higher price inflation than in 1999, but slightly lower wage growth

As an average for the first ten months of the year, the consumer price index was 3.1 per cent higher than in the same period one year earlier. It now appears that price inflation will be of the same magnitude for the year as a whole. This is the highest rate of inflation in Norway since 1991, and 0.8 percentage point higher than the expected rate of inflation in the euro area this year. Movements in prices for housing services, petrol, electricity and beverages and tobacco have contributed to pushing up the year-on-year rise in prices this year, whereas changes in telecommunication rates and prices for food, clothing and footwear have had the opposite effect.

According to preliminary national accounts figures, wages per normal man-year rose by 5.2 per cent last year. The Technical Reporting Committee on Income Settlements has estimated that the average wage carry-over into 2000 was 1.3 per cent, against 3.1 per cent the previous year. Even though pay increases have been higher, and in some cases considerably higher, in 2000 than last year, the low carry-over will contribute to wage growth per normal man-year that is still nearly one percentage point lower than in 1999. As noted earlier, however, there are two fewer working days this year than in 1999. For salaried employees, this means that wage growth will be slightly higher measured per man-hour than when measured per normal man-year, estimated at 0.9 percentage point. An increase in sickness absence points in the same direction. Employers will also incur additional costs this year in connection with the agreed two extra vacation days in 2001.

Record improvement in the balance of payments

The current account of the balance of payments showed a surplus of nearly NOK 126 billion in the first three quarters of the year, an improvement of NOK 106 billion from the same period last year. The improvement in the current account reflects in its entirety the rise in prices for exports of crude oil and refined petroleum products. Despite a considerable increase in Norway's net foreign assets since the end of last year, the interest and transfers balance showed little change. This may be because gross liabilities also increased considerably in the period and the average interest rate for foreign debt is higher than the average rate for financial assets. One factor that helps to explain this is that 40 per cent of the Government Petroleum Fund's capital is invested in equities, and that the portion of the return on equities in the form of capital gains is recorded as valuation changes in the balance of payments. A continued rise in crude oil prices from the third quarter until end-November points to a further increase in the current account surplus in the fourth quarter. On an annual basis, the surplus is now estimated at about NOK 190 billion. Based on the Ministry of Finance's estimate for the return on total wealth in the petroleum sector, an estimated NOK 130 billion of the projected surplus in 2000 may be considered a transfer of petroleum wealth to financial assets, while the remainder is a part of national saving.

Outlook for 2001 and 2002

Slower international growth

As discussed earlier in this report, GDP growth among Norway's trading partners is set to be 1 percentage point higher in 2000 than in 1999. Growth is then expected to slow gradually, with growth in 2002 down to about the same level as in 1999. Developments in the US are the main reason for this. Given these projections for our trading partners, market growth for Norway's traditional export goods will be 7 per cent in 2000, but will then decline in step with international GDP growth to 6.5 per cent in 2001 and close to 6 per cent in 2002. This scenario is identical to the one described in our September report. The relatively high level of cost inflation in Norway in recent years means, however, that traditional merchandise exports will grow at a substantially slower pace than market growth this year and the next, although this differential is expected to narrow in 2002. As a result of slower international growth, international interest rates are expected to remain relatively stable even though a marginal increase is possible both in the euro area and in the US next year.

The increase in the dollar price of crude oil the last two years has been stronger and more prolonged than most observers expected. In addition, the appreciation of the US dollar contributes to an even sharper increase in the price measured in krone terms. The average price in the first 11 months of this year was about NOK 250 per barrel, against NOK 135 in the same period last year. International commodity prices, excluding oil, have also edged up measured in dollar terms from the low level recorded in the wake of the Asian crisis. The appreciation of the dollar also means that the rise in prices has been considerably stronger measured in krone terms. Furthermore, prices for a number of important Norwegian export goods, such as aluminium, have risen at a noticeably faster pace than the average for commodities and semi-manufactures as a whole.

The inflation rate abroad has risen considerably through 2000. In the US, the inflation rate is higher than or approximately the same as the rate in Norway, while the inflation rate in the EU is slightly lower. The rise in commodity prices has contributed to the increasing inflation rates as has growth in activity levels. In the period ahead, it is projected that a slower rise in prices, and to some extent a fall in commodity prices, will contribute to reducing inflation to about 2 per cent in the euro area in 2001. This will also contribute to a moderate rise in prices on the world market for processed manufactured goods.
Monetary policy and estimates for exchange rates
The import-weighted krone exchange rate appears to have depreciated by about 2.6 per cent from 1999 to 2000. This autumn, the US dollar has been unusually strong, and the euro correspondingly weak. Since the end of November, however, the picture seems to have been reversed. In line with typical market assumptions, we assume that in the period ahead the dollar will depreciate against the euro, while the Norwegian krone will only depreciate marginally against the euro and then remain close to an interval that is commonly thought to represent a stable exchange rate against the euro. All in all, we assume that the import-weighted krone exchange rate on an annual basis will show little change in 2001 and appreciate by 1.5 per cent in 2002.

Import prices measured in krone terms have increased considerably in 2000, partly as a result of the depreciation of the krone. With a fall in commodity prices and a strengthening of the import-weighted krone exchange rate, prices for traditional merchandise imports are expected to remain stable from 2000 to 2001 and then edge down in 2002. This is generally in line with our previous estimates. This change in import price movements, from clearly positive in 2000 to slightly negative in 2002, is part of the reason that price inflation in Norway is projected to be lower the next two years.

It is assumed that the money market rate will remain approximately unchanged from the current level and through the first half of 2001. In line with a slower rate of inflation and lower growth in the Norwegian economy next year, we project that interest rates will fall slightly in the second half of next year. It is still assumed that the money market rate in the euro area will increase to a little more than 5 per cent at the beginning of next year and then remain constant. We are of the view that this is compatible with expectations of slightly lower inflation in the euro area next year and moderate economic growth. These estimates for interest rates in Norway and the euro area are the same as those presented in the September report. This means that the real interest rate in Norway will be appreciably higher than in the euro area in 2001, but particularly in 2002, since inflation in Norway is also expected to be slightly lower than in the euro area.

Considerable inflationary impetus from fiscal policy in 2001 and 2002

Following this autumn's budget negotiations in the Storting (Norway's parliament), relatively major changes were made in relation to the Government's budget proposal. These changes primarily relate to tax policy and only to a limited extent to spending on purchases of goods and services and transfers for which our assumptions are based on estimates in the National Budget. In relation to the tax system in 2000, the following changes are of considerable importance in 2001:

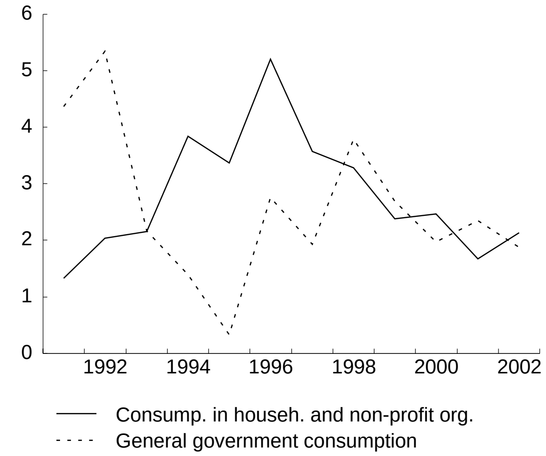
- The general VAT rate is increased from 23 to 24 per cent (from 1 January)

Main economic indicators 1999-2002. Accounts and forecasts
Percentage change from previous year unless otherwise noted

		Forecasts							
		2000			2001			2002	
	Accounts 1999	SSB	MoF	NB	SSB	MoF	NB	SSB	NB
Demand and output									
Consumption in households and non-profit organizations	2.4	2.5	2.9	3	1.7	2.4	1 3/4	2.1	2
General government consumption	2.7	2.0	2.8	2 1/4	2.4	2.4	2	1.9	2
Gross fixed investment	-5.6	-2.1	-3.8	-3	-3.3	-3.2	-2 1/4	1.9	1/4
Petroleum activities	-12.6	-26.8	-22.6	-23	-8.7	-15.9	-12	4.9	2
Mainland Norway	-2.1	3.4	3.0	4	0.4	-0.1	1/2	1.9	0
Firms	-3.3	3.9	2.0	2 3/4	-1.2	-1.0	-2 1/4	0.9	-1 1/2
Housing	-2.2	3.5	8.2	11	12.8	8.5	8	6.9	2 1/2
General government	1.3	2.0	1.8	2 1/2	-4.3	-4.4	2	0.1	1 3/4
Demand from Mainland Norway[1]	1.6	2.5	2.9	3	1.6	2.0	1 1/2	2.0	1 3/4
Stockbuilding[2]	-1.3	0.9	0.0	..	0.0	0.0	..	0.0	..
Exports	1.7	2.3	6.8	6	4.9	6.0	4 3/4	3.4	3
Crude oil and natural gas	-0.1	6.2	12.8	10	4.6	6.9	7	0.9	2 1/4
Traditional goods	2.6	3.5	6.0	4 1/2	3.3	4.7	4	4.5	4
Imports	-3.1	2.0	1.6	1 1/2	3.0	2.6	1 1/2	4.6	3 1/2
Traditional goods	-2.0	3.6	3.0	3 1/2	3.7	3.2	1 1/2	4.1	3 1/2
Gross domestic product	0.9	2.3	3.4	3 1/2	1.6	2.6	2 1/4	1.6	1 3/4
Mainland Norway	0.8	1.8	2.2	2 1/4	1.0	1.8	1 1/4	1.7	1 1/4
Labour market									
Employed persons	0.7	0.6	0.8	1/2	0.4	0.6	1/2	0.5	1/4
Unemployment rate (level)	3.2	3.4	3.3	3 1/4	3.5	3.3	3 1/4	3.5	3 1/2
Prices and wages									
Wages per standard man-year	5.2	4.4	4 1/4	4 1/4	4.1	4	3 3/4	3.6	4
Consumer price index	2.3	3.1	3	3	2.5	2 3/4	2 3/4	1.4	2 1/4
Export prices, traditional goods	0.1	11.0	7.7	10	1.0	1.2	2	-3.1	1 1/4
Import prices, traditional goods	-2.3	5.3	3.8	4	0.5	1.6	2	-1.3	1 1/4
Real prices, dwellings	7.5	10.9	..	8 3/4	3.6	..	1/2	5.3	3 3/4
Balance of payment									
Current balance (bill. NOK)	46.9	189.2	204.5	215	188.9	159.9	230	176.3	185
Current balance (per cent of GDP)	3.9	13.5	14.6	15	13.1	11.3	16	12.1	12
Memorandum items:									
Household savings ratio (level)	6.8	6.7	6.6	6 1/4	7.1	6.4	6 1/4	8.7	6 1/2
Money market rate (level)	6.4	6.6	6.7	6.7	7.1	7.1	7.4	6.8	6.8
Average borrowing rate (level)[3]	8.4	8.1	..	..	8.9	..	..	8.6	..
Crude oil price NOK (level)[4]	141	255	235	245	215	180	233	196	188
International market growth	5.4	7.0	..	..	6.5	..	..	5.9	..
Importweighted krone exchange rate (44 countries)[5]	-1.2	2.6	..	2.5	0.1	..	0.0	-1.5	0.0

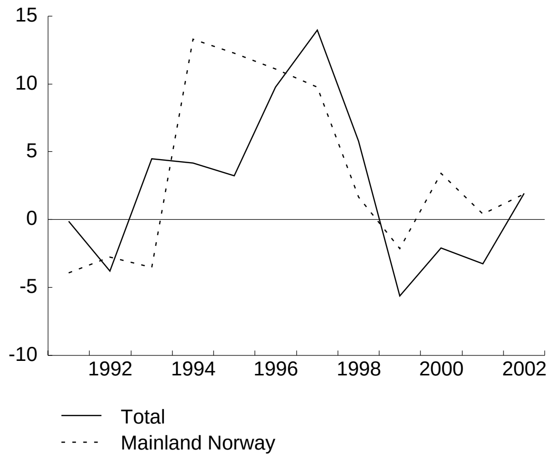
1 Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
2 Change in stockbuilding. Per cent of GDP.
3 Households' borrowing rate in private financial institutions.
4 Average spot price Brent Blend.
5 Increasing index implies depreciation.
Sources: Statistics Norway (SN), Ministry of Finance, Nasjonalbudsjettet 2001 (MoF), Norges Bank, Inflasjonsrapport 3/2000 (NB).

Consumption
Percentage growth



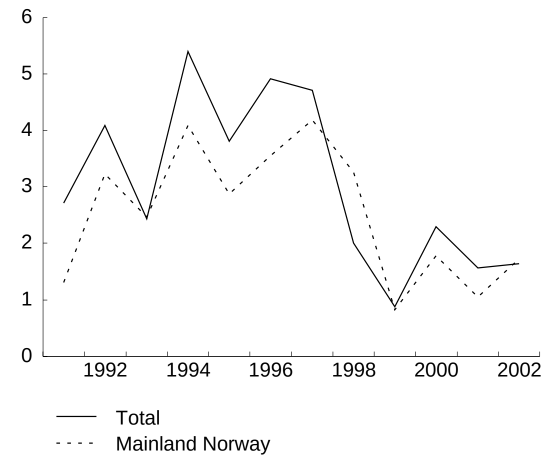
Source: Statistics Norway

Gross fixed capital formation
Percentage growth



Source: Statistics Norway

Gross domestic product
Percentage growth



Source: Statistics Norway

- VAT is introduced for a number of services (from 1 July)
- The VAT rate on food is halved to 12 per cent (from 1 July)
- The electricity tax and basic excise on heating oil are increased by 2.5 øre/kWh (from 1 January)
- The petrol tax is reduced in nominal terms in two stages (50 øre from 1 January and 32 øre per litre from 1 July)
- A supplementary tax of 10 per cent of the value of new commercial buildings is introduced (from 1 January)
- Reduced rates for the reducing balance method of depreciation (from 1 January)

In addition, some changes were made to the rules for direct personal taxes, which contribute to a higher tax on dividends and housing, and it was announced that the investment tax would be abolished with effect from 2002.

The changes in indirect taxes influence the inflation rate in both 2001 and 2002. The estimated effects are described in a separate box.

We have assumed a general inflation adjustment of direct and indirect tax rates from 2001 to 2002, in keeping with common practice when drawing up our projections for years when the final tax rates have not been approved.

Uncertainty about the impetus from petroleum activities

Petroleum investment has fallen sharply the last few years. This decline is expected to continue in 2001, albeit not on the same scale as in earlier years. So far, there are no signs indicating that the contraction in investment will come to a halt during the next year. However, surges in oil prices have often gradually resulted in higher investment in the past. We have chosen to apply this historical experience as a basis for our projections in this report and therefore assume that investment will increase somewhat from the end of next year and into 2002.

Oil and gas production in 2000-2002 is assumed to follow the same pattern as estimated in our last report. However, there is still a tendency for production estimates to be revised downwards over time. Gas production is expected to increase considerably the next few years, while oil production is projected to show little increase in 2001 and then decline in 2002. The petroleum sector will thus continue to contribute to higher growth in total GDP than growth in the mainland economy in 2001, whereas growth in these two measures in 2002 will be virtually the same.

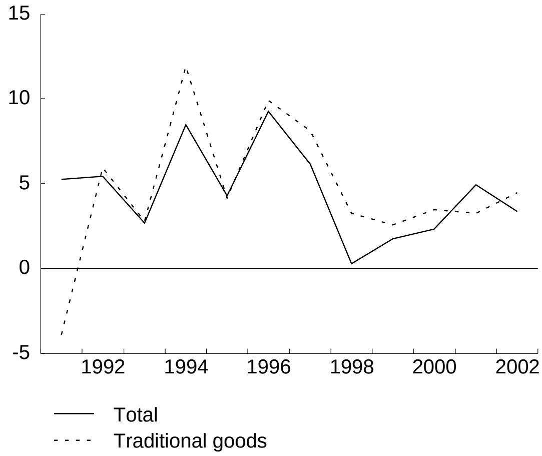
The oil price, which has been higher than USD 30 per barrel this autumn, is assumed to fall to USD 26 per barrel in the first quarter of 2001 and then stabilize at USD 24 per barrel. With a declining dollar exchange rate against both the euro and the Norwegian krone, the oil price in krone terms will fall from NOK 255 per barrel in 2000 to a little less than NOK 200 per barrel in 2002. Historically, this is a high price. It is assumed that higher petroleum revenues, which result in substantial surpluses in general government budgets, do not result in a more expansionary policy in 2002 in excess of that which follows from assumptions concerning indirect taxes, as discussed above. This means that the revenue loss as a result of a possible removal of the investment tax in 2002 is assumed to be covered by an increase in other corporate taxes.

Household income and expenditure
It appears that growth in household consumption will be about the same in 2000 as in 1999 and the saving ratio will also remain approximately unchanged. After incorporating new revised figures for housing investment, growth in this component appears to be slightly lower than assumed earlier because the level at the beginning of 2000 has been revised down. Housing starts, however, have risen sharply and growth is expected to continue the next few years. Income growth and the high level of prices in the resale home market imply higher housing investment despite the increase in the real interest rate through 2000.

Higher interest rates and a slower rise in asset values (house and equity prices) imply an increase in the household saving ratio in the period ahead and moderate consumption growth in 2001 in line with the projections in our previous report. Such developments have already become apparent in 2000. However, given the sharp growth in housing investment, we expect households' financial saving to edge down next year.

Small changes in mainland investment
It appears that gross fixed investment in the mainland economy will expand slightly in 2000. With the exception of manufacturing investment, growth is fairly evenly distributed across industries. In 2001, slower growth in the economy will curb the need for an increase in the stock of fixed assets and hence investment. General government fixed investment is expected to be lower next year and the decline in manufacturing industry will continue, albeit fairly marginally. The supplementary tax that is being introduced for new commercial buildings must be expected to curb investment in 2001 followed by an increase in 2002, particularly if this tax is abolished. In isolation, this contributes to shifting some investment from 2001 to 2002. The possibility that the investment tax will be abolished in 2002, in line with the budget compro-

Exports
Percentage growth

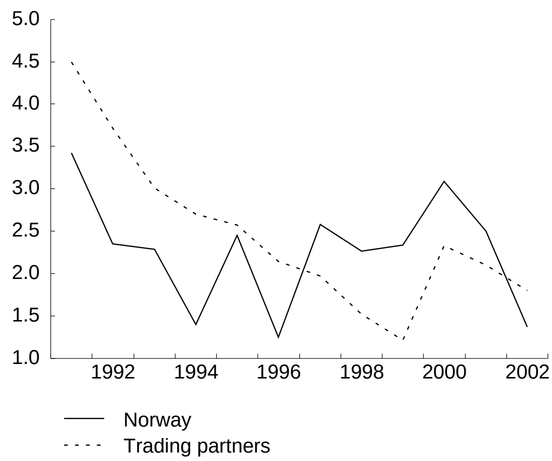


Source: Statistics Norway

Labour market
Percentage change

1) Adj. for stat. rev. from 1996.
Source: Statistics Norway

Consumer price indices
Percentage growth



Source: Statistics Norway

Consumer price inflation in 2000-2002

The consumer price index (CPI) was 3.1 per cent higher in October 2000 than at the same time last year. Price changes over the past year were substantially influenced by developments in energy prices. Excluding energy prices, the year-on-year rise in the CPI was 2.5 per cent in October this year. Combined with oil price changes, the sharp increase in electricity taxes at the beginning of 2000 has contributed to these developments. Changes in indirect tax rates in excess of a general inflation adjustment pushed up the CPI by an estimated 1/4 per cent in 2000.

The method for computing housing costs in the CPI was changed in August 1999 and January 2000. With effect from January 2000, Statistics Norway changed its method for calculating the CPI, with the incorporation of changes in rent on a monthly – instead of a quarterly – base. In the year of transition such a technical change can have a systematic impact on the consumer price index, and it appears that this has contributed to pushing up the rise in the CPI by about 0.1 percentage point in 2000. The incorporation of a separate index for the rental market and a sharp increase in the weight for owner-occupied dwellings also pushed up the rise in consumer prices in 2000 by about 0.1 percentage point.

In 2001, a number of changes in indirect taxes have been approved. Changes in the VAT system play a particularly important role, but changes in other indirect taxes will also have an influence. In the following, we will look more closely at how these indirect tax changes will affect consumer price inflation through 2001 and 2002. We assume that the approved indirect tax programme for 2001 is continued in 2002, with a general inflation adjustment of unit tax rates. The main points are summarized in a separate table.

Estimated isolated effects of changes in selected indirect taxes (in excess of inflation adjustment) on price inflation (CPI) in percentage points

	2001 I	2001 II	2002 I	2002 II
VAT increase from 23 to 24 %	0.6	0.6	0	0
Half VAT on food	0	-1.3	-1.3	0
VAT on services	0	0.2	0.2	0
Fuel taxes	-0.2	-0.3	-0.1	0
Electricity and heating oil tax	0.2	0.2	0	0
Model-estimated total effect[1]	0.6	-0.6	-1.3	0.1

[1] May deviate from the sum of individual components due to rounding, repercussions from the economy and because the abolition of the radio/television tax with effect from December 2000 is included.

Changes in indirect taxes will influence the rate of price inflation over the next two years to a considerable extent. This is because the halving of VAT on food will not apply until 1 July next year. This effect is amplified by a further reduction in fuel taxes, but is offset by the broadening of the VAT base (VAT on services) from the same date.

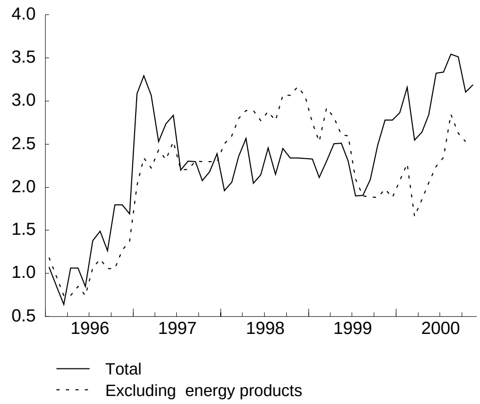
In the first half of 2001, the indirect tax changes (initially an increase in the general VAT rate) will contribute 0.6 percentage point to the increase in the year-on-year inflation rate, while indirect taxes in the second half of 2001 will reduce the rate of inflation by 0.6 percentage point. If all ad valorem tax rates are kept unchanged, while unit tax rates are increased in step with the consumer price index, the rate of inflation in the first half of 2002 will be reduced by 1.3 percentage points due to changes from 1 July 2001. In the second half of 2002, indirect tax changes will, on the basis of the above-mentioned assumptions, not make a direct contribution to the rate of inflation.

The exact effect of indirect tax changes on inflation in 2001 is shrouded in more uncertainty than usual because there are considerable changes that partly offset each other. The effect of indirect tax changes on the CPI will depend on to what extent the changes feed through directly to consumer prices, something that our figures largely assume is the case.

Inflation outlook

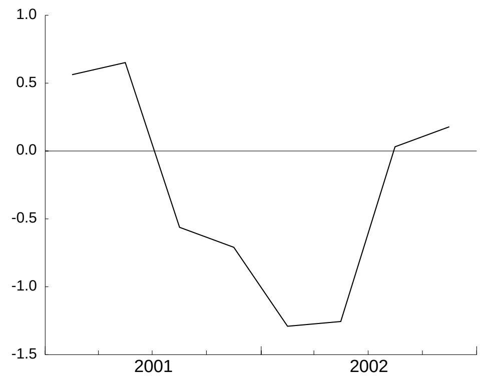
At the beginning of 2002 changes in indirect taxes will contribute to a noticeable rise in the consumer price index and the year-on-year rate of inflation may be well above 3.0 per cent. Reduced oil prices and a weak rise in import prices are gradually expected to contribute to lower inflation. On a year-on-year basis price inflation in 2001 will also be reduced as a result of the increase in oil prices through 2000. However, a slight increase in unit labour costs will have the opposite effect. Between June and July 2001 the rate of inflation will fall markedly due to the halving of the VAT rate on food. Towards the end of 2001 the rate of inflation may fall to well below 2 per cent. In the first half of 2002, the inflation rate will fall further as the direct effect of the VAT increase is then eliminated, while the effects of VAT on food will still be present. In the second half of 2002, the inflation rate rises markedly as a result of the elimination of the direct effect of the halving of the VAT rate on food, and we are back to an inflation rate that is uninfluenced by the direct effects of indirect tax changes.

The consumer price index
Percentage change from the same month the previous year



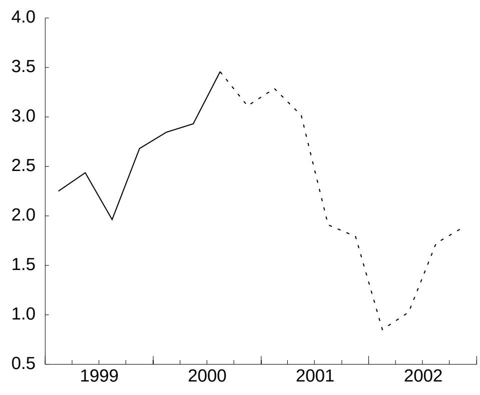
Source: Statistics Norway .

Effects of indirect tax changes on inflation (CPI)
Percentage points



Source: Statistics Norway .

The consumer price index
Percentage change from the same quarter the previous year



Source: Statistics Norway.

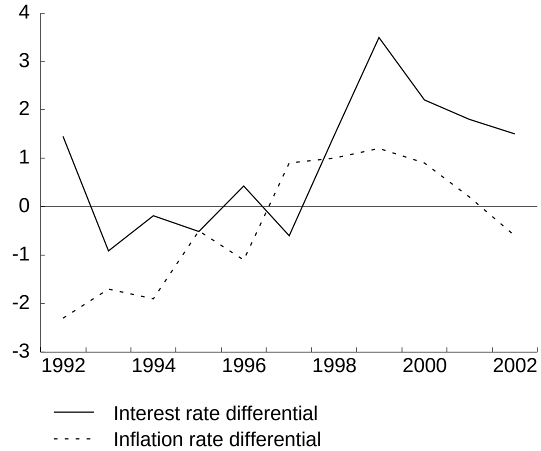
mise, has the same effect. On the other hand, reduced depreciation rates for enterprises are not expected to influence investment to any significant extent these two years even though qualitatively this points to lower investment. Higher investment is not expected in the power supply sector, for example in the form of gas-fired power stations. On the other hand, it is assumed that manufacturing investment will edge up from 2001 to 2002, partly as a result of the construction of a new aluminium plant in Sunndalsøra.

Moderate growth in the mainland economy
It is now estimated that mainland GDP will expand by a little less than 2 per cent in 2000. Growth is projected to slow next year to about 1 per cent. This partly reflects lower growth in mainland demand as a result of lower growth in consumption and investment compared with the previous year. Growth in traditional merchandise exports and imports, on the other hand, is estimated to show little change. Moreover, lower petroleum investment will contribute to reduced demand impulses for the mainland economy. Special factors, such as a decline in electricity production – which increased at a particularly fast rate in 2000 – also help to explain the low rate of growth in 2001.

For 2002, the growth rate is still expected to be higher, partly reflecting higher consumption growth and the effect of postponed investment from 2001. Moreover, traditional merchandise exports will again make a more positive contribution. The reason for this is that the loss of competitiveness will gradually be reduced, and with relatively stable growth in imports among our trading partners manufacturing industry will receive a boost from exports. In addition, higher ship production and higher petroleum investment will generate a positive impetus to manufacturing industry particularly in 2002. General government production generally shadows developments in man-hours worked in the sector, and it is assumed that man-hours worked will expand fairly steadily over the next two years.

Continued tight labour market
According to LFS figures, the unemployment rate is estimated at 3.4 per cent in 2000, only marginally higher than in 1999. The number of vacancies is still high, indicating pressures in the labour market. An increase in vacation days will, in isolation, contribute to a reduction in the number of man-hours worked, thereby bolstering growth in the number employed. This will recur in 2002. With more moderate growth in the economy next year, unemployment may edge up next year. In 2002, higher growth is expected to curb the decline in the number of man-hours worked. This will be amplified by additional vacation days so that, all in all, the number employed is expected to increase at a somewhat faster pace from 2001 to 2002 than in the previous year. Unemployment is therefore not expected to show any pronounced change in 2002.

Interest rate and inflation differential between NOK, and the ECU/euro. 1992-2002
Projections for 2000-2002



Sources: Norges Bank and Statistics Norway.

Indirect tax changes have varying effects on price inflation
It appears that consumer price inflation will be 3.1 per cent in 2000, which is slightly higher than in 1999. 0.2 percentage point of the increase in the inflation rate in 2000 reflects the revision of the method for computing housing costs in the consumer price index. The approved government budget will have a considerable influence on inflation in 2001. We will have an inflationary impetus from VAT as early as January which, in isolation, will push up price inflation by about 0.6 percentage point. A higher electricity tax will also contribute to higher inflation, but a lower petrol tax will have the opposite effect. With effect from 1 July, the VAT system will be changed with the introduction of VAT on services combined with a halving of the VAT rate on food and a further reduction in petrol taxes. The inflation rate will then fall markedly. In 2002, the direct effect of a higher VAT rate on prices will be eliminated, whereas the changes in mid-2001 will continue to be felt and not be eliminated until the summer of 2002. The effects of this on inflation are described further in a separate box. A faster rise in import prices and higher oil prices help to explain why the inflation projection for 2001 has been revised upwards by 0.3 percentage point compared with the previous quarterly report. The downward revision of price inflation of 0.4 percentage point in 2002 is partly related to the change in indirect taxes.

Along with indirect tax changes, we expect the import price development to play an important role for inflation in the period ahead. As noted above, we assume that the Norwegian krone will gradually appreciate from the second quarter of 2001 and through the projection period. This is primarily due to the assumption that the US dollar will depreciate against the euro, while the krone is expected to be relatively stable against the euro. This is the reason why import prices measured in krone terms will rise at a noticeably slower pace in both 2001 and 2002 than in 2000 when the rise appears to be a good 5 per cent.

Productivity growth was modest in 1999, but now appears to be considerable in 2000. This largely explains why the sharp rise in import prices has not resulted in a greater increase in the inflation rate from 1999 to 2000 than has been the case. The very high growth in productivity from 2000 is not expected to continue the next few years, although growth will still be about 2.5 per cent, which is close to the historical average the last twenty years.

Wage growth will edge down from 1999 to 2000, according to our estimates. Growth in hourly wages appears to have slowed more in manufacturing industry than in the economy as a whole. In 2001, hourly wage increases will show little change compared with this year, but due to additional vacation days annual wage growth will fall slightly in relation to 2000. Lower international inflation in the period ahead will contribute to curbing wage growth in manufacturing and thereafter in other industries as well. Coupled with noticeably lower consumer price inflation in 2002, this will contribute to a decline in wage growth of about half a percentage point from 2001 to 2002. Pressures in the labour market will show little changes through the projection period and will therefore not contribute to changes in wage growth.

Very large current account surpluses
It appears that the current account surplus will now reach around NOK 190 billion in 2000, or 13.5 per cent of GDP. An appreciable fall in oil prices, which contributes to a terms-of-trade loss in 2001, will be offset by a sharp reduction in the deficit on the interest and transfers balance and slightly stronger growth in the volume of exports compared with the volume of imports. This means that the current account surplus will only decline marginally next year. The current account surplus is expected to decline to a greater extent in 2002 because the terms of trade are expected to deteriorate as a result of lower oil prices, but also because growth in the volume of imports is expected to pick up. Despite this, the calculations show a current account surplus of NOK 176 billion in 2002, equivalent to 12 per cent of GDP that year. The accumulated current account surplus in the years 2000-2002 is estimated at about NOK 550 billion and net foreign assets at NOK 940 billion, or 64 per cent of GDP.