

Norwegian economy

Developments so far this year

According to preliminary figures from the quarterly national accounts, mainland GDP expanded by 0.5 per cent from the fourth quarter of 1999 to the first quarter of 2000. If we look at the last three quarters as a whole, the figures indicate that activity growth picked up following a pause from the second quarter of 1998 to the second quarter of 1999. On the demand side, both consumption and mainland investment provided a growth impetus, whereas traditional merchandise exports and petroleum investment fell compared with the level in the fourth quarter of 1999.

According to Statistics Norway's Labour Force Survey (LFS), the number employed showed little change from the fourth quarter of 1999 to the first quarter of this year, adjusted for normal seasonal variations. Employment thus remains approximately on a par with the level recorded at the end of 1998, while unemployment has risen by about half a percentage point since then. As an average for the first four months of the year, the consumer price index was 2.8 per cent higher than the level in the same period one year earlier. However, year-on-year price inflation in March and April was noticeably lower than in January

Macroeconomic indicators. 1998-2000

Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	1998	1999	99.2	99.3	99.4	00.1
Demand and output						
Consumption in households and non-profit organizations	3.3	2.4	0.7	1.3	0.3	1.2
General government consumption	3.8	2.7	2.6	0.6	0.1	1.4
Gross fixed investment	5.8	-5.6	-3.9	16.4	-13.1	3.3
Mainland Norway	1.6	-2.1	0.4	5.8	-0.2	2.7
Petroleum activities ¹	20.4	-12.6	-7.9	9.1	-34.6	-5.5
Final domestic demand from Mainland Norway ²	3.1	1.6	1.1	1.9	0.1	1.5
Exports	0.3	1.7	1.5	1.3	3.4	-2.1
Crude oil and natural gas	-3.6	-0.1	2.2	-0.1	7.0	1.9
Traditional goods	3.3	2.6	0.2	2.7	3.8	-1.9
Imports	9.3	-3.1	-2.7	4.3	-2.5	-1.3
Traditional goods	8.6	-2.0	-6.1	1.3	3.6	-2.7
Gross domestic product	2.0	0.9	-0.5	2.1	0.4	1.0
Mainland Norway	3.3	0.8	-0.2	1.5	0.0	0.5
Labour market³						
Man-hours worked	2.2	0.2	0.3	-0.4	0.1	0.6
Employed persons	2.4	0.7	0.0	-0.5	0.7	0.0
Labour force	1.4	0.7	0.1	-0.2	1.0	0.2
Unemployment rate, level ⁴	3.2	3.2	3.0	3.3	3.6	3.7
Prices						
Consumer price index ⁵	2.3	2.3	2.4	2.0	2.7	2.9
Export prices, traditional goods	1.2	0.1	1.6	1.8	2.5	3.3
Import prices, traditional goods	1.6	-2.3	2.3	-1.9	1.1	3.9
Balance of payment						
Current balance, bill. NOK	-14.3	46.9	5.6	14.3	27.2	39.9
Memorandum items (Unadjusted, level)						
Money market rate (3 month NIBOR)	5.7	6.4	6.4	6.0	6.0	5.8
Average borrowing rate ⁶	7.4	8.4	8.5	8.0	7.7	7.6
Crude oil price NOK ⁷	96.3	141.2	120.5	162.9	191.4	221.3
Importweighted krone exchange rate. 44 countries. 1997=100	102.2	101.0	100.0	100.6	101.0	101.9
NOK per ECU/euro	8.46	8.31	8.24	8.22	8.19	8.11

¹ Figures for petroleum activities now 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).

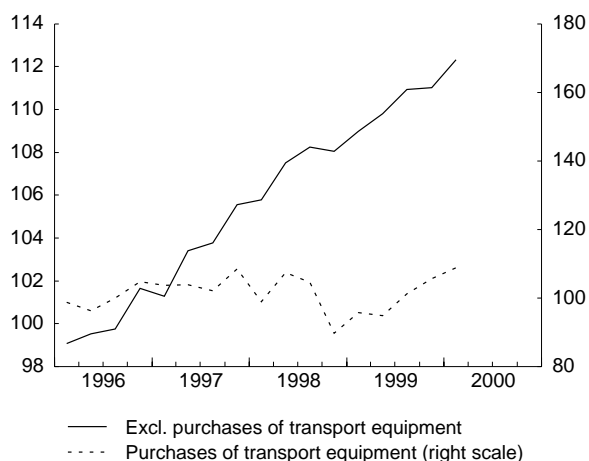
⁵ Percentage change from same period previous year.

⁶ Households' borrowing rate in private financial institutions.

⁷ Average spot price, Brent Blend.

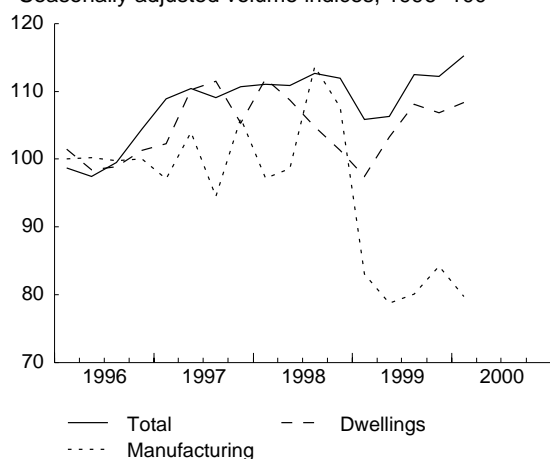
Sources: Statistics Norway and Norges Bank.

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



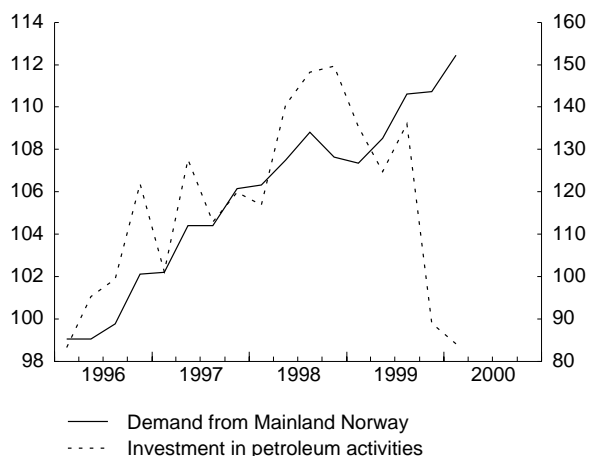
Source: Statistics Norway.

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



Source: Statistics Norway.

Demand from Mainland Norway. 1996 - 2000
Seasonally adjusted volume indices, 1996=100



Source: Statistics Norway.

and February. As a result of very high oil prices, the current account surplus reached nearly NOK 40 billion in the first quarter of 2000, only moderately lower than the result for 1999 as a whole.

Following five interest rate reductions through 1999, the central bank raised its key rates by 0.25 percentage point with effect from 13 April this year and then with half a percentage point from 15 June. The Norwegian money market rate edged up in the period surrounding the first key rate increase and is now about 6.6 per cent, 0.8 percentage point higher than in the first quarter. The yield on Norwegian government bonds with residual maturities of 3 and 5 years has risen since the beginning of the year. Credit institutions' deposit and lending rates stood at 4.3 and 7.6 per cent respectively at the end of the first quarter, approximately the same level as at the beginning of the year.

Up to mid-May, the euro exchange rate fluctuated between NOK 8 and 8.25. In the latter part of May, however, the krone depreciated, with the euro costing NOK 8.30. Measured by the import-weighted krone exchange rate, the Norwegian krone has so far this year depreciated by 4.5 per cent, partly because the US dollar and Swedish krona have appreciated against the euro.

Following moderate trends through the second half of 1998 and first half of 1999, growth in household consumption (including consumption in non-profit organizations) over the last three quarters as a whole has been approximately on a par with the average for the period 1993-1999. In these seven years, consumption expanded by 3.5 per cent annually, or at about the same rate as income. The saving ratio fell slightly in the first part of the period but, according to preliminary figures, picked up in 1998. The pronounced rise in the saving ratio in 1998 may be related to unusually sharp growth in income that year as experience indicates that it takes some time before changes in income fully feed through to changes in consumption. Against this background, the saving ratio might be expected to fall again from 1998 to 1999. Preliminary figures indicate, however, that this was not the case. This may be due to the sharp rise in interest rates at the end of 1998, which was only partly reversed through 1999. In relation to income, households' net financial assets rose substantially in 1999 to an historically record-high level.

As was the case in the previous two quarters, household spending on goods increased faster than spending on services in the first quarter of 2000. The relatively strong seasonally adjusted growth in household purchases of cars between the fourth quarter of 1999 and first quarter of this year, despite the decline in new car registrations in the same period, must be seen in connection with the national accounting con-

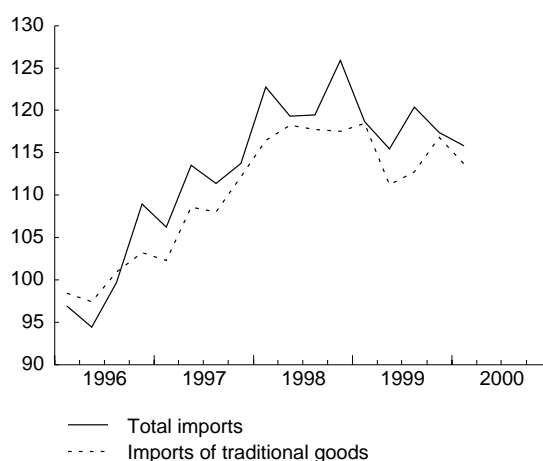
vention which assumes that passenger cars registered for the business sector are sold to households after three years. The counterpart to the rise in this component of household demand is thus an equivalent decline in a component of gross investment in the business sector. Figures on new car registrations in the period to end-May and in the retail sales index to end-April point to a relatively moderate rise in household purchases of goods from the first to second quarter of this year.

Developments in house prices indicate that the demand for dwellings is still rising sharply. In the year to the first quarter of 2000, house prices rose by nearly 18 per cent on a national basis, to a level approximately 10 per cent above the average for last year. As a result of problems with the compilation of building statistics, satisfactory and up-to-date information on housing starts is still lacking. It is likely, however, that the historically low growth in the housing stock relative to the population over a period of several years, combined with sharp growth in household income, are important factors behind the persistently sharp rise in house prices.

Preliminary QNA figures show a further rise in mainland investment between the fourth quarter of 1999 and first quarter of this year after developments through the second half of last year had already brought this demand component up to the high level prevailing in mid-1998. Investment in private service industries, excluding dwellings, was the main driving force that contributed to boosting mainland investment in the first quarter. Manufacturing investment fell to the level recorded in the third quarter last year, while other main components showed a relatively modest change. Petroleum investment fell further in the first quarter after exhibiting a steep decline at the end of last year. The level in the first quarter was about 30 per cent lower than the quarterly average for 1999. For mainland Norway and petroleum activities as a whole, however, investment showed a moderate increase from the fourth quarter to the first quarter. Investment statistics for the second quarter also point to an increase in petroleum investment through the year, while no major changes in manufacturing investment are expected through the remainder of the year.

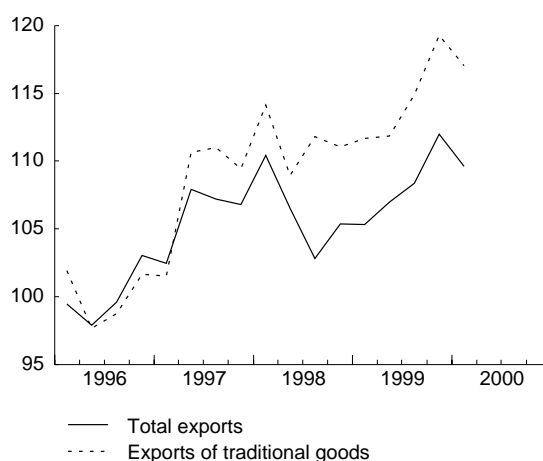
Preliminary QNA figures indicate, on an uncertain basis, a rise in general government demand from the fourth quarter of 1999 to first quarter of 2000 that was approximately on a par with growth in household consumption. If this is combined with developments in mainland investment, the figures show relatively strong growth in mainland demand, to a level nearly 3 per cent above the quarterly average for last year. By way of comparison, mainland demand rose by an average 3.9 per cent a year during the cyclical upturn from 1993 to 1998.

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



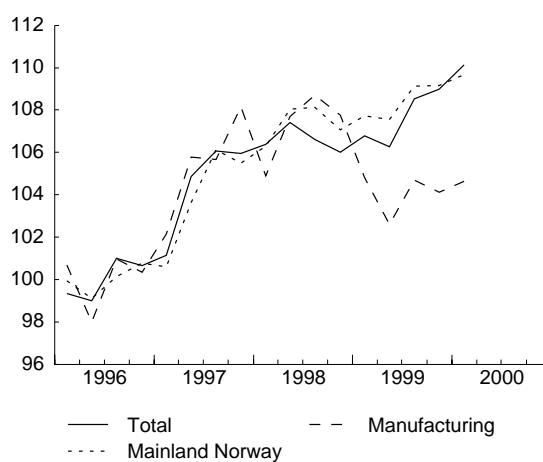
Source: Statistics Norway.

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



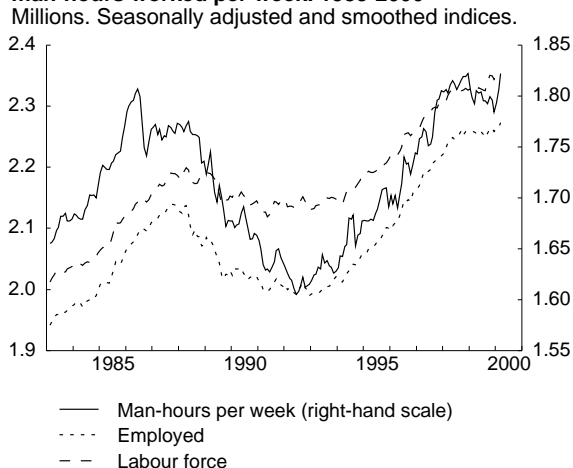
Source: Statistics Norway.

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



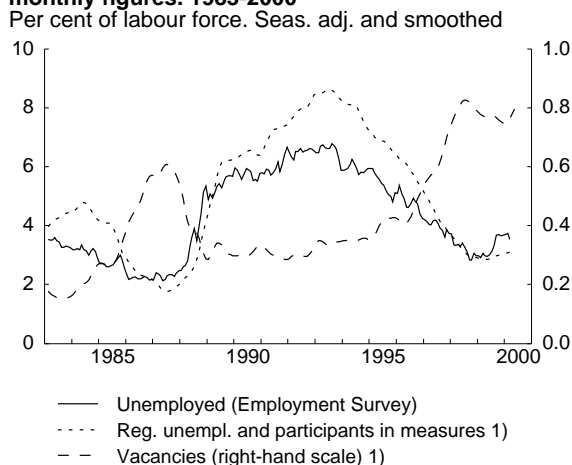
Source: Statistics Norway.

Labour force, employment and number of man-hours worked per week. 1983-2000



Source: Statistics Norway.

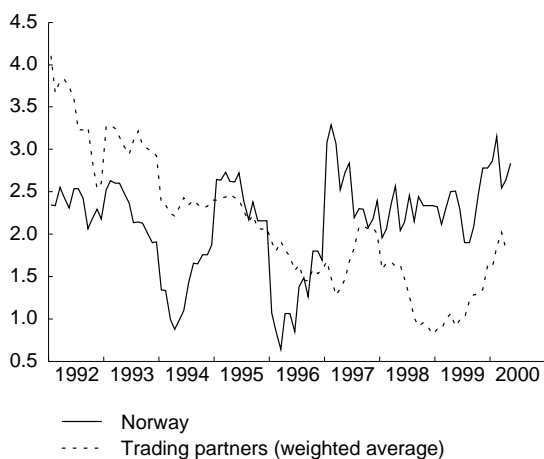
Unemployed and number of vacancies, monthly figures. 1983-2000



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

Consumer price indices. 1992-2000

Pct. change from the same month the previous year



Source: Statistics Norway.

On a seasonally adjusted basis, the volume of traditional merchandise exports fell slightly in the first quarter after rising fairly sharply through the second half of last year. Exports of manufactured goods and fish contributed to the weak result for the first quarter of 2000, while electricity exports had the opposite effect. Figures on value from External Trade Statistics show a shift in exports from Japan to the US in the year to the first quarter of 2000, whereas the pattern otherwise is relatively stable. Export prices in krone terms have risen sharply the last two quarters, to a level that is a good 6 per cent above the average for 1999. The rise in prices has been particularly strong for refined petroleum products, but metal prices have also increased considerably. This may largely be ascribed to a rise in a number of commodity prices measured in dollar terms as well as the considerable appreciation of the dollar against the krone (and most other currencies) during the last six months.

On the supply side, imports measured at constant prices showed a seasonally adjusted decline (both total and traditional goods), whereas as noted earlier, activity in the mainland economy picked up. For general government and goods-producing industries, excluding manufacturing, preliminary national accounts figures show relatively buoyant growth in the level of activity in the first quarter. Production in private service industries pushed down the average for the mainland economy to some extent, whereas value added in manufacturing rose at about the same rate as this average. Both the production index for April and developments in new orders and order backlogs point to a fairly sluggish trend for manufacturing industry in the second quarter.

In the QNA, the figures for changes in inventories and statistical deviations are calculated as the difference between total supply and total use. A comparison of the figures for the first quarter of 2000 with the first quarter of 1999 indicates that use was increasing slightly faster than supply. This is consistent with a reduction in inventories through the period, which is in accord with the movements suggested by Statistics Norway's inventory statistics. For 1999, the QNA now show a sharp decline in the item changes in inventories and statistical deviations. However, this should possibly be seen in connection with a steep rise of about the same magnitude in 1998.

Following sharp growth from 1993 and up to the beginning of 1998, employment has remained fairly stable the last 18 months. Seasonally adjusted figures from Statistics Norway's Labour Force Survey (LFS) indicate, however, a moderate increase during the last 6-7 months. The labour force has also shown a rising tendency during this period and, according to the LFS, unemployment has edged up from the relatively low level recorded in 1998 and first half of 1999. The sum of registered unemployed at employment offices

and persons participating in ordinary labour market programmes has also increased over the last three quarters, and the number of people laid off (entirely and in part) has almost reached the level recorded in 1996. However, the number of vacancies at employment offices, which exhibited a slightly falling trend from the summer of 1998, has edged up this year. Viewed in relation to developments in unemployment, this may be an indication of a greater mismatch between the composition on the supply and demand side in the labour market.

As an average for the first four months of the year, the consumer price index was 2.8 per cent higher than in the same period last year. Prices showed a year-on-year rise of 2.6 per cent in April. So far this year, movements in prices for petrol, electricity, beverages and tobacco as well as a number of services have contributed to pushing up price inflation, whereas the development of telecommunication rates and prices for food, clothing and footwear have had the opposite effect. The harmonized index of consumer prices rose by 2.7 per cent from the first quarter of 1999 to the first quarter of 2000, 0.8 percentage point more than in the EU and 0.7 percentage point more than in the same period one year earlier.

The results of the wage settlement so far this year point to growth in (disbursed) wages per normal man-year of about 4 per cent. Furthermore, employers will incur additional costs in connection with two extra vacation days next year.

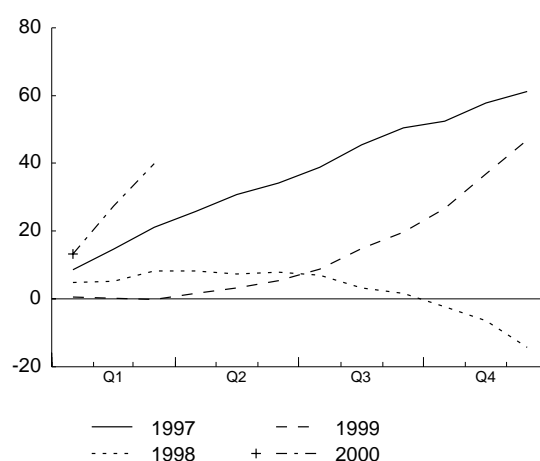
The current account of the balance of payments showed a surplus of NOK 39.9 billion in the first quarter, compared with a small deficit in the same period in 1999. The higher value of oil and natural gas exports accounted for most of the increase in the current account surplus in this period. Of the NOK 36.6 billion increase in this export component, about 90 per cent can be ascribed to the sharp rise in prices. Despite a considerable increase in Norway's net foreign assets over the past year, the deficit on the interest and transfers balance increased by NOK 1.5 billion between the first quarter of 1999 and first quarter of 2000. This may be related to a shift in the composition of Norwegian foreign assets from interest-bearing paper to other securities.

Outlook for the remainder of 2000 and 2001

Cyclical upturn among trading partners

As in our February report, market growth for Norway's traditional exports is expected to be considerably higher this year and next than in 1999. Prices for important Norwegian export goods have also picked up from the low levels seen a few years ago. Mainland enterprises' ability to benefit from this growth depends on their competitiveness. As a result of the fairly high rise in costs in Norway in recent years, market

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



Source: Statistics Norway.

shares both abroad and in the domestic market must be expected to decline. It is therefore assumed that growth in traditional merchandise exports will be lower than implied by market growth abroad.

In the spring of 2000, oil prices reached a very high level, both measured in dollar terms and, not least, in krone terms. The very high oil prices recently observed are not in OPEC's long-term interest since it probably will result in a noticeably lower market share for OPEC after a few years, if it should be continued. It must therefore be assumed that OPEC will increase its production in order to reduce the oil price. We assume that oil prices will gradually fall to USD 22 a barrel at the beginning of 2001. Along with a projected weaker dollar exchange rate (see below), this implies a substantial decline in the oil price measured in krone terms from 2000 to 2001.

Monetary policy and estimates for exchange rates

The Norwegian krone has depreciated considerably this year. Measured against the import-weighted krone exchange rate (44 countries), the krone depreciated by almost 5 per cent from the end of 1999 to end-May this year. The krone has depreciated little against the euro, and is now in the middle of what was previously perceived as the normal range against the euro. We expect this to be the case also in the period ahead. The krone has depreciated against the dollar for several years, but this is now in the process of being reversed. A common projection is that the exchange rate between the dollar and the euro will change substantially over the next year or so. We assume a euro-dollar exchange rate of 1.10 early next year. Today, the exchange rate is approximately the reverse.

The sizeable depreciation of the krone has contributed to a pronounced rise in import prices. Compared with the first quarter of 1999, import prices for

Main economic indicators 1999-2001. Accounts and forecasts

Percentage change from previous year unless otherwise noted

		Forecasts					
		2000			2001		
		SN	MoF	NB	SN	MoF	NB
Accounts	1999						
Demand and output							
Consumption in households and non-profit organizations	2.4	2.7	2.9	2 3/4	2.1	3.0	2 1/2
General government consumption	2.7	2.0	1.9	2 1/4	2.1	1.7	2
Gross fixed investment	-5.6	-3.4	-6.3	-5 3/4	-0.6	-2.5	3/4
Petroleum activities	-12.6	-21.8	-23.5	-20	-3.5	-17.6	-5
Mainland Norway	-2.1	2.8	1.5	-1	1.0	1.3	2 3/4
Firms	-3.3	0.9	0.3	-3	0.5	1.1	2
Housing	-2.2	11.2	5.4	7 3/4	8.9	8.9	6
General government	1.3	1.5	1.8	-1 1/2	-4.0	-3.9	2
Demand from Mainland Norway ¹	1.6	2.5	..	1 3/4	1.9	..	2 1/2
Stockbuilding ²	-1.3	-0.1	0	..	0.0	-0.1	..
Exports	1.7	4.5	7.2	6 3/4	5.8	6.1	5
Crude oil and natural gas	-0.1	11.1	13.1	10	7.4	7.5	6 3/4
Traditional goods	2.6	4.5	5.4	6	4.6	4.8	4 1/2
Imports	-3.1	-1.1	0.7	1	3.7	2.9	3 1/2
Traditional goods	-2.0	0.1	2.6	1 1/4	4.0	3.8	3 3/4
Gross domestic product	0.9	3.1	3.1	2 3/4	2.5	2.8	2 3/4
Mainland Norway	0.8	1.7	1.8	1 1/2	1.7	1.9	2
Labour market							
Employed persons	0.7	0.6	0.3	0	0.4	0.6	1/4
Unemployment rate (level)	3.2	3.6	3.6	3 1/2	3.9	3.6	3 3/4
Prices and wages							
Wages per standard man-year	5.2	4.1	3 3/4	3 3/4	4.0	..	4
Consumer price index	2.3	2.8	2.6	2 3/4	1.9	2.3 ³	2
Export prices, traditional goods	0.1	8.8	4.1	3 1/2	-0.7	1.8	1 3/4
Import prices, traditional goods	-2.3	4.3	1.8	1 3/4	-0.6	1.0	1 1/4
Real prices, dwellings	7.5	9.7	..	9 1/2	4.4	..	5
Balance of payment							
Current balance (bill. NOK)	46.9	158.1	152.7	148	151.4	119.5	129
Current balance (per cent of GDP)	3.9	11.7	11.4	11	11.0	8.9	9 3/4
Memorandum items:							
Household saving ratio (level)	6.8	6.1	6.9	6	6.7	6.3	6
Money market rate (level)	6.4	6.3	6.4	6.2	6.6	6.2	6.2
Average borrowing rate (level) ⁴	8.4	8.1	..	..	8.4	..	..
Crude oil price NOK (level) ⁵	142	207	190	203	165	145	158
International market growth	5.4	6.9	..	..	6.6	..	..
Importweighted krone exchange rate (44 countries) ⁶	-1.2	2.0	..	0.4	-1.9	..	0.0

¹ Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway² Change in stockbuilding. Per cent of GDP.³ The consumption deflator.⁴ Households' borrowing rate in private financial institutions.⁵ Average spot price Brent Blend.⁶ Increasing index implies depreciation.

Sources: Statistics Norway (SN), Ministry of Finance, Revidert nasjonalbudsjett 2000 (MoF), Norges Bank, Penger og kreditt 2000/1 (NB).

traditional goods have risen by about 5 per cent. Following a sharp fall from the fourth quarter of 1998 to the first quarter of 1999, there were clear signs of an increase through the remainder of 1999, and particularly in the first quarter of 2000. We assume that the exchange rate for the euro, Swedish krona and yen will remain at approximately the current level, while the exchange rates for a number of other currencies will depreciate approximately in step with the dollar. In that case, the import-weighted krone exchange rate will appreciate slightly in the period ahead, and return to the level in 1999 at the begin-

ning of 2001. This will contribute to a slightly higher rise in import prices in 2000 than we assumed earlier, but a lower rise in import prices in 2001. According to our model-based calculations (KVARTS), the effect of this will be somewhat higher domestic price inflation in 2000 and lower price inflation in 2001.

The Norwegian money market rate has edged up through 2000 and has been slightly higher than envisaged in our previous quarterly report. Many expect a further rise in Norges Bank's key rates during the year because the central bank has revised upwards its

projections for economic growth in Norway this year. For the remainder of 2000, KVARTS predicts money market interest rates at about the current level given the forecasts that have otherwise been presented (see table). In this survey, we have therefore assumed a money market rate slightly above 6.5 per cent from the third quarter to the end of the projection period. Given the rise in interest rates projected for the euro area, the interest rate differential between Norway and the euro will be 1.5 per cent at the end of this year.

This assumption implies an interest rate that is a little more than half a percentage point higher this year and a good one percentage point higher in 2001 than the level projected in our previous quarterly report. According to our calculations, an increase in interest rates will contribute to curbing the level of activity somewhat the first year, but considerably more the following year (see separate box). The difference in interest rate movements therefore explains much of the reduction in growth in mainland activity compared with our projections in February.

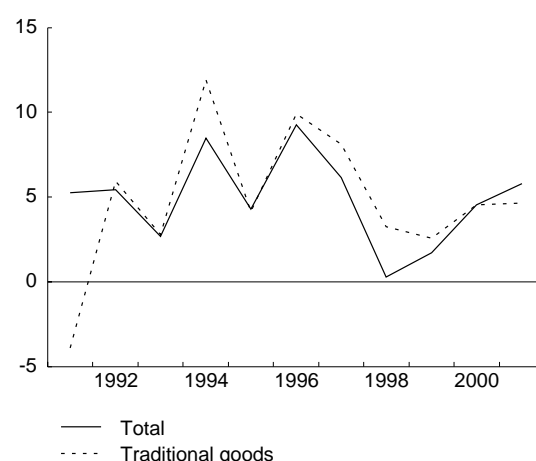
Cyclically neutral fiscal policy

According to the Revised National Budget for 2000, fiscal policy this year can be characterized as cyclically neutral. Growth in general government consumption and gross investment is estimated by the Government to be about 2 per cent in 2000. Our calculations are based on approximately the same assumptions. For 2001, we assume that growth in general government consumption will be about the same as in 2000 whereas, in line with the Revised National Budget, we project a decline in general government investment of about 4 per cent.

Our calculations do not incorporate any major changes in direct and indirect taxes. In the Revised National Budget, a number of minor changes in direct and indirect taxes have been proposed for this year, which altogether are revenue-neutral. It is still somewhat uncertain how the changes in agricultural support will be implemented, and at this point in time we have not taken account of these changes in our calculations. The changes probably point to slightly lower price inflation than indicated by our projections.

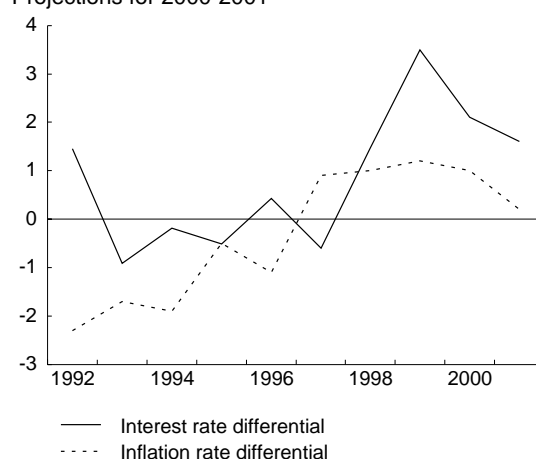
For 2001, the Government has announced fairly extensive changes in indirect tax policy. First, changes will be proposed in the VAT system by introducing VAT on a number of services which today are exempt from VAT. Part of the higher revenues that will accrue to the Treasury will be used for reducing special excise duties for goods that influence the scale of cross-border shopping, including excise duties on alcoholic beverages. In addition, the Government has announced that it wants changes in tax rules that can have an equalizing effect on the distribution of income. How-

Exports Percentage growth



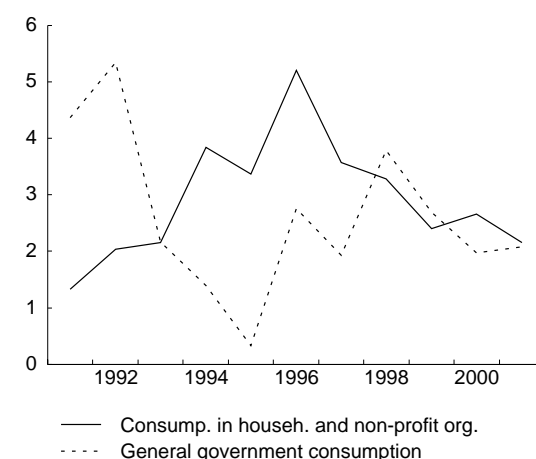
Source: Statistics Norway

Interest rate and inflation differential between NOK, and the ECU/euro. 1992-2001 Projections for 2000-2001



Sources: Norges Bank and Statistics Norway.

Consumption Percentage growth



Source: Statistics Norway

The effect of higher interest rates

Effects of a 1 percentage point increase in interest rates with a given nominal exchange rate
Deviation from the level in the baseling scenario per cent

	First year	Second year
Consumption in households	-0.5	-1.4
Gross fixed capital formation	-0.3	-1.6
Exports	-0.0	0.0
Imports	-0.3	-1.1
Mainland GDP	-0.2	-0.7
Employed persons	-0.1	-0.3
Wages	-0.0	-0.2
Consumer price index (CPI)	0.1	0.2

Source: Statistics Norway.

The table shows some effects of higher money market rates based on calculations using the macroeconomic model KVARTS. Initially, higher interest rates have the greatest effect on household consumption and housing investment.

- Households have higher debt than financial assets that are influenced by changes in short-term interest rates¹. Higher interest rates therefore contribute to lower household income.
- Higher interest rates mean that consumption "now" in relation to consumption "later" is relatively more expensive, which in the short and medium term contributes to lower demand and higher saving.
- Housing costs increase, with a decline in the demand for housing stock. Prices for existing dwellings are thereby reduced. Household wealth is reduced and it is relatively more expensive to build new dwellings. Both elements point to lower demand.
- House rents increase so that real disposable income is reduced in relation to what it otherwise would have been.

Household demand is reduced through lower real disposable income, but the saving ratio also increases. Lower demand results in lower imports and Norwegian production, lower employment and slightly higher unemployment. This results in a slightly lower wage level, but here the effect largely depends on the extent of pressures in the labour market at the start. The calculations have been made on the basis of our baseline scenario (see main table) where pressures in the labour market are receding to some extent over the next few years, and this has a dampening effect on wages. It is worth noting that consumer prices increase as a result of higher interest rates because house rents rise. Enterprises also experience higher costs as a result of higher interest rates, but in KVARTS there is no direct cost effect of this on prices. The effect of the increase in house rents would have been slightly reduced if we had looked at the harmonized index of consumer prices (HICP). Lower wages will generally reduce prices for goods and services other than house rents, and towards the end of the second year traditional merchandise exports begin to rise slightly.

The projection of higher interest rates in this report compared with the previous report explains to a large extent why we now assume that household consumption will be lower in 2001 than in 2000.

¹ Households have a net financial asset position. However, a considerable portion of the financial wealth relates to pension insurance for which the return is influenced only to a relatively limited extent by changes in short-term money market rates. In the calculations, only interest rates on bank deposits and loans in private and public credit institutions are influenced by the money market rate.

ever, such changes in the indirect tax programme have not been incorporated in the current calculations.

New impetus from petroleum activities?

Revised national accounts figures for 1999 show a decline in petroleum investment of 12.6 per cent from the previous year. So far, we have assumed that the decline will be more than 20 per cent this year. The trebling of oil prices measured in krone terms compared with two years ago, along with increased confidence that OPEC can adjust its production with a view to achieving an oil price of between USD 22 and 28 a barrel, are boosting profitability and current and expected earnings in oil companies to the extent that it must be assumed they will revise upwards their investment plans in the period ahead. Even though the oil companies' own estimates still imply a considerable decline in investment next year, we assume that investment will only fall marginally. Again, there is reason to emphasize the uncertainty of the estimates for future investment plans reported by oil companies.

Oil and gas production is expected to expand considerable this year. Along with higher prices in NOK, this will contribute to sizeable current account surpluses. Higher production will also result in an increase in the demand for labour and intermediate goods in petroleum activities, which in turn will have effects on the mainland economy. Compared with our earlier projections, growth has been revised upwards in 2001.

Household income and demand

Although the spring wage settlement has not been fully completed, the results indicate that wage growth for a normal man-year will be about 4 per cent in 2000. This is marginally higher than was assumed in our previous report. Along with slightly higher price inflation, this means that real wage growth in 2000 will be approximately the same as we projected earlier. Somewhat higher growth in production and employment in 2000 than projected earlier (see below) will, in isolation, make a positive contribution to growth in household income. All in all, growth in households' real income is therefore projected at 2.1 per cent in 2000, while consumption growth is estimated at 2.7 per cent, the same as earlier. Real interest rates for households will be reduced somewhat from 1999 to 2000, which helps to explain the reduction in the household saving ratio (see separate box). These estimates entail a decline in the household saving ratio of a good half a percentage point from 1999 to 2000. In line with earlier projections, housing investment is expected to show a substantial rise in 2000.

The spring wage settlement has to a greater extent than usual also established a framework for next year's wage growth. In addition to an increase in vacation days for most groups, wage growth next year will be approximately the same as in 2000. Along with noticeably lower price inflation next year than in

The effect of additional vacation days in the national accounts

In the national accounts, normal man-years worked is defined as the number of full-time employed plus part-time employed converted to full-time equivalents. Man-hours worked is defined as actual man-hours worked including overtime but excluding absences for vacation, illness, etc. The increase in vacation days in 2001 and 2002 (two additional vacation days each year) will therefore in isolation contribute to lower growth in man-hours worked these two years. Normal man-years worked, however, will not be directly affected by additional vacation days.

In the national accounts, wages are generally defined on the basis of the disbursement principle. This means that holiday pay is registered in the year of payment and not the year it is earned. The increase in accrued holiday pay in 2000 and 2001 that is necessary to cover the additional vacation days the following years will therefore not influence growth in wages per normal man-year as this is calculated in the national accounts. In isolation, however, wages per man-hour worked will rise more than wages per normal man-year in 2001 and 2002 due to additional vacation days.

Compensation of employees comprises in the national accounts wages and salaries plus employers' social security and pension premiums. Employers' social security and pension premiums include employers' contributions to the National Insurance Scheme and other social security and pension premiums. Earned, but not yet disbursed holiday pay is not included as part of compensation of employees in the national accounts. This means that the increase in vacation days will not result in higher growth in compensation of employees per man-hour until 2001.

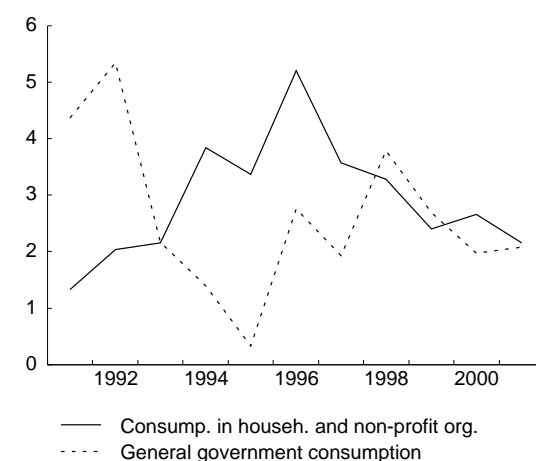
2000 (see below), this will result in higher income growth for households. This will push up household demand, although higher interest rates will have the opposite effect. Longer holidays also mean that people have replaced work and income with leisure, which seen in isolation will result in lower production and consumption in an economy with near full employment. All in all, growth in household demand is expected to be lower next year, although this will not reduce pressures in the economy to the same extent inasmuch as an increase in the number of vacation days will reduce the productive potential somewhat.

Small changes in mainland investment

After levelling off in 1998, investment fell in 1999. For 2000, the figures for the first quarter show some increase compared with the low level at the beginning of 1999, but it is assumed that this does not actually foreshadow renewed growth. No major changes in fixed investment are expected in manufacturing and the power supply sector in the period ahead. Even though general government investment may edge up this year, it will probably fall in 2001. Service industries may record some increase, but this is expected to be very moderate. Moderate growth in the economy and the sizeable level of investment through the previous upturn imply only minor changes in mainland enterprises' investment as a whole in the period ahead. Housing investment, on the other hand, may increase to some extent, cf. above.

Consumption

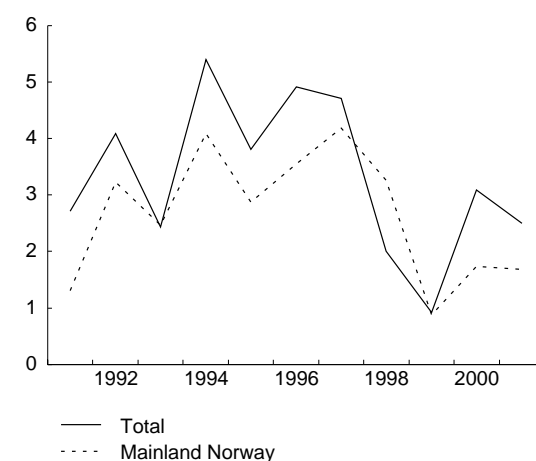
Percentage growth



Source: Statistics Norway

Gross domestic product

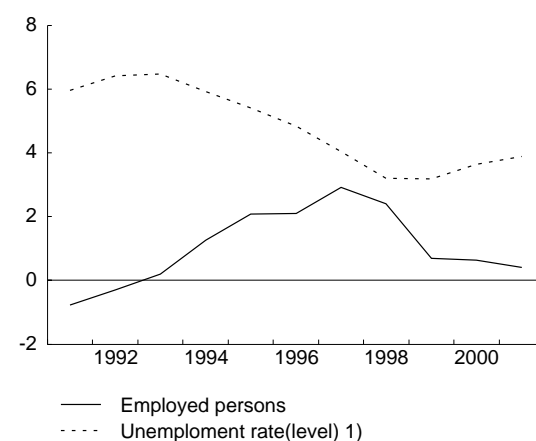
Percentage growth



Source: Statistics Norway

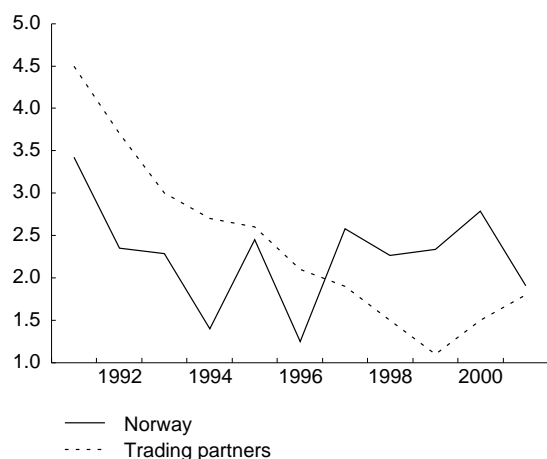
Labour market

Percentage change



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

Consumer price indices
Percentage growth



Source: Statistics Norway

Moderate growth in the mainland economy

Mainland GDP rose by about 1 per cent from 1998 to 1999. Through 1999, however, there were signs of a slightly higher growth rate, which has continued into 2000. An increase in investment has contributed to this along with weaker-than-expected imports. Despite a strong cyclical expansion abroad, traditional exports have exhibited a relatively weak trend, and growth has been noticeably lower than market growth abroad. A loss of market shares must partly be seen against the background of deteriorating cost competitiveness.

Growth in general government purchases of goods and services will be about 2 per cent this year, whereas the decline in investment may contribute to lower growth next year. Growth in imports in the period ahead, which is partly related to higher import shares, will also contribute to reducing growth in the mainland economy next year. Slightly lower petroleum investment next year will also depress growth. Growth in household demand will help to maintain growth in the Norwegian economy both this year and next, but the growth impetus from this demand component is now expected to taper off in the period ahead due to higher interest rates. All in all, we therefore assume that the growth rate will not increase from 2000 to 2001, as was envisaged earlier.

Slight rise in unemployment

Figures from Statistics Norway's Labour Force Survey (LFS) show a clear increase in unemployment through the second half of 1999 and into 2000. In our calculations, unemployment on a seasonally adjusted basis remains at approximately the same level as in the first quarter until the end of the year, but edges up next year. Employment is assumed to rise by 0.6 per cent this year and 0.4 per cent next year, which is slightly weaker than in 1999 but far weaker than in the previous five years.

Lower wage growth, higher price inflation

According to preliminary national accounts figures, wages per normal man-year rose by 5.2 per cent in 1999 after having increased as much as 6.5 per cent the previous year. The spring wage settlement suggests that wages, measured in this way, will increase appreciably less this year, estimated at 4.1 per cent. The contractual increase in vacation days will already increase enterprises' accrued expenses this year, while the effect for employees will not be felt until next year, as ordinary wages in the expanded holiday period. A separate box describes how the increase in number of vacation days will be accounted for in the national accounts. An additional element is that as there are two fewer working days this year compared with 1999, wage growth measured per man-hour worked will therefore probably be considerably higher than when measured per normal man-year.

In connection with this year's wage settlement, contractual pay increases for next year were also agreed to large extent. For most groups, the contribution to annual wage growth appears to be slightly less than last year. Teacher groups will not increase their number of vacation days, and will be compensated for this by a separate pay increase with effect from 1 January 2001, equivalent to 1.6 per cent on an annual basis. The collective agreement in the retail trade sector stipulates that part-time employees can choose higher wages as a substitute for an increase in vacation days. All in all, growth in wages per normal man-year in 2001 is set to be about the same as in 2000. In 2001, there is one working day less than in 2000 in addition to the two extra vacation days. This implies that wages per man-hour also in 2001 will increase at a faster pace than wages per normal man-year.

The consumer price index is projected to rise by 2.8 per cent this year, against 2.3 per cent in the previous two years. The higher rate of inflation may largely be ascribed to higher oil prices and the depreciation of the Norwegian krone in 2000. Next year, price inflation is expected to slow, largely fuelled by the same factors: Instead of pointing to higher prices as is the case this year, the projected movements in oil prices and the exchange rate will point to lower prices next year. The consumer price index is projected to rise by 1.9 per cent from 2000 to 2001.

Large current account surpluses

It appears that the current account surplus will be very high this year. Even with a pronounced reduction in oil prices later in the year, the current account surplus may reach NOK 158 billion. On an annual basis, the oil price in NOK is reduced by 20 per cent from 2000 to 2001. However, as a result of an appreciable rise in oil and gas production and a lower deficit on the interest and transfers balance, the current account surplus will only be reduced to NOK 151 billion.