COUNTRY REPORT

Norway

1st quarter 1996

The Economist Intelligence Unit
15 Regent Street, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For over 40 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The EIU delivers its information in four ways: through subscription products ranging from newsletters to annual reference works; through specific research reports, whether for general release or for particular clients; through electronic publishing; and by organising conferences and roundtables. The firm is a member of The Economist Group.

London
The Economist Intelligence Unit
15 Regent Street
London
SW1Y 4LR
United Kingdom
Tel: (44.171) 830 1000
Fax: (44.171) 499 9767

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, USA
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2

Hong Kong
The Economist Intelligence Unit
25/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong
Tel: (852) 2802 7288
Fax: (852) 2802 7638

Electronic delivery
EIU Electronic Publishing
New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248
London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

This publication is available on the following electronic and other media:

Online databases

FT Profile (UK)
Tel: (44.171) 825 8000

DIALOG (USA)
Tel: (1.415) 254 7000

LEXIS-NEXIS (USA)
Tel: (1.800) 227 4908

M.A.I.D/Profound (UK)
Tel: (44.171) 930 6900

CD-ROM

Knight-Ridder Information Inc (USA)

SilverPlatter (USA)

Microfilm

World Microfilms Publications (UK)
Tel: (44.171) 266 2202

ISSN 0269-4182

Symbols for tables
“n/a” means not available; “–” means not applicable

Printed and distributed by Redhouse Press Ltd, Unit 151, Dartford Trade Park, Dartford, Kent DA1 1QB, UK

Summary

Norway 1st quarter 1996

January 10, 1996

Political and economic structures **Pages 2-3**

Outlook: The minority Labour government looks certain to stay in office until the next general election in 1997. The fiscal budget excluding oil and gas revenue will remain deeply in deficit. Real GDP growth will slow in 1996-97, while the inflation rate is expected to remain low. Unemployment could rise as construction looks set for another period of difficulty. The current-account surplus will rise, helped by expected inflows of interest payments from external investments. **Pages 4-7**

The political scene: The government will continue to muddle through by means of temporary parliamentary alliances, as an effective rapprochement between the Centre Party and the Conservative Party seems unlikely. In the face of continued investigation into his tax affairs, the governor of the central bank resigned in November, saving the government from further embarrassment. The Schengen agreement has stirred controversy. Defence cooperation has suffered from Norway's detachment from the EU. **Pages 7-10**

Economic policy: An expected central government surplus of Nkr12.6bn in 1996 will be transferred to the government's Petroleum Fund. The oscillations in dollar oil prices, however, demonstrate the dependence of the surplus on external factors. Public spending in 1996 will be down 1% on 1995. Interest rates have continued on a downward trend, reflecting cuts in Germany. **Pages 11-14**

The economy: GDP growth decelerated in the third quarter of 1995 as a result of a fall in investments in the oil sector and a slowdown in exports of traditional commodities. Norway has become the world's second largest oil exporter. Growth in private consumption slowed down towards the end of 1995. The inflation rate has continued to fall, whereas real wages have increased. Employment has approached record levels. **Pages 14-17**

Foreign trade and payments: The merchandise trade surplus remained strong in the third quarter, pushing up the current-account surplus. A fall in the deficit on invisibles other than services contributed to the surplus expansion. Towards the end of the year the krone depreciated against the D-mark, prompting the central bank to resist cuts in interest rates. **Pages 17-18**

Energy and business news: New offshore petroleum output records have been set. The government has not yielded to renewed pressure from OPEC not to raise its oil production. Statoil has agreed continued gas sales to France and Germany. The largest banks have increased operating profits. **Pages 19-21**

Statistical appendices **Pages 22-24**

Editorial queries: Rory Clarke Tel: (44.171) 830 1000 Fax: (44.171) 499 9767
Subscription queries: Jan Frost Tel: (44.171) 830 1007 Fax: (44.1708) 371 850

Political structure

Official name: Kingdom of Norway

Form of state: constitutional monarchy

Legal system: based on the constitution of 1814

National legislature: Storting (parliament) of 165 members directly elected by proportional representation (modified Sainte-Laguë system) for a four-year term; the Storting divides into an upper house (Lagting) and a lower house (Odelsting) by internal election, although it sits as a single body except when discussing new legislation. There is no right of dissolution between elections

Electoral system: universal direct suffrage over age 18

Last election: September 1993

Next election due: September 1997

Head of state: King Harald acceded in 1991

National government: Council of State (Statsrad) headed by prime minister, responsible to the Storting. Ministers may speak but may not vote in the Storting. Minority Labour Party government; in office since October 30, 1990 (re-elected September 1993)

Main political parties: Labour Party (67 seats); Centre Party (32 seats); Conservative Party (28 seats); Socialist Left Party (13 seats); Christian People's Party (13 seats); Progress Party (10 seats); Liberal Party (1)

The Council of State	
Prime minister	Gro Harlem Brundtland
Key ministers	
agriculture	Gunhild Oyangen
children & family affairs	Grete Berget
church & education	Reidar Sandal
communications & transport	Kjell Opseth
cultural & scientific affairs	Ase Kleveland
defence	Jorgen Kosmo
development cooperation	Kari Nordheim Larsen
environment	Thorbjorn Berntsen
finance	Sigbjorn Johnsen
fisheries	Jan Henry T Olsen
foreign affairs	Bjorn Tore Godall
government administration	Nils Totland
health	Gudmund Hernes
industry & energy	Jens Stoltenberg
justice	Grete Faremo
local government & labour	Gunnar Berge
social affairs	Hill-Martha Solberg
trade & shipping	Grete Knudsen
Governor of the central bank	Kjell Storvik

Economic structure

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at market prices Nkr bn	762.8	784.3	821.4	870.3	925.1
Real GDP growth %	2.9	3.2	2.1	5.7	3.7
Consumer price inflation %	3.4	2.3	2.3	1.4	2.5
Population m (mid-year)	4.24	4.29	4.31	4.34	4.35
Exports fob $ bn	34.21	35.16	31.99	34.63	40.65
Imports cif $ bn	25.52	25.86	23.97	27.33	32.15
Current account $ bn	5.05	2.96	2.45	3.63	4.50
Reserves excl gold $ bn (Dec)	13.23	11.94	19.62	19.03	23.40[b]
Net external debt $ bn (Dec)	10.71	9.61	7.04	3.50	n/a
Fiscal balance (% of GDP)	–2.9	–5.0	–6.0	–3.3	–0.4
Exchange rate (av) Nkr:$	6.48	6.21	7.09	7.06	6.34

January 5, 1996 Nkr6.34:$1; Nkr4.41:DM1; Nkr9.84:£1

Origins of gross domestic product 1994	% of total
Agriculture, forestry & fishing	2.7
Oil & gas production	16.8
Manufacturing & mining	12.9
Construction	3.1
Public services	15.3
Other services	49.2
GDP at factor cost	100.0

Components of gross domestic product 1994	% of total
Private consumption	52.0
Government consumption	21.9
Fixed investment	18.3
Stockbuilding	1.4
Exports of goods & services	43.4
Imports of goods & services	–37.0
GDP at market prices	100.0

Principal exports 1994	$ m
Oil, gas & related products	16,995
Food, drink & tobacco	3,020
Fish & fish products	2,664
Non-ferrous metals	2,653
Machinery incl electrical	2,468
Paper & paper products	1,033
Total incl others	34,628

Principal imports 1994	$ m
Machinery incl electric	6,531
Road vehicles	2,101
Food, drink & tobacco	1,379
Clothing	1,288
Iron & steel	1,179
Metals	1,164
Total incl others	27,332

Main destinations of exports 1994	% of total
UK	20.7
Germany	12.1
Netherlands	9.5
Sweden	9.5
France	7.9
EU-12	17.9
EFTA	14.1
Nordic countries	64.6

Main origins of imports 1994	% of total
Sweden	15.0
Germany	13.9
UK	10.3
Denmark	7.4
USA	7.3
EU-12	49.0
EFTA	21.1
Nordic countries	26.2

[a] EIU estimates. [b] October.

Outlook

Government stability is assured—

Five years ago when the minority Labour Party government of Gro Harlem Brundtland came to power, Norway was in a political and economic crisis. The centre-right government was divided over membership of the European Union (EU), the banking system was in a state of collapse and unemployment was rising strongly. Although membership of the EU has been rejected by the electorate, the economy is in considerably better shape than it was in the early 1990s. That is one reason for Mrs Brundtland's exceptionally high popularity compared with other European leaders. Another is her uncanny ability to play the international statesman with gusto, while always defending Norwegian interests. None of her rivals offers that blend. Even her failure to persuade the country to vote for EU membership at the referendum in November 1994 was immediately forgiven, largely because she refused to make the EU campaign an issue of governance, reiterating from the start that the choice on membership belonged to the electorate. Even within her own cabinet it is difficult to imagine a successor, although that question will probably not arise until after the general election in 1997.

—as opposition must overcome divisions—

There seems little alternative to the Labour government in sight, with the opposition parties still divided and looking as far from compromise as ever. In particular, the agrarian-based Centre Party has little in common with the business-oriented Conservative Party, which is still struggling in the opinion polls. The failure of the Conservatives to lift themselves after the fall of their centre-right government in 1990 has been key to the Labour Party's success. However, now that the EU referendum is out of the way, the Conservatives might see an improvement in their fortunes. The Christian People's Party would like to form a front against the Labour Party, but in the absence of a credible alternative will continue to support the government in exchange for some economic concessions. The three main opposition parties are unsure about how to approach the rise of the maverick Progress Party, which is etching itself a role as Norway's populist party. The party had seemingly been in decline, but was given a new lease of life after playing the anti-immigration card in last September's local elections (4th quarter 1995, page 7). It could manoeuvre itself into a power-brokering role after the next election, although the electorate is likely to prefer the return of a minority Labour government with mainly left-wing and Christian People's Party support.

—although Labour could destroy itself

The Labour Party can be assured of a fairly secure term in office until the next election, provided it does nothing untoward that would unite the opposition. Parliament has become increasingly critical of what the opposition regards as the Labour Party's arrogant use of power. The appointment of Torstein Moland, a Labour sympathiser, as the governor of the Bank of Norway (the central bank) rebounded on the government in November when Mr Moland resigned because of a dubious share-dealing case. Mrs Brundtland enjoys a very high level of public trust; if this were undermined, her government would come under serious strain. Such was the experience of the Conservative-led government from which she took power: Jan Syse resigned as prime minister following allegations about his personal business affairs. The appointment of public figures will not be taken lightly by the electorate, and the Labour government will probably become more concerned with its moral image, to avoid wrecking its chances of leading Norway into the next century.

The fiscal budget surplus will help the government's cause

The government's budget for 1996 indicates a fair wind from the Labour Party's point of view (see Economic policy). With the new Petroleum Fund to be built up with the fiscal surpluses generated by the oil and gas sector as a bulwark against future downturns in offshore output, the minister of finance, Sigbjorn Johnsen, has plenty of room for manoeuvre. But there are risks. A sustained drop in the price of oil would undermine economic progress before the Petroleum Fund becomes fully operational. The government seems to have accepted the inevitability of oscillations in oil prices. The 1996 budget is based on an average oil price of Nkr105/barrel ($16.5/b), although even this could prove optimistic. With the government so far allowing oil and gas output to rise unrestrained—in November-December production of crude oil exceeded 3m barrels/day, Europe's highest rate—there is a danger that other (non-oil) industries will be crowded out when bidding for resources, both in terms of capital and skilled labour. Output in the mainland economy is slowing, underlining Norway's dangerous dependency on oil and gas; the fiscal budget is deeply in deficit (4.4% of GDP in 1995) when tax revenue from the oil and gas sector is excluded.

Monetary policy will be tightly managed

Despite the government's fiscal surplus, the establishment of the Petroleum Fund is a sign that there will be no easy concessions in spending. Any concessions that have been made to pressure groups for 1996 have been countered with cuts elsewhere in the system. While Norway will remain outside the EU, its policies will continue to be guided by the disciplines prescribed under the 1992 Treaty on European Union (the Maastricht treaty). But they will only be guided, as the influence of the petrodollar will continue to be felt in exchange rate policy. Thus, while the krone will essentially track the movements of the D-mark, any fall in the dollar will also be monitored closely, mainly because of the impact on oil-related earnings in krone. The EIU forecasts a firmer dollar in 1996 than in 1995, so easing the dollar pressure on Norwegian monetary policy.

Forecast summary

(% change on previous year unless otherwise indicated)

	1994[a]	1995[b]	1996[c]	1997[c]
Real GDP	5.7	3.7	3.2	3.0
Oil & gas output	12.4	9.5	8.0	6.0
Manufacturing production[d]	6.8	4.2	4.0	3.3
Consumer prices	1.4	2.5	2.2	2.9
Unemployment rate (%)	5.4	5.0	4.7	5.0
3-month Nibor rate (%)	5.85	5.47	5.30	5.35
General government balance				
(% of GDP)	0.3	1.5	1.9	2.5
Current account ($ bn)	3.6	4.5	5.5	7.0
% of GDP	3.3	3.1	4.0	4.3
Average exchange rates				
Nkr:DM	4.35	4.43	4.40	4.40
Nkr:$	7.06	6.34	6.38	6.38

[a] Actual. [b] EIU estimates. [c] EIU forecasts. [d] Excluding offshore sector.

Economic growth will slow—

While there is little doubt that the strength of the oil and gas sector will underpin growth in the economy in the next two years, there are signs of a renewed slowing in manufacturing sectors other than those related to the oil and gas sector. This so-called mainland economy follows the demand cycle of the rest of western Europe, where sluggish demand is forecast in 1996. Norwegian households had something of a spending spree in 1995, but there were signs at the end of the year of more caution. A fall in new car registrations indicates that consumer spending is still fragile, despite strong growth during the year as a whole. Firmer interest rates in December, partly to defend the krone, but also to ward off any inflation from the stronger dollar, probably boosted savings. Inflation will rise in the next two years, but not to a rate that should cause concern. Output in manufacturing slowed markedly in the second half of 1995, and a deceleration in output is forecast in 1996-97, again reflecting demand conditions, particularly in Germany, Norway's second largest export market.

—and unemployment could rise again—

Apart from manufacturing, construction looks set for another period of difficulty, with new housing starts down sharply in late 1995. Public investment will counter the slowdown in the housing market to some extent, but the sector will not recover fully from its trough of recent years until 1997 at the earliest. One effect of this will be to keep unemployment at a higher rate than expected, with joblessness in the 4.7-5% range over the next two years. Cuts in public-sector spending and in local government services will also bolster the unemployment figures. However, the Norwegian labour market is in good shape and the unemployment rate will remain among the lowest in western Europe for the next few years.

—but the current-account surplus will be sustained

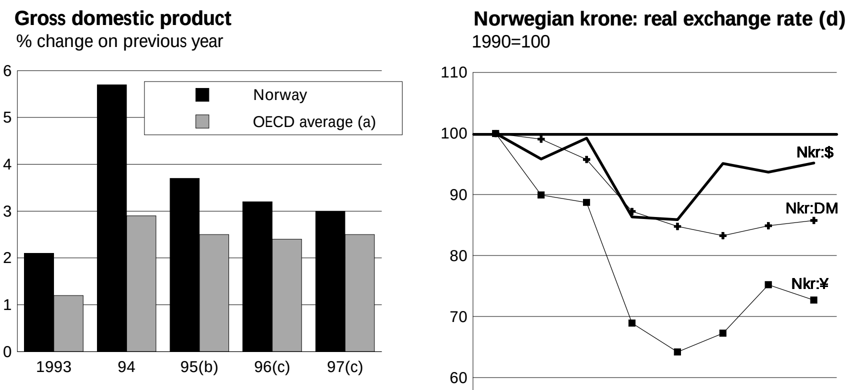
Buoyant exports from the oil and gas sector will underpin overall export growth in the next two years, although merchandise exports from the mainland manufacturing sector will probably slow. Imports of raw materials, capital and semi-finished investment goods will also slow as a result. Given the firmness of the underlying krone, the net effect will probably be a rise in the trade surplus. Profit repatriations will remain substantial, but the deficit on interest outpayments on debt should ease, while expected inflows of interest payments from external investments should further improve the outlook on invisibles.

Economic results and forecasts

(% change on previous year unless otherwise indicated; constant 1992 prices)

	1994[a]	1995[b]	1996[c]	1997[c]
Private consumption	4.6	3.0	2.8	2.5
Public consumption	1.1	–1.0	–0.5	1.7
Fixed investment	5.5	3.5	3.8	3.0
Final domestic demand	4.0	2.2	2.3	2.4
Stockbuilding	0.9[d]	0.7[d]	–0.4[d]	–0.7[d]
Total domestic demand	4.9	2.9	1.7	1.6
Foreign balance	1.1[d]	1.0[d]	1.6[d]	1.5[d]
GDP	5.7	3.7	3.2	3.0
Exports of goods & services	8.5	6.2	6.5	6.0
Imports of goods & services	6.6	4.5	3.1	3.0

[a] Actual. [b] EIU estimates. [c] EIU forecasts. [d] Changes as a percentage of GDP in the previous year; contribution to GDP growth.



(a) Excl Iceland, Luxembourg, Mexico, New Zealand and Turkey. (b) EIU estimates. (c) EIU forecasts. (d) Nominal exchange rates adjusted for changes in relative consumer prices.
Sources: EIU; IMF, *International Financial Statistics*.

Review

The political scene

Mrs Brundtland celebrates her fifth year in office—

In October the prime minister, Gro Harlem Brundtland, celebrated her fifth anniversary in office. Moreover, she has every reason to look forward to another long, unbroken spell, given her personal popularity and the lack of an alternative. During her time in office, Mrs Brundtland has seen Norway—which has a border with Russia—through the post-cold war period, negotiated the European Economic Area (EEA) agreement, which was implemented at the start of 1994, and agreed membership terms with the European Union (EU), although these were later rejected by the electorate in a referendum. Norway has also been accredited, thanks to the efforts of the late foreign minister, Johan Jorgen Holst, for brokering the original peace deal between the Israelis and Palestinians in 1993.

On the domestic scene, Mrs Brundtland’s government dealt competently with the crisis in the early 1990s involving Norway’s leading private banks, and has ensured a tightly managed float of the Norwegian krone, while never deviating from the core European currencies. It has also enjoyed the economic benefits of increased production of offshore oil and gas. Internationally, Mrs Brundtland has been outspoken on women’s and environmental issues and has had to defend Norway’s decision to resume commercial whaling in 1993. She has been tipped for a number of international jobs, such as secretary-general of the UN and secretary-general of NATO. Her present administration is her third, but the September 1993 election was the first time that she was returned to office by the electorate; on all previous occasions she took over as prime minister from resigning governments within the parliamentary term (see Country Profile 1995-96).

Despite Mrs Brundtland’s personal popularity, the electorate snubbed her pro-EU ambitions when it voted against membership in the referendum of November 1994 (1st quarter 1995, pages 6-7). Her opponents have also accused

Mrs Brundtland and her government of showing an arrogance in power; they point to the Moland case (see below) and the appointment to state positions of Labour Party friends to back their claims.

—with the opposition still divided—

Mrs Brundtland's success can be attributed partly to the weakness of the opposition parties. Since the centre-right coalition fell apart in October 1990, the Centre Party and the Christian People's Party have given general support to the Brundtland government on economic matters. On those subjects where their consent has been withheld, such as cutting subsidies to farmers, the Labour administration has been able to rely on Conservative and Progress Party votes in parliament. The minority government has been able to navigate a course between the opposition parties, taking on board assistance where needed without becoming too dependent on any one party. At the time of Mrs Brundtland's fifth anniversary in power, some 41% favoured a Labour government. However, the other 59% could not agree on an alternative, with the next most favoured option being a centrist coalition with the support of 13.6%. In December opinion polls showed the Conservative Party, with 16.8%, down almost 3 percentage points from the local elections of September 11 (4th quarter 1995, pages 7-8). The populist Progress Party has continued to excel, however, obtaining 13.5% of respondents' preferences, up from 12% in the local elections. The governing Labour Party also improved its score, by almost 4 percentage points, to 35%. The Conservative Party seems to have lost support after it considered cooperating with the Progress Party in Oslo (see below). The Centre, Christian People's and Liberal parties are hoping to put together a centrist alternative before the 1997 general election, but it will need the support of the Conservatives, and possibly even the Progress Party, if it is to gain power. Nevertheless, the Labour Party under Mrs Brundtland is a formidable force and will probably prove impossible to beat.

—allowing Labour to hold on to Oslo

Divisions in the opposition enabled the Labour Party to hold on to the control of Oslo city council for the time being, despite the advance of the right wing in September's local elections (4th quarter 1995, pages 7-8). The non-socialist parties have a majority in the council, but when it came to electing the executive board, they could not agree. There was a split within the Conservative Party over cooperating with the Progress Party, which has similar views on cutting public expenditure but which was seen to play the race card in the local elections. As a result of these divisions, Labour's Rune Gerhardsen will continue in office as head of the executive board. A Conservative, Per Ditlev-Simonsen, has been chosen as mayor, although that appointment has been overshadowed by questions about his financial transactions, which he claims should not be a resignation matter.

Health minister quits for family reasons—

The health minister, Werner Christie, resigned on December 22, 1995, after three years in the job. He cited family reasons for his decision. The prime minister appointed Gudmund Hernes as his replacement; Mr Hernes's post at education and church affairs has been given to Reidar Sandal.

—and the central bank chief is forced to resign

Torstein Moland, the governor of the Bank of Norway, the central bank, has resigned in the face of continued investigation into his tax affairs. This is a blow for the minister of finance, Sigbjorn Johnsen, who appointed Mr Moland in 1994 (3rd quarter 1994, pages 9-11). Complaints had long been made by opposition parties that the appointment was political, as Mr Moland was known to be close to the Labour Party. Furthermore, Mr Moland was appointed amid accusations about him dealing in shares of Airbus for a subsidiary of Christiania Bank while he was on Christiania Bank's board. The taxation authorities imposed a 45% penalty tax on Mr Moland for negligence in the case, a decision against which Mr Moland wished to appeal. Originally he had intended to step down temporarily, with the deputy governor, Kjell Storvik, standing in for him. However, when it became clear such special leave was going to be discussed in the Storting (parliament), Mr Moland resigned. This saved Mr Johnsen further political embarrassment, although there was still dissatisfaction in parliament with the finance minister's announcement of the resignation, particularly as he made no apology for his choice of bank chief. The deputy chief will retire in the first half of 1997, and the government may wait until then before announcing a new governor.

Schengen problems

Plans by the government to bring Norway into the Schengen accord, which envisages the abolition of traditional border checks and controls between EU member states (4th quarter 1995, pages 8-9) have, as expected, met with considerable opposition. Norway is not a member of the EU, and the Nordic EU members—Denmark, Finland and Sweden—have made it clear that they would not be willing to join Schengen unless the freedom of movement established between all the Nordic states 38 years ago remained in place. In effect, Norway would be part of Schengen almost by default, thanks to its comprehensive Nordic arrangements. Other EU member states have found this difficult to accept, saying that the 1989 Schengen accord should be the preserve of the EU. If allowed to join, Norway would benefit from a number of EU advantages, both by virtue of Schengen and the EEA, without having to foot the bill. A compromise floated by the Belgian presidency of Schengen was that Norway and Iceland, the two Nordic countries outside the EU, could become participants in Schengen, but without any voting rights. They would have to rely on the three Nordic EU states to defend their rights in any vote. This idea is currently being discussed by the other Schengen participants, although it has been opposed in Norway by members of the Centre Party and the Socialist Left Party. As the proposal would involve cooperation over visa and asylum policies, as well as reliance on other Nordic members to support Norwegian wishes, opponents see Schengen as a loss of sovereignty and a form of EU membership through the back door. In the end, a majority in parliament supported the government at least entering into negotiations with the Schengen states, but there is deepening scepticism, which could help to reinforce the ambitions of the increasingly populist Progress Party leader, Carl I Hagen.

Fisheries dispute with Iceland continues—

The dispute over Icelandic fishing of stocks that migrate into Norwegian waters has caused further friction between the two states (4th quarter 1995, page 9). Norway has pushed for a settlement within the regional supervisory agency, the North-East Atlantic Fishing Convention (NEAFC) but, failing agreement at the autumn session of the organisation in London, announced a unilateral 1m-ton quota on Norwegian-Icelandic herring stocks. This assumption of the right to manage the stocks was condemned by Iceland which, together with Russia and the Faroe Islands, claims access to them. Iceland and the Faroes are dependent on fishing, with cod being Iceland's most lucrative export.

—and Norway loses fish markets

Over the past ten years two-thirds of Norway's market for its dried fish has disappeared. The World Food Programme is now discontinuing its use of Norwegian dried fish, replacing it with a tin-canned product which does not require water to prepare. At home, the Norwegian Seafood Export Council is to spend Nkr10m ($1.6m) to increases the domestic consumption of fish. Meanwhile, the European Commission has fixed the minimum price for fresh Norwegian salmon at Ecu3,400 per metric ton (about Nkr29/kg). This is the price at which the EU will import the product and is regarded by the fisheries minister, Jan Henry T Olsen, as not damaging to the Norwegian fish products industry. The EU is by far Norway's most important export market; during the nine months to September 1995 the EU accounted for 89% of Norwegian fresh salmon exports.

Defence could take a Nordic perspective

The defence minister, Jorgen Kosmo, has outlined the potential for greater Nordic cooperation in defence. Since Sweden and Finland became EU members, they have had to reflect on their traditional neutrality in the face of new realities of European security, particularly the end of the cold war and the possibility of threats to security from outside the EU. This means greater participation in international operations, such as in Bosnia, in cooperation with other European states. Norway hopes to see Nordic cooperation over peacekeeping matters extended to other areas. However, it is clear that the formerly intense Nordic coordination on defence within the UN has suffered from Denmark, Finland and Sweden being members of the EU and Norway remaining detached. The EU increasingly seeks common action within the UN, which its Scandinavian members are obliged to favour over traditional Nordic cooperation.

Nuclear clean-up causes problems

The Norwegian environmentalist organisation Bellona has been active in north-west Russia, where it has been monitoring the sources and extent of pollution. Much of this pollution is connected with either ageing heavy industry or the military. Although Bellona has been active in this region for some six years and has been carefully cultivating its local contacts, its vessel was raided by the Russian state security police, the FSB, which confiscated documents and equipment. The FSB has accused Bellona of releasing secret information about Russia's Northern Fleet, an accusation denied by the Norwegian organisation. The accusations seem to be undermined by the fact that at official level, the Norwegian Ministry of the Environment has been able to send inspectors to view decommissioned submarines at Severodinsk on the White Sea in north-west Russia.

Economic policy

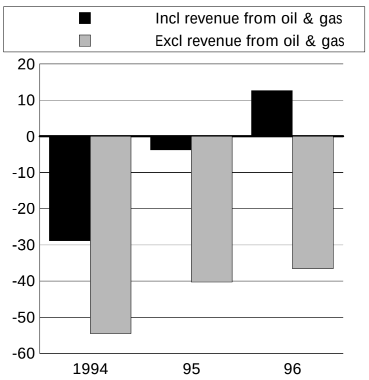
Budget shows Nkr12.6bn surplus—

The minister of finance, Sigbjorn Johnsen, put forward his draft 1996 budget to parliament in October. After two months of bargaining with the other parties in the Storting (parliament), a final budget for 1996 was issued in early December. The main points of the budget are:

- an expected overall central government surplus of Nkr12.6bn ($2bn)—1.3% of EIU-forecast GDP—in 1996, 18.8% up from the draft budget figure of Nkr10.6bn;
- the transfer of the budget surplus to the government's Petroleum Fund, which is intended to act as a buffer should oil prices or production (and hence government revenue) fall and is intended to help to pay for the retirement needs of an ageing population in the next century; and
- a sharp decrease in government expenditure of some Nkr6.5bn.

The budget is based on an average oil price of Nkr105/barrel ($16.5/b) in 1996, compared with the Nkr115/b used in the 1995 draft budget in October 1994; any reduction of Nkr10/b in that price will mean Nkr7.1bn less flowing into the Treasury. The government expects real GDP to expand by 4.3% in 1996, which is a slight upward revision on the October draft figure of 4.1% and well above the EIU's forecast of 3.2%, mainly because of the government's more bullish view on gross fixed investment; the national statistics bureau forecasts growth of some 3.8% in 1996.

Government balance
Nkr bn



Source: Ministry of Finance.

Government balances[a]
(Nkr bn unless otherwise indicated)

	1994[b]	1995[c]	1996[d]
Revenue	344.5	367.4	377.4
Expenditure	373.4	371.2	364.7
Balance	–28.9	–3.8	12.6
% of GDP	3.3	0.4	1.3
excl revenue from oil & gas	–54.5	–40.3	–36.6
% of GDP	6.3	4.4	3.8

[a] Before loan transactions. [b] Actual. [c] Official estimates. [d] Official projections.

Source: Ministry of Finance.

—with welfare spending tightened up

With the 1996 budget, the government has started to trim its social welfare spending. In the draft budget, there was an expected drop of 1% in public spending forecast for 1996, down to 0.5% when extraordinary factors are taken into account. Plans were laid for reductions in expenditure on labour-market schemes, child benefit, support for shipbuilding and subsidies for the nationalised banks. In addition, the rise in employment would lead to a cut in the total unemployment benefit paid. However, Mr Johnsen's wish to cut expenditure came under pressure during the period between the publication of the draft budget and that of the revised budget. During those two months the government had to find parliamentary support for its budget, including the cuts. Although the other parties were warned against trying to weaken the budget surplus, there was a temptation to try to spend some of the money that would otherwise go into the Petroleum Fund and be invested abroad to achieve a maximum return. The Conservative Party wanted more favourable taxes for investment in manufacturing industry; the Christian People’s Party wished for more to be spent on the family, pensioners and health care; and the Liberal Party advocated a cut in employment contributions to make job creation cheaper. Both the Conservatives and the Progress Party asked for more to be spent on the police. The government agreed to boost the development aid budget by Nkr60m to keep it above the UN recommended minimum of 1% of GDP, a ratio which Norway is one of the few countries to respect; the Centre, Christian People’s and Socialist Left parties had proposed an increase of as much as Nkr500m.

The government at one stage offered to increase the fiscal budget by almost Nkr2bn to gain Centre Party support. This would still have enabled the government to achieve a handsome cut in spending. However, it found itself unable to accept the Centre Party’s demand for a cut in oil production. As a result, budget support had to be worked out on an item-by-item basis, and by the time it was passed it was estimated that the government had given away an extra Nkr2.5bn on its original spending plans. About Nkr500m of these concessions would come from cuts in labour-market measures. But following the Dayton agreements on Bosnia-Hercegovina (see Bosnia-Hercegovina, 4th quarter 1995, pages 7-9), Norway had to find some Nkr310m to pay for Norway’s involvement in the military aspects. The government’s solution was to take this off the foreign aid budget, but this was too much even for Labour Party deputies, including the Storting president and former development assistance minister, Kirsti Kolle Grondahl. The money was eventually taken from two profitable state-owned corporations, Statoil and Statkorn.

Other extra spending plans totalling some Nkr300m, on top of the Nkr2.5bn already accepted, were agreed in committee, including:

- dropping government plans to cut Nkr50m from environmental assistance to eastern Europe;
- replacing cuts of Nkr70m in the Ministry of Church and Education’s budget;
- increasing the budget to local authorities by Nkr26bn;
- adding Nkr60m to the roads programme;
- contributing an extra Nkr10m to the battle against drugs and smuggling;
- granting a further Nkr35m to research;
- adding Nkr1.5m in support of the press; and
- granting Nkr5m to Jewish and First Adventist convalescent homes.

Apart from inviting Statkorn and Statoil to contribute an extra Nkr300m each in dividends to the state to finance the operation in Bosnia, measures were agreed to pay for the above concessions, notably:

- adding Nkr0.12 to the price of a litre of petrol from January 1, 1996;
- raising taxes on tobacco by 3% from the same date; and
- increasing duty on alcohol by 2%.

Shipping receives no favours—

The minister of finance has rejected suggestions by representatives of the shipping industry that there should be a restoration of their 20% depreciation on contracts for ships under construction, and a further 20% in accelerated depreciation for allocation to environmental cost accounting, with the possibility of deferring taxes on the sale of assets for up to four years. The minister feared that, should such tax breaks be given to shipping, other industries would claim similar exemptions. However, the government has decided to refund part of the wages of Norwegian seamen in the Norwegian International Ship (NIS) Register, which could lead to the creation of another 1,000-2,000 jobs on the 750 NIS vessels. This is part of the policy aimed at bolstering Norway's competitive position in international shipping.

—and the oil price forecast has been revised down

The choice of an average marker price of Nkr105/b for oil in 1996 shows a certain caution. The equivalent figure in the 1995 budget was Nkr115/b, but the real average price for Brent Blend was nearer to Nkr108/b. By the end of October 1995 the price had fallen to Nkr97/b, but within two weeks had recovered to Nkr103/b. By the beginning of December the $17.25/b level had been reached in a market facing uncertainties in Nigeria and Saudi Arabia. Even with a slightly weaker dollar, this translated into Nkr109.37/b. By mid-December an exceptionally cold winter in Europe and a slightly firmer dollar had produced an oil price of Nkr114/b. However, the EIU's forecast for Brent in 1996 is $15.7/b, around Nkr100/b (see *World Commodity Forecasts: Industrial Raw Materials*, December 1995, page 22). Although prices have firmed in January 1996 owing to bad weather in the USA, the volatility of oil prices has demonstrated that the government's plans for a central government surplus of any size are dependent on factors outside its control, in particular the political situation in the main oil-producing states.

Interest rates track German rates down

Strong growth and low inflation, as well as an easier monetary environment in the European Union (EU), enabled Norwegian interest rates to continue to fall in 1995; to judge by the trend in interest rates, Norway has not suffered by its decision to remain outside the EU. One reason is that policy is shaped by EU, particularly German, trends. In fact, there was little difference between Norwegian interest rates and those in Germany for much of 1995, with those in Norway slightly higher and reflecting reductions in Frankfurt. By December there was about a 40-point difference between the Norwegian long-term bonds and German equivalent, with the interest rates being 6.50% and 6.10% respectively. Upsets in the money market, such as intermittent pressure on the French franc and general uncertainty about Economic and Monetary Union (EMU) have led to oscillations in short-term rates. The main three-month Norwegian money-market rate, the Nibor, has held a differential of about 110-120 basis points above the German Fibor, which is the main equivalent. In December there was some tension in short-term Norwegian rates, which rose to a high of around 5.43%, although the average for the fourth quarter was such as to continue the underlying downward trend. In the first half of January 1996 a Nibor of some 5.35% was being recorded.

Pressure on the krone in December demanded intervention by the monetary authorities, as markets probably questioned Norway's real commitment to tracking the D-mark as opposed to following the value of the dollar for the sake of the oil and gas sector. The Bank of Norway (the central bank) has refused to say that it would continually follow cuts to interest rates in Germany. However, the chief of market operations at the central bank, Leif Eide, has said that monetary policy was first and foremost guided by the need to ensure a stable Norwegian krone, which to most observers clearly means stability against the D-mark in an effort to control inflation.

Key interest rates
(%; period averages unless otherwise indicated)

	1994		1995			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
3-month Nibor[a]	6.03	6.80	5.50	5.61	5.43	5.33
Central government bond[b]	8.35	8.30	8.05	7.58	7.29	6.71

[a] Monthly average of daily interbank rates recorded for five large banks. [b] With 6-10-year maturity.

Sources: OECD, *Main Economic Indicators*; Norges Bank.

The economy

GDP growth decelerates—

The Norwegian economy showed continuing strong growth in the third quarter of 1995, albeit at a slightly slower rate than in the year-earlier period. GDP growth of 4.4% was recorded in the third quarter of 1994 and a comparable rate of 4.2% was recorded in the third quarter of 1995. Compared with the second quarter of 1995, the increase in GDP was 1.7%. The growth of 5.7% in 1994 as a whole was exceptionally strong, with a peak of 7.1% growth in the second quarter. Since then, it has followed a broadly decelerating trend. The deceleration is mainly the result of a decline in oil-related investments and a slowdown in exports of traditional commodities, the latter particularly in the second quarter of 1995. Seasonally adjusted figures for exports of traditional commodities show a slight increase from the second to third quarter, but this is partly a result of unusually weak exports figures in June.

Quarterly gross domestic product results
(real % change on year-earlier period)

	1994				1995		
	2 Qtr	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr
Private consumption	4.9	4.2	4.0	4.6	1.8	3.1	3.7
Government consumption	1.3	0.9	1.0	1.1	–0.6	0.2	–1.4
Gross fixed capital formation	14.7	6.6	–4.5	5.5	8.7	1.0	–1.6
Oil & shipping	13.8	–10.9	–29.2	–7.6	–17.7	–30.6	–9.9
Mainland	9.6	12.4	13.8	12.0	24.6	18.9	8.9
Exports of goods & services	4.2	7.8	10.7	8.5	6.4	2.7	5.3
Traditional goods	9.3	19.8	13.5	13.3	15.2	1.5	1.8
Crude oil & natural gas	10.2	8.6	9.3	11.6	3.9	4.5	14.5
Imports of goods & services	11.1	4.7	3.6	6.6	4.4	3.7	3.2
Traditional goods	17.9	16.3	11.9	15.0	12.4	9.6	6.6
GDP	7.1	4.4	5.2	5.7	4.8	3.2	4.2
Mainland	5.9	4.5	4.6	4.8	5.0	3.3	2.7

Source: Statistics Norway, *Okonomiske analyser*.

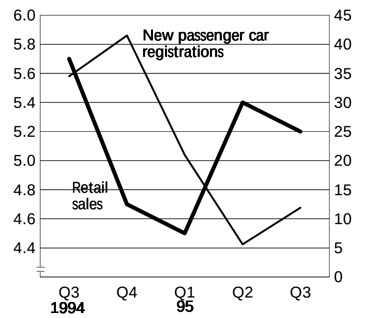
—as the mainland economy eases down—

Whereas in the first half of 1995 the mainland economy, which excludes the oil and gas sector, showed stronger growth than the economy as a whole, this trend was abruptly reversed in the third quarter, as mainland imports far outstripped mainland exports, and it is likely that the slowdown will continue. As to the oil and gas economy, in October Norway became the world's second largest oil exporter after Saudi Arabia, and, as a result of increased oil production, total GDP growth was much stronger than growth in the mainland economy in the third quarter. As new oilfields are being opened up (see Energy and business news), the trend of rapid growth in the offshore sector should persist. In November oil output reached a new record of 3.2m barrels/day (b/d), which secured Norway's place as Europe's largest producer of crude oil.

—despite increased private consumption

Retail sales and new passenger car registrations

% change on year-earlier period;
retail sales—left-hand scale;
car registrations—right-hand scale



Sources: OECD, *Main Economic Indicators*; Statistics Norway, *Statistisk Manedshefte*.

In the third quarter an acceleration in the growth of private consumption was reflected in a strong average increase in retail trade of 5.2%, compared with the corresponding year-earlier period. However, new car sales, which increased more slowly in the third quarter than the general trend in 1995, suggest that growth in private consumption decelerated again in the final quarter of the year, confirming a long-term trend of falling household consumer spending. The car sales figures might be somewhat misleading, however, as the excise duties on prices of medium-sized cars will fall in 1996, delaying sales of this category until the first quarter of this year. Indeed, in December new car registrations fell to 3,836 from 6,197 cars in the same month of 1994. For the year as a whole, preliminary reports put new car registrations at 97,900, up by 7.2% on the 1994 outturn.

Retail trade

(% change on year-earlier period; seasonally adjusted; 1990 prices)

	1994			1995		
	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr
Volume	5.7	4.7	7.8	4.5	5.4	5.2
New passenger car registrations	34.5	41.5	42.8	21.0	5.6	11.9

Sources: OECD, *Main Economic Indicators*; Statistics Norway, *Statistisk Manedshefte*.

Renewed increase in industrial output

The moderate growth in industrial production in the first half of 1995 was a result of a brief fall in petroleum-related investments and a decrease in the export of traditional commodities. The weak growth of 1.6% in the second quarter (when excluding the oil sector a slight fall in industrial output was recorded) improved in the third to a year-on-year increase of 7%, as a result of increased oil production. Building starts slowed significantly in the third quarter: a 10% decrease on the year-earlier period was recorded, reflecting the overall cooling of the economy. Towards the end of the year, however, renewed growth in building starts signalled a break with this trend.

Industrial output and construction
(% volume change on year-earlier period)

	1994			1995		
	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr
Total industry	4.1	6.4	7.4	6.2	1.6	7.0
of which:						
manufacturing	6.4	8.0	6.8	8.2	–0.4	1.6
oil & natural gas	4.2	10.5	12.3	4.9	2.6	12.7
Building work started	41.0	26.7	30.3	26.9	12.8	–10.0

Source: Statistics Norway, *Statistisk Manedshefte*.

The inflation rate falls—

Consumer prices rose by 2.7% in the first half of 1995, compared with the corresponding period of 1994. In September-October the rate was down to 2.3%, falling to 2.1% in November-December. The overall inflation rate for 1995 was around 2.5%, marginally above the level experienced by Norway's major trading partners. Compared with the previous year's price rise of 1.4%, this implies a notable increase in the inflation rate. The higher rate, however, is partly due to the 1% increase in value-added tax (VAT) in January 1995, while the rise in excises on tobacco and petrol in the third quarter of 1994 was not repeated in 1995, dampening overall price rises in the second half. The inflation rate is expected to fall to around 2.2% in 1996.

Prices and earnings
(% change on year-earlier period)

	1994		1995			
	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Consumer prices	1.8	1.4	2.6	2.7	2.3	2.2
Producer prices[a]	2.4	1.3	3.3	2.8	2.3	1.8
Hourly earnings[b]						
Males	3.0	2.9	3.0	4.1	n/a	n/a
Females	3.2	3.0	3.1	4.4	n/a	n/a

[a] Includes goods from oil extraction, mining, manufacturing and electricity supply. [b] Nominal changes in manufacturing.

Source: Statistics Norway, *Statistisk Manedshefte*.

—whereas real wages increase

Hourly earnings in manufacturing in the second quarter of 1995 increased by 4.1% and 4.4% for males and females respectively, or as much as 1.7 percentage points above the inflation rate of 2.7% in the same period. Recent wage settlements imply more moderate nominal increases in wages in the second half of 1995, although with inflation easing, real wages growth probably remained constant. With continued growth in real wages, there is a danger that this would mean a competitive loss for industry. Certainly, such cost pressures and the rise in inflation since 1994 has inspired caution in interest rate policy at the central bank.

Unemployment falls, while employment approaches record levels

The labour force grew at a slower rate than employment in the second and third quarters, resulting in a fall in the unemployment rate to 4.8% in July-September, the lowest since 1989 and significantly below the rate in most industrialised countries. This trend continued towards the end of the year, with a rate of 4% recorded in November. Employment reached 2.11 million in the third quarter, approaching the all-time high of 2.13 million recorded in 1987.

There is concern that the slowdown in exports may lead to increased unemployment. However, renewed growth in the construction sector in the fourth quarter may compensate for job losses in the export industry.

In the past, decreases in unemployment have frequently been accompanied by an increase in the number of people employed in training and labour schemes. Throughout 1995, however, there has been a fall both in the unemployment rate and in the number of people engaged in such employment programmes.

Labour force and unemployment

('000 unless otherwise indicated; period averages)

	1994			1995		
	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr
Labour force	2,190	2,153	2,151	2,164	2,180	2,220
Employment	2,074	2,052	2,035	2,040	2,066	2,113
Training schemes & other labour-market measures	61	78	73	69	62	52
Wholly unemployed[a]	117	102	116	124	115	106
% of labour force[b]	5.3	4.7	5.4	5.7	5.3	4.8

[a] Part-time employed and those employed in training and labour schemes are counted as employed. [b] Seasonally adjusted.

Source: Statistics Norway, *Statistisk Manedshefte*.

Foreign trade and payments

Merchandise surplus continues strong—

The merchandise trade surplus remained strong in the third quarter of 1995, with an outturn of Nkr13.8bn ($2.2bn), compared with Nkr10.3bn in the year-earlier period. Overall, merchandise exports were up by some Nkr3.8bn year on year, from Nkr59bn to Nkr62.8bn. The largest increase was in the traditional (non-oil and gas) sector, the largest share of which was probably in engineering. The value of merchandise imports rose less sharply, by just Nkr400m on a year-on-year basis.

Merchandise trade

(Nkr bn unless otherwise indicated)

	1994			1995		
	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr
Exports fob	59.0	68.6	244.5	67.3	64.6	62.8
Oil	22.2	24.8	92.1	23.5	24.2	22.7
Natural gas	2.6	4.1	14.3	4.1	3.3	3.1
Ships & platforms	2.0	3.9	9.4	1.9	2.9	2.7
Other goods	32.3	35.9	128.7	37.9	34.1	34.4
Imports cif	–48.7	–51.2	–193.0	–50.7	–51.9	–49.1
Ships & platforms	1.0	1.3	7.8	1.7	1.4	0.2
Other goods	47.7	49.9	185.1	49.0	50.5	48.9
Trade balance	10.3	17.4	51.5	16.6	12.7	13.8
Mainland	–15.4	–14.0	–56.5	–11.1	–16.4	–14.5
Trade balance ($ bn)	1.5	2.6	7.3	2.6	2.0	2.2

Source: Statistics Norway, *Statistisk Manedshefte*.

Norway's main markets remain those of the UK and Germany, with neighbouring Sweden also absorbing a large percentage to the total (around 10% in

1995). If oil and gas sector exports are not counted, Germany becomes Norway's main export market, with 15% of the non-offshore total, compared with 13.5% for Sweden and 11% for the UK.

—and helps push up the surplus on the current account—

The rise in the merchandise trade surplus helped to boost the surplus on the current account. Another contributing factor was a fall in the deficit on invisibles other than services, thanks to easing long-term interest rates in Europe, which has had a favourable effect on repayments of government and private debt. But profit repatriations and net dividend outflows have remained substantial, with little prospect of a significant reversal in view of the heavy presence of foreign investment in the Norwegian oil and gas sector.

Current account, Jan-Jun
(Nkr bn)

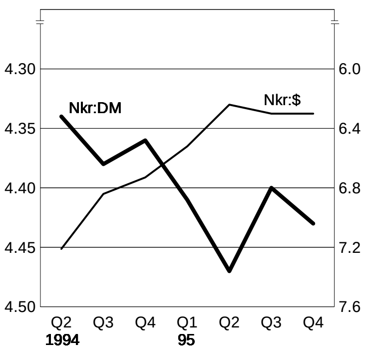
	1994	1995
Goods & services, net	23.5	27.9
Interest, profit & dividends	–16.2	–14.5
Current-account balance	7.3	13.4

Source: Statistics Norway, *Statistisk Manedshefte*.

—but the krone has a slightly unsteady year-end

The krone, which is one of Europe's strongest currencies, weakened against the D-mark in the fourth quarter of the year. The Bank of Norway (the central bank) responded by refusing to allow its official base interest rates to be cut in line with moves in Germany. In December the krone fell to Nkr4.45:DM1, its lowest rate since the second quarter. In fact, the krone's average of Nkr4.43:DM1 for 1995 was nearly 2% weaker than its 1994 average of Nkr4.35:DM1. The central bank is not entirely sure of the reasons for this trend, with the economy growing strongly and the government's fiscal balances in strong positions (see Economic policy). However, one reason is that through the oil economy the krone is linked to the vicissitudes of the dollar. Policy is split between trying to keep the krone stable against European currencies and the US currency. Few in the oil and gas sector really want the krone to strengthen unnecessarily against the dollar, particularly as German policy is undergoing a difficult period, with an economic slowdown and problems concerning Economic and Monetary Union (EMU). The government's budget forecasts depend on a fairly stable krone:dollar relationship, as a weakening dollar undermines government revenue in local currency terms. Thus against the dollar the krone has remained steady, at Nkr6.30:$1 in the fourth quarter. The krone actually weakened against the dollar in December as the US currency rallied on international markets.

Average exchange rates
Nkr:DM—left-hand scale; Nkr:$—right-hand scale; inverted scales



Source: IMF, *International Financial Statistics*.

Average exchange rates
(krone per currency unit)

	1994			1995			
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr[a]
D-mark	4.34	4.38	4.36	4.41	4.47	4.40	4.43
Pound sterling	10.84	10.61	10.68	10.32	9.97	9.91	9.99
US dollar	7.21	6.84	6.73	6.52	6.24	6.30	6.30

[a] EIU estimates.

Source: IMF, *International Financial Statistics*.

Business and energy news

Another record for offshore petroleum output

Norway pumped out a record amount of crude oil in 1995, some 27% more than in 1994, according to figures released for January-December. In 1994 the government estimated that petroleum production would increase by 11.6% from 1994 to 1995, a figure that now looks to be substantially exceeded. In November-December new records were set, as production of crude oil exceeded 3m barrels/day (b/d). Norway is Europe's largest oil producer and the world's second largest oil exporter after Saudi Arabia.

A valuable find at Haltenbanken—

Saga Petroleum has announced a gas find on Haltenbanken, offshore from Trondheim, that could hold as much as 200bn cu metres of gas and 70bn cu metres of condensate, making it the second largest find on the Norwegian shelf. If the field lives up to expectations, it could be worth some Nkr200bn ($32bn), with Saga owning one-quarter of it.

—as Oseberg overtakes Statfjord—

Oseberg field, just off western Norway, has overtaken the ageing Statfjord as the largest crude oil producer in the North Sea. Its operator, Norsk Hydro, announced in October that the field had passed the production level of 1bn barrels of oil. Originally, it was estimated that the field would only produce 1bn barrels, but it is now expected to produce twice as much. Costs at the field have been cut by more than 40% over the last three years.

—and Troll B comes on stream

The Troll B platform has come on stream with some 190,000 b/d, worth around Nkr20m at today's rates, being piped to Mongstad refinery north of Bergen, making it Norway's sixth largest oilfield. Oil reserves of 500m barrels are expected to be pumped out, together with an equivalent amount of gas. Work on building Troll C is expected to get under way in 1996 with production starting there in 1999. The Troll field is particularly important because it was originally thought to be unexploitable. New technology has changed this. Developments at Troll and Heidrun (4th quarter 1995, page 18) have helped to produce renewed estimates of Norwegian oil production. In February 1995 the minister of industry and energy, Jens Stoltenberg, announced that increased oil production would net Norway an extra $24bn by 2005. A further upgrade estimates that Norway will produce some 700m barrels more oil than previously calculated, bringing in another $12.3bn under a scenario of stable prices. Peak production will no longer fall from 1996 or 1997, but will plateau until 2001 or 2002. A sharp fall is expected from the peak of over 3m b/d to about 2.5 m b/d in 2004 or 2005.

Oil cutbacks for Norway are discussed again

In the light of OPEC's attempts to regulate oil output and stabilise prices, Norway has again been under pressure not to increase its production. The upgrade of Norwegian oil production figures underlines OPEC's concern that restraint on its behalf could be counterbalanced by extra output from non-OPEC countries. When the president of OPEC, Erwin Arieta of Venezuela, visited Norway in November, Mr Stoltenberg discussed the conditions under which Norway might restrain its oil output. The minister has made restraint by other major oil producers, which he does not currently foresee, a precondition. The Centre Party and the Socialist Left Party have called for voluntary restraint on behalf of Norway, partly to spread the utilisation of resources over a longer period, partly to make the economy less dependent on oil and partly for environmental reasons. Mr Stoltenberg has claimed that unless these reserves are used in the next few years, their value could be lost. The Centre Party's call for a cutback in oil production has been unsuccessful. Meanwhile, the 15th round of offshore concessions has been postponed from the end of 1995 until early in 1996, leaving some 19 oil companies waiting. The delay is blamed on administrative reasons, rather than on any policy change.

Gas sales agreed—

The state oil company, Statoil, has decided not to open negotiations on gas prices with France and Germany for a three-year period from October 1, 1995, as the October 1992 round of renegotiations were only completed in mid-1993. Customers in Spain and Austria have been notified of a new round of renegotiations. Concern has been expressed that Norwegian gas exports would lose out should the continental European market be deregulated along UK lines. Norway currently sells gas to a few, well-regulated customers in France and Germany. Liberalisation of this market by 2005 as a result of European Union (EU) policy, together with the building of new pipeline networks, could lead to a weakening of gas prices in a short period of time, according to a Statoil analyst.

—and more are promised

Norway's share of Germany's total gas imports will rise from the current 15% to 30% by 2005 after the completion of a gas pipeline across northern Germany. It has been a result of a joint investment scheme by a German consortium, headed by Ruhrgas, and Statoil, that will link Norwegian gas to large sections of Germany. The annual import of Norwegian gas by Germany will increase from the current 11bn cu metres to 30bn cu metres by 2005.

Statoil expands abroad

Statoil has made a bid for an Irish oil exploration firm, Aran, demonstrating its desire to expand outside Norway. Statoil has made its name in the Norwegian offshore region, but output from the North Sea will decrease from about 200m barrels in 1995 to some 150m barrels by 2000. It has developed its downstream activities in the past few years and now has 1,900 petrol stations, although problems with its refineries in Kalundborg and Mongstad have limited profitability. It has tried to compensate for the prospective domestic decline by building up its overseas exploration and production capacity in places as far apart as Nigeria, Angola, Vietnam and Azerbaijan. It also has longstanding interests in the Danish and UK North Sea sectors, and in 1994 it merged its petrochemicals concerns with those of the Finnish company Neste. In recent years, Statoil, under its executive chairman, Harald Norvik, has demonstrated that it is not content merely to rest on the privileged position it gained in early rounds of bidding in offshore Norway. It announced net profits for the first nine months of 1995 of Nkr4.5bn, an 18% increase on those for the same period in 1994, although pre-tax profits fell from Nkr12.9bn to Nkr12.4bn because of lower than average oil prices.

Kvaerner bid for Amec is stopped

The Norwegian engineering and industrial group Kvaerner is continuing its bid to build its overseas empire by making a hostile bid for the UK construction and engineering group, Amec. However, Amec has been involved in developing its joint venture with PT Pal, the Indonesian state-owned shipbuilder, and is in the lead in bidding to develop the Natuna offshore gasfield in Indonesia. The Indonesian government made it known to the UK government that it was reluctant to see a change in Amec's ownership. By mid-December 1995 Kvaerner held 26.1% of Amec's shares and had received support from holders of another 10.4%. However, enough fund managers considered the Kvaerner offer to be too little and too inflexible, with a 21-day timetable and no possibility of a higher offer. Kvaerner's approach was rebuffed on December 18, but a renewed bid could be made in 1996. Earlier, Kvaerner had announced a 65% rise in pre-tax profits for the first nine months of 1995 compared with the same period in 1994. The shipbuilding division saw its pre-tax profits in the first nine months rise from Nkr925m to Nkr991m, with sales up from Nkr7.9bn to Nkr10.1bn. The success was a result of its spread of shipyards across Europe and its concentration on niche markets where competition from Asia is very limited. Kvaerner employs some 24,000 people worldwide.

Banks continue to be profitable

Norway's largest bank, Den norske Bank (DnB), showed a pre-tax profit of Nkr2.1bn in the first nine months of 1995, up 7% from Nkr1.97bn in the same period in 1994. Higher profits were made from bond and currency trading, and figures were helped by write-backs of earlier provisions for loan losses. DnB is 72% owned by the state. The second largest bank, Christiania Kreditkassen, more than doubled its operating profits in the first nine months, from Nkr1.13bn to Nkr2.32bn. Again, write-backs featured as a key factor in the improved profitability, reflecting the positive trend in the Norwegian economy. In early December the government sold part of its holdings in Christiania to bring down its holding in the bank to 51%, down from 69%. According to a financial daily, *Dagens Naeringsliv*, the state lost Nkr1.1bn on the sale, bringing its current total loss on its engagement in the bank-system rescue to Nkr4.5bn. Some 90% of the 98 million shares were sold to foreign companies. Norwegian investors considered that the price was too high for them and they found themselves swamped by foreign interest, partly attracted by the stability of the Norwegian krone. By the end of November 1995 around 33% of investors in the Oslo Stock Exchange were from abroad, with central and local government holding 23% of shares, private companies 35% and private persons 9%.

Stockholm and Oslo in stock exchange link

The Oslo Stock Exchange, the Norwegian Futures and Options Clearing House, the Swedish equity derivatives exchange (OM) and its London subsidiary (OMLX) have set up the Linked Exchange and Clearing (LEC), aimed at increasing exposure for these derivatives markets. The LEC should start trading in the second half of 1996 and will establish electronic links between the Oslo, Stockholm and London markets. Average daily turnover in the Oslo options market, currently standing at 6,000 contracts, should increase in volume.

Appendix 1

Quarterly indicators of economic activity in Norway

		1993		1994				1995			
		3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Industrial production	Monthly av										
Total[a]	1990=100	115	118	119	120	120	125	124	126	128	n/a
Manufacturing	“	95	107	107	112	101	115	116	112	102	n/a
Oil & gas	”	131	146	148	149	136	161	155	153	154	n/a
Metal production	“	99	105	108	112	107	112	116	110	106	n/a
Paper & products	”	95	106	114	112	108	119	124	117	111	n/a
Order inflow to											
engineering industries	1976=100	227	363	270	323	252	340	n/a	n/a	n/a	n/a
Construction											
Housing starts	’000	1.48	1.75	1.28	1.64	1.91	2.16	1.35	1.62	1.70	n/a
Employment											
Total employed[b]	m	2.03	2.02	1.99	2.02	2.07	2.05	2.04	2.07	2.11	n/a
Unemployed, registered	’000	124.0	107.2	120.4	109.8	114.8	96.1	111.8	101.4	107.5	88.7[c]
Retail trade											
Sales	1992=100	104	118	100	108	113	127	106	118	121	n/a
Wages & prices											
Average hourly earnings[d]	1979=100	282	284	285	290	291	293	293	302	n/a	n/a
Consumer prices:	“	251	251	252	253	254	256	258	260	260	261[c]
change year on year	%	2.4	2.0	1.6	0.8	1.2	2.0	2.4	2.8	2.4	n/a
Wholesale prices:											
of which:											
general	1981=100	162	162	163	164	165	165	167	167	167	167[c]
raw materials	”	143	141	143	147	149	152	155	151	151	152[c]
manufactured goods	“	158	159	160	161	162	164	167	170	170	171[c]
Share prices, industry	1990=100	118	130	148	142	141	139	143	147	157	162[c]

continued

Quarterly indicators of economic activity in Norway *(continued)*

		1993		1994				1995			
		3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Money	End-Qtr										
M1, seasonally adj:	Nkr bn	339.61	330.86	347.01	353.44	358.95	345.52	344.81	352.26	n/a	n/a
change year on year	%	32.1	5.1	10.7	6.9	5.7	4.4	–0.6	–0.3	n/a	n/a
Call money	% per year	6.29	6.42	5.37	4.98	5.62	6.58	4.99	5.96	5.60	5.51[e]
	Monthly av										
Long-term government bonds	% per year	6.31	5.78	5.74	7.30	8.25	8.45	8.05	7.59	7.35	6.96[c]
Foreign trade & payments	Qtrly totals										
Exports fob	Nkr bn	53.93	59.14	57.22	59.59	59.03	68.64	67.30	64.57	62.84	n/a
of which:											
oil & gas	"	24.50	26.96	25.62	27.13	24.76	28.93	27.58	27.55	25.73	n/a
Imports cif	"	42.25	48.17	46.43	46.65	48.68	51.20	50.67	51.92	49.06	n/a
Freight rates:	Jul 1965-										
trip charter[f]	Jun 1966=100	193	195	189	196	207	222	233	238	219[g]	n/a
time charter[f]	1971=100	342	349	318	324	347	363	367	406	378[g]	n/a
Current balance	Nkr m	9,635	–1,320	5,258	2,047	6,807	6,943	10,671	2,740	n/a	n/a
Exchange holdings	End-Qtr										
Gold[h]	$ m	333	332	342	339	343	342	336	344	341	340[e]
Foreign exchange	"	18,913	18,642	19,091	17,705	19,560	17,992	22,588	21,346	48,711	22,077[e]
Exchange rate											
Market rate	Nkr:$	7.07	7.52	7.30	6.96	6.77	6.76	6.29	6.17	6.24	6.24[e]
Ecu rate	"	8.33	8.39	8.39	8.38	8.41	8.32	8.25	8.29	8.27	8.28[e]

Note. Annual figures of most of the series shown above will be found in the Country Profile.

[a] Seasonally adjusted. [b] Wage and salary earners. [c] October only. [d] Adult male workers in manufacturing only. [e] End-October. [f] Dry cargo; monthly averages. [g] Average for July-August. [h] End-quarter holdings at quarter's average of London daily price less 25%.

Appendix 2

Foreign trade of Norway

(Nkr m)

	Total		UK		Germany		Sweden		Netherlands	
	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep
Exports fob	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
Fish & fish products	13,053	13,696	989	1,007	1,174	1,198	851	775	314	362
Petroleum & products	75,005	77,684	25,342	26,799	5,737	3,904	4,420	5,152	10,476	12,513
Gas	67,276	70,344	1,914	1,079	4,363	4,367	263	320	1,302	1,444
Chemicals	11,773	13,931	1,313	1,542	1,777	2,315	1,785	2,036	344	454
Paper etc & manufactures	5,328	7,286	1,174	1,630	923	1,333	322	438	365	494
Iron & steel	5,097	5,580	752	835	867	981	578	739	108	112
Non-ferrous metals	13,661	16,283	1,940	2,225	2,686	3,757	850	1,210	1,896	1,445
Metal manufactures	1,775	2,198	167	146	189	215	524	637	53	71
Machinery incl electric	12,691	14,802	1,086	1,330	1,376	1,350	1,876	2,266	629	776
Ships	4,720	7,268	337	994	0	1	284	46	688	0
Other transport equipment	3,899	3,817	315	714	477	618	831	1,124	93	114
Total incl others	175,832	194,720	36,895	40,050	22,358	23,080	16,020	18,939	17,132	18,762

	Total		Sweden		Germany		UK		Denmark	
	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep
Imports cif	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
Food, drink & tobacco	8,798	9,603	765	839	431	397	615	671	1,312	1,532
Metalliferous ores & scrap	6,306	6,286	329	271	236	363	51	81	29	45
Fuels & lubricants	5,034	5,051	1,153	1,135	271	487	1,407	1,485	679	705
Chemicals	13,789	15,467	2,387	2,714	2,393	2,568	1,731	1,766	967	1,089
Paper etc & manufactures	3,637	4,357	1,680	2,207	335	282	128	144	209	228
Textile, yarn, cloth & manufactures	2,695	2,883	271	300	349	363	306	295	213	218
Iron & steel	6,383	6,481	896	1,104	1,455	985	710	759	194	250
Non-ferrous metals	2,664	3,119	427	528	256	333	137	132	43	56
Metal manufactures	6,825	6,998	995	1,248	699	824	2,633	1,527	423	504
Machinery incl electric	32,856	38,322	4,017	4,625	5,669	6,782	3,979	4,776	1,922	2,368
Road vehicles	10,427	12,326	1,547	1,715	3,039	3,974	567	713	291	373
Ships	6,483	3,283	736	20	688	0	58	27	317	52
Other transport equipment	2,784	2,010	149	351	191	80	164	161	29	31
Clothing	6,844	7,021	167	185	316	288	502	472	817	799
Scientific instruments etc	3,989	4,090	265	305	702	641	582	669	204	218
Total incl others	141,764	151,674	21,035	23,450	19,611	20,740	14,967	15,151	10,313	11,302