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Assessment and recommendations

Despite subdued growth for several years, the labour market has remained tight

Strong growth through the five years to 1998 necessitated fiscal and monetary policy tightening which, together with a drop in oil investment, damped activity since then. However, the labour market has remained tight with tensions persisting in many sectors, even though the unemployment rate has risen slightly to 3.7 per cent in early 2002. Rapid wage gains have caused a sharp deterioration in competitiveness since the mid-1990s. On the other hand, inflation has remained under control, reflecting a squeeze in profit margins, cuts in indirect taxes and more recently the appreciation of the krone. As Norway is the world's third largest oil exporter behind Saudi Arabia and Russia, high oil prices since 2000 have led to an extremely large current account surplus which reached 15 per cent of GDP in 2001.

Output growth is projected to rebound

With large oil revenues the general government surplus has become huge (14 per cent of GDP in 2001), creating strong pressure to ease fiscal policy. This prompted a reform of the macroeconomic policy framework that will lead to a persistent fiscal expansion from 2002 onwards. In 2002-03, this fiscal expansion will coincide with a healthy recovery abroad and a projected robust rise in oil investment, while consumer confidence is currently brimming and will probably be sustained by further hefty real wage gains. Export market losses caused by worsening competitiveness will dent output gains, but even so mainland GDP growth is projected to accelerate from 1¼ per cent in 2001 to 1¾ per cent in 2002 and 2½ per cent in 2003. Hence, unemployment is projected to remain low and a positive output gap to reappear. Nevertheless, because of cuts to indirect taxes and falling import prices due to the appreciation of the krone, headline inflation should be low (1¼ per cent) in 2002. The

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tight labour market is likely to keep wage gains strong so that interest rates will need to stay high – indeed some tightening may be needed – to comply with the inflation target of 2½ per cent, unless the krone appreciates further. With the oil price assumed to remain at USD 25 per barrel from the second quarter of 2002 onwards, the current account and the government budget are projected to continue to show very large surpluses.

The macroeconomic policy framework has been reformed…

The previous government presented new guidelines for fiscal and monetary policy in March 2001 that were approved by Parliament shortly thereafter. The new fiscal policy rule sets the structural non-oil central-government deficit equal to the expected 4 per cent real rate of return on the Government Petroleum Fund. However, as expressed in the government report on the new guidelines, fiscal policy has a counter-cyclical role to play and deviations from this deficit target are thus allowed in the case of excess demand or supply. Moreover, the guideline foresees that in the event of extraordinary changes in the Petroleum Fund's capital or in the structural deficit, corrective action will be spread over several years. With the presumption that tight monetary policy might well be necessary to offset this steady fiscal expansion, the government set an inflation target of 2½ per cent over time for the central bank. Based on the new fiscal rule, the structural non-oil central-government deficit is currently projected to rise gradually from 1½ per cent of mainland GDP in 2001 to 4½ per cent in 2010, with the strongest rises in the initial years. The total government surplus would fall to 10 per cent of GDP in 2010, while the Government Petroleum Fund assets would increase to 116 per cent of GDP.

… and is to lead to tight monetary conditions and an employment shift from the exposed to the sheltered sector

With the economy close to full capacity, the intended fiscal expansion will lead to tight monetary conditions. More public spending or higher private outlays induced by tax cuts will need to be offset either by the negative impact of high interest rates on interest-rate sensitive expenditure or the negative effect of a strong exchange rate on exports. In any case, labour demand in the public and private service sectors will increase, requiring a shift of employees from exposed to sheltered activities.

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The introduction of an explicit inflation target has improved the macroeconomic policy framework

Although the introduction of the inflation target largely represents a formalisation of operational procedures which had been in place since 1999, it is welcome as it has increased transparency. As the monetary policy framework is now in line with current practice of many other central banks, it is now easier to communicate policy decisions. With the manufacturing sector squeezed by strongly rising labour costs and the appreciation of the krone, pressure on the monetary authorities to soften the policy stance is likely to increase, but should be strongly resisted.

Fiscal policy should not go beyond letting the automatic stabilisers work

According to the guidelines, fiscal policy should still play an important role in stabilising output fluctuations while inflation targeting by the monetary authorities will have the same impact. In a welcome development, the authorities' attitude towards fiscal activism has recently evolved in the direction of giving the principal demand-management role to monetary policy. Monetary policy is a much more flexible instrument and fiscal activism could divert the authorities' attention from medium-term issues. Moreover, an active fiscal policy risks to be asymmetric over the cycle pushing up outlays. Fiscal policy should therefore not go beyond letting the automatic stabilisers work fully around the expansionary path set by the fiscal rule and active stabilisation policy should be left to the central bank. It is important that the authorities continue to communicate that monetary policy is the primary instrument of stabilisation policy.

The wage negotiation framework should be re-focused to make it compatible with the inflation target

The introduction of an operational inflation target requires a new approach to the wage negotiations and incomes policy co-operation, the traditional third pillar of the Norwegian macroeconomic policy framework, the so-called *Solidarity Alternative*. Excessive labour cost increases will lead to monetary tightening and the social partners should shift focus from wage developments relative to the trading partners towards wage increases relative to productivity developments. To reduce labour market imbalances, greater room for negotiations at the local level is also required while policy concessions, such as the introduction in the past of financial support for early-retirement schemes, should no longer be made.

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In case of insufficient public sector and pension reform, a tighter fiscal rule will be needed

In principle, the new fiscal rule, while looser than the earlier framework, will still just about ensure broad generational fairness, as the on-going reduction in petroleum reserves is matched by a corresponding increase in the assets of the Petroleum Fund. However, the official long-term scenario implicitly assumes a substantial improvement in public sector efficiency and a far-reaching pension reform. If these are not forthcoming the new fiscal rule will lead to an unsustainable budgetary situation in the long term. Given this, the authorities should under no circumstance ease beyond the current deficit rule. Moreover, if the current public sector reform programme does not rein in spending soon or if a pension reform is agreed in 2004 that is not ambitious enough, the current framework will be too loose and policy will have to be reversed to ensure long-term fiscal sustainability.

The budget process could be improved by supplementing the deficit rule by an explicit expenditure rule

Concerning the budget process, the authorities should introduce multi-annual budgeting as this would underscore that the room for additional spending is limited in the medium term. Furthermore, the deficit rule should be supplemented by an explicit expenditure rule. This would reduce the risk that spending pressure will crowd out the tax cuts currently envisaged or, as in the case of the revised 2002 national budget, that a tax windfall is immediately used for additional outlays. It would also be helpful to supplement the current Long-Term Programmes, presented by the government before elections, with a detailed fiscal strategy statement of the new government soon after the elections. To improve transparency, a move from cash to accrual accounting is also desirable. It would give better information on costs and may therefore improve cost effectiveness. Moreover, the budget papers should present comprehensive estimates of the cost of regional policy to enhance transparency in an area where there is currently little information despite its importance.

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To improve cost-efficiency, funding of public services should become more activity-based and public sector wages more performance-related

Public sector reform should focus on moving further towards a budget and management approach geared towards outcomes, in order to improve cost-efficiency. Activity-based funding schemes, similar to that for hospitals, should be extended to other public services, but at the same time price signals, should be used more frequently to avoid excessive demand and hence public spending. In the aftermath of the hospital reform, the problems of cost control may be a particular source of concern. To enhance public sector efficiency, more flexible personnel management practices are also required. Public bodies should be given more freedom to set employment and employees' wages, with the possibility to use efficiency gains to reward good performance. At the moment, the public-sector wage system is too rigid and the remuneration schemes are not sufficiently performance-based.

The financing of local government outlays should be changed so that there is a closer link between taxation and spending

To encourage efficiency gains, mergers of and co-operation between municipalities should be stimulated, so as to reap scale economies. Furthermore, citizens should be allowed to use the services of other municipalities to increase user choice and raise competition within the public sector. Better cost-accounting and a consistent application of the "money follows the user" principle are prerequisites for better co-operation and increased user choice. Local-government funding arrangements fail to provide sufficient incentives to contain local spending and should therefore be reformed. Currently, all municipalities apply the maximum local income tax rate partly because they fear that lowering the rate will be met by a cut in discretionary central government grants. These discretionary grants should therefore be sharply reduced. Moreover, property taxes should be given more prominence in local government revenues. These are less volatile than income taxes and, as revenues are not shared with central government, they are more transparent for citizens and thus are likely to help to contain local spending. A sharing arrangement between local governments and the state for the corporate income tax, which is currently discussed by the government, should not be reintroduced as the tax base is very volatile. It can also lead to excessive spending to attract businesses, as local governments do not have the power to set the rate.

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A larger role for the private sector in the provision of public services should lower costs and enlarge user choice

To provide public services in a more cost-efficient way, more competition between public and private sector providers is also required. In this context, equal funding of public and private providers is crucial. The recent government objective to equalise funding for early childhood educational and care facilities is thus commendable and should be extended to other public services. However, the application of the "money follows the user" principle to other childcare arrangements (parental care and private childminders) through the existing childcare cash benefit should be reconsidered. This does not bring the same economic and social benefits, in particular concerning labour supply as well as the cognitive development and social integration of children. Furthermore, the current tight regulations on the establishment of private providers should be liberalised, especially in the hospital and education sectors. In this context the recent government proposal to facilitate the founding of private schools is welcome. More user choice is likely to promote better outcomes in the education system, which have recently been shown as being only average in the OECD PISA study despite the high government outlays. Finally, increased recourse to outsourcing and competitive tendering would contribute to a better delivery of services, requiring a reform of the special VAT treatment for public bodies because the current system favours in-house production.

User charges should be raised

Increases in user charges should be considered as a means to reduce excessive demand for public services. Several OECD countries have better targeted support for higher education through fees, loans and grants schemes which include provisions of the less well-off, and the Norwegian authorities should envisage similar measures. The introduction of such schemes would strengthen incentives for students to complete studies in a reasonable time. In the elderly care sector, there is also scope to raise user charges, as recommended in the previous *Survey*. However, in increasing the role of user fees, equity considerations should be taken into account and mechanisms need to be introduced to avoid "cream skimming". Therefore, the commendable government proposal to increase user choice in primary education should be supplemented by measures to avoid social segregation.

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The oil wealth masks the need for structural reforms

In addition to public sector reform, other measures are needed to boost potential output growth. Spurred by petroleum revenues, national income per capita is among the highest in the OECD but the oil wealth masks the need for structural reforms and makes implementation more difficult. Besides the attention required to growth issues explored in the recent OECD *Growth Study* – such as the need to encourage an appropriate mix of private and public research and the need to enhance the capacity for adopting new technologies – there are specific labour market and product market problems that have to be solved.

The recent voluntary tripartite agreement is unlikely to lead to the targeted 20 per cent reduction in sick leave

Norway's commendable tradition of work-oriented social inclusion has led to one of the highest employment rates in the OECD area but, at 26½ hours per week, average working hours are relatively low, partly due to high part-time employment. This reflects individual preferences but also the impact of the tax and social security systems and of labour market regulation. In this context, the October 2001 agreement on sick leave between the government and social partners is disappointing. It is highly unlikely that the goal of reducing sickness absence by 20 per cent in four years will be reached by the voluntary company-level approach. With sick leave continuing to rise, the re-evaluation agreed for mid-2003 should be advanced and the recommendations of the recent *Sandman Committee* to lengthen the duration of the employer's contribution and to reduce benefits should be implemented.

Measures are needed to reverse the fall in the effective retirement age

Another major labour market issue is the worrying drop in the effective retirement age, although it is still high in international comparison. Withdrawal from the labour force before the standard pensionable age of 67 years via the disability pension and early retirement schemes has become increasingly common. Spending on disability pensions is around 2½ per cent of GDP, one of the highest levels in the OECD. The introduction in 2001 of the assessment of each disability pensioner's potential to return to work is a positive step but as participation in rehabilitation programmes is voluntary, the measure has to be strengthened and additional measures to stop the use of the scheme for early retirement are needed. As recommended in the previous *Survey*, the current early retirement schemes

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should be replaced by a system of flexible retirement with actuarially-adjusted benefits. It remains to be seen whether the latest pension committee – the third one in six years – will come up with such a recommendation. This committee will provide a comprehensive review of the Norwegian system, including the possible use of the Government Petroleum Fund for funding pensions. Such earmarking may help to reduce the pressure to raise other government outlays in the future but may have consequences for the formulation of the fiscal framework. However, to avoid an unsustainable budgetary development, supplementary measures to make the pension system less generous are also needed.

The recent proposals to reduce state ownership are a step in the right direction

To spur potential output growth, product market reforms are needed as well. Norway has made a relatively late start compared with most OECD countries in relying more on market forces and less on the state in the provision of goods and services, the main exception being the reform of the electricity market in the early 1990s. Since 1994, Norway has been a member of the European Economic Area, and as such has been committed to deregulation of product markets in line with developments inside the European Union. Given the high share of public ownership, privatisation should be more rapid, especially in the banking, telecommunications and electricity sectors. Thus the proposals made in the April 2002 White Paper to reduce state stakes in enterprises are welcome. However, important elements were not endorsed by Parliament. In the electricity sector, competition is currently insufficient and the recent blocking of further concentration by the Norwegian Competition Authority is welcome. The same holds for its efforts to instill greater competition in the domestic airline industry, for instance by its decision to halt airline bonus programmes that were seen as unduly strengthening the position of the incumbent.

Structural reform should also focus on reducing subsidies to agriculture

Norway has not significantly reduced its heavy agricultural support in recent years. Two-thirds of Norwegian farm revenue is government aid, while consumers pay twice the world price for agricultural products and considerably more than in neighboring countries, causing substantial

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cross-border shopping. Support should become less linked to output and better targeted so as to reduce the high costs to consumers and taxpayers while its regional policy goals should be pursued by other means. Furthermore, lower agricultural support and fewer restrictions on agricultural trade might lead to a valuable improvement in trade arrangements for fish products with the European Union.

Summing up

While the oil wealth is benefiting the Norwegian population, it complicates the setting of macroeconomic policy and the implementation of structural reform. The rising assets of the Petroleum Fund lead to strong pressures from all quarters to raise public spending, stimulate rent seeking and encourage complacency on the need for structural adjustments. Both effective macroeconomic management and continued structural reforms to lift labour supply and productivity growth are essential to secure strong growth over the long term. The short-term outlook points to an acceleration in output growth while unemployment should remain low. Labour force growth has been negatively influenced by detrimental developments in early retirement, disability and sick leave. Labour shortages have led to strong wage increases, so that interest rates will need to stay high to comply with the inflation target of 2½ per cent. Fiscal policy should under no circumstance ease beyond the present fiscal rule, while additional government outlays should not take precedence over the tax cuts the government currently envisages. To ensure discipline on spending, the current fiscal rule should be supplemented by an explicit expenditure rule. Beyond the short term, if the planned public sector and pension reforms are not ambitious enough, a tighter fiscal rule will be needed. To improve public sector performance, the budget process should switch to multi-annual budgeting, while the funding of public services should become more activity-based and public sector management more performance-oriented. Furthermore, there should be a better link between local taxation and spending. The private sector should play a larger role in the provision of public services and user charges should be introduced or raised to reduce excessive demand. Measures to lower the levels of sick leave and to reverse the fall in the effective retirement age are urgently

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needed. At the same time reducing state ownership further and, in several sectors, enhancing competition will improve productivity. Ensuring a stable macroeconomic environment and pursuing reforms of the public and private sector would improve labour productivity performance and raise the already high standard of living further.

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Glossary of acronyms

ABP	*Algemeen Burgerlijk Pensioenfonds* (pension fund for government and education authorities in the Netherlands)
AFP	*Avtalefestet pensjonsordning* (contractual early retirement scheme)
APW	Average production-worker wage
CALPERS	California Public Employees Retirement System
DRG	Diagnosis related group
ECB	European Central Bank
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
EUR	Euro
FUNN	Research and Development in a Creative Trade and Industry
GDP	Gross domestic product
GPGS	General purpose grant scheme
GSM	Global System for Mobile communication
IALS	International adult literacy survey
ICT	Information and communication technology
IMD	International Institute for Management Development
LNG	Liquified natural gas
LO	Norwegian Confederation of Trade Unions
NAIRU	Non-accelerating inflation rate of unemployment
NAS	Norwegian Air Shuttle
NCA	National Competition Authority
NHO	Confederation of Norwegian Business and Industry
NIS	National Insurance Scheme
NOREX	The strategic alliance between the Nordic stock exchanges, currently consisting of the Copenhagen Stock Exchange, Iceland Stock Exchange, Oslo Börs and Stockholmsbörsen
OPEC	Organization of the Petroleum Exporting Countries
PAYG	Pay as you go
PES	Public employment service
PISA	Programme for International Student Assessment
PSE	Producer Support Estimate
RCN	Research Council of Norway
R&D	Research and Development
SAS	Scandinavian Airlines System
SDFI	State Direct Financial Interest (the direct state participation of the state in oil gas fields)
SELF	State Educational Loan Fund
Sm^3 o.e.	Standard cubic metres oil equivalents

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SME	Small and medium-sized enterprises
SND	Norwegian Industrial and Regional Development Fund
SOE	State-owned enterprise
UBN	Union Bank Norway
USD	United States dollar
VAT	Value added tax

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Annex I

The use of generational accounts in Norway*

During the 1990s, a number of countries began to present standardised calculations of generational accounts to measure the long-term sustainability of public finances. For Norway, generational accounts were first calculated and presented in 1993 (Auerbach *et al.*, 1993) and have since been presented regularly in budget and other public documents.

A generational account is the present value of expected current and future taxes paid net of individual age-specific government outlays received over the rest of life by a representative individual of a given age and sex. To calculate these generational accounts, information on current and future government outlays by age cohort is needed. Thus, the data requirements are substantial and important assumptions have to be made. In particular, generational accounts usually aim at showing the consequences of maintaining current fiscal policy. Therefore, tax rates and spending levels by age group are assumed unchanged. If the sum of generational accounts for all current and future individuals equals the present value of non-age specific government outlays and government net financial assets, then the government's intertemporal budget constraint is met and current tax rates and government programmes can be kept unchanged in the future. If the balance is negative, however, the implication is that current fiscal policy is unsustainable and current and future generations will have to pay higher taxes or receive lower individual benefits. In the Norwegian case, it is the change in current and future government consumption required to attain this balance that is presented as an indicator of the current budget's intergenerational stance.

An important item in the Norwegian accounts is public petroleum revenue, which differs from other revenue, as it is the result of extraction of non-renewable natural resources. The temporary nature of the government's petroleum revenues can be handled by including an estimate of the net present value of future expected revenues in government assets in the government's budget constraint. Non-renewable resources are thus viewed as equal to financial wealth (Steigum and Gjersem, 1999). Large re-evaluations in the last decade underscore the degree of uncertainty in the stream of future petroleum revenues that add to the uncertainty surrounding such calculations.

The calculations presented in the 1995 budget paper showed a large generational deficit, requiring a reduction of government consumption of between 2-4 per cent of GDP for intergenerational balance. The required reduction was smaller in the following budgets and in the 1997 national budget the interval spanned zero. As elsewhere, the early Norwegian

* Generational accounting for a number of countries, including Norway, was presented in Leibfritz *et al.* (1995). An introduction to and a comprehensive presentation of both the methodology and a wide range of applications can be found in Auerbach *et al.* (1999) while a co-ordinated presentation for the EU members countries is presented in European Commission (1999). A summing up of recent generational accounting results for the Nordic countries can be found in Gjersem (2002a).

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experience with generational accounts found the current business cycle situation to have undue influence on generational accounts and a cyclical adjustment has been made since 1998, although the methodology for this correction is still under discussion. In 1998, the interval continued to span zero. However, in the 2000 budget, the accounts again signalled a need for cuts, due to both an extension of the business cycle adjustment to include local government and lower petroleum prices reducing petroleum revenues. The most recent calculation is presented in the 2002 budget papers and indicate a need to tighten the current budget by NOK 0-20 billion (0-1¾ per cent of mainland GDP). As it is based on the proposed 2002 budget, it takes into account the impact of the new fiscal rule in 2002. However, it does not take into account the higher government expenditure and lower tax burden in the coming years due to the fiscal rule (Gjersem, 2002b). As a consequence, the reduction in government consumption required to restore the intertemporal budget balance is underestimated.

Generational accounting requires a heavy data input and results are very sensitive to key assumptions about real wage developments, the discount rate and in the Norwegian case the oil price. Moreover, there are methodological issues, especially concerning the cyclical correction that are still debated. Furthermore for Norway, the current calculations do not take the new fiscal rule into account for the coming years and is therefore underestimating the required reduction in government consumption. The Norwegian authorities provide an interval as the calculation is done for two different real wage trajectories (of ¾ and 1¼ per cent per year) but given uncertainties on other key assumptions, the confidence interval around the calculation is larger than this interval. Even so, the Norwegian authorities consider it as a valuable pedagogic tool with intuitive appeal also to the general public.

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Annex II

Key aspects of market structure and state involvement by sector

	The role of the state in each sector	Contribution to GDP, %[1]	Employment %[1]
Oil and gas extraction	State-controlled Statoil has an important share. Other state interests in the sector are held in the SDFI and via shareholding in Norsk Hydro (44 per cent).	**23.3**	**1.0**
Agriculture, forestry, fishing, mining	Substantial state subsidy to the agricultural sector, mostly reflecting regional policy motives.	**1.8**	**4.3**
Agriculture and hunting	Substantial state subsidy via a guaranteed producer price system. Distribution is state-owned via Statkorn (grain) and Tine (milk).	0.8	3.1
Forestry and logging	State-owned Statskog plays a role.	0.2	0.2
Fishing and fish farming	The state-controlled enterprise Cermaq is one of the major fish farming companies.	0.7	0.7
Mining and quarrying	The state-owned enterprises in this sector are Store Norske Spitsbergen Kulkompani AS and A/S Olivin (51 per cent).	0.2	0.2
Manufacturing, construction and energy supply		**14.4**	**19.5**
Construction	Maintenance and construction of government buildings is carried out solely by the directorate of public construction and property, Statsbygg. Road maintenance is only partially contracted out to private sector.	3.5	5.5
Machinery, ships and other transport equipment	Some subsidy provided to shipyards via "reseach and development" programmes.	2.3	3.3
Electricity, gas and steam supply	State-controlled company (Statkraft) gaining market share, notably in market in southern Norway.	1.7	0.7
Food products, beverages, tobacco	Large interest in liquor company Arcus (34 per cent).	1.3	2.3
Metal products	Government interest in aluminium products and extraction via Norsk Hydro. Also with manufacturing interests in Kongsberg Gruppen ASA, Nammo AS and Raufoss ASA.	1.1	0.7

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	The role of the state in each sector	Contribution to GDP, %[1]	Employment %[1]
Building of ships, oil platforms and modules	Subsidy provided to shipyards via "regional" and "research and development" aid programmes.	1.1	1.5
Publishing, printing, reproduction		1.0	1.8
Refined petroleum, chemical and mineral products	Government interest via Statoil and Norsk Hydro.	0.7	1.0
Pulp, paper and paper products		0.5	0.4
Basic chemicals		0.4	0.4
Wood and wood products		0.4	0.7
Furniture and other manufacturing n.e.c.		0.3	0.7
Textiles, wearing apparel, leather		0.2	0.4
Activities in general government		**14.5**	**31.0**
Local government	Includes public health and education sectors.	10.4	24.4
Central government		4.1	6.6
Service industries excluding general government		**36.7**	**44.2**
Wholesale and retail trade, hotels and restaurants	Government retains interest in pharmaceutical distributor Norsk Medisinaldepot. Public-sector catering provided by partially privatised Statens Kantiner. Government largely controls alcohol import and distribution via interests in Arcus ASA and state-owned Vinmonopolet.	9.2	16.9
Transport	Effective monopoly of domestic air travel following the merger of SAS with Braathens. The rail traffic company NSB is fully state-owned. Subsidy of regional land transport via the Regional Transportstøtte-scheme and subsidy of coastal shipping transport via the Hurtigruten Agreement.	8.4	8.8
Renting and business activities		6.3	7.5
Dwelling services (mainly rental income)		5.2	0.1
Private services		4.8	8.8
Financial intermediation, insurance	State retains control over the largest bank (DnB).	2.9	2.1
Post and telecommunications	Dominance of State-controlled Telenor in telecommunications and state-owned Norway Post in postal services.	1.5	2.3

1. Output and employment data are for 2000. The sum of the contributions to GDP is less than 100 per cent due to value added tax and other items.

Source: OECD and Statistics Norway.

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Annex III

Calendar of events

2001

January

The general VAT rate increases by 1 percentage point to 24 per cent, accompanied by a rise in the electricity tax and a cut in petrol taxes.

"Defined-contribution" pension schemes become corporate tax deductible.

New health acts enter into force expanding the possibility of unrestricted choice of hospitals for patients.

New EEA regulation enters into force that forbids operating support to the shipbuilding sector on new contracts.

March

The government presents new guidelines for fiscal and monetary policy that are approved by Parliament shortly thereafter.

The government installs a pension committee headed by former minister of finance Mr. Sigbjørn Johnsen. The committee with representatives of the main political parties should present its recommendations on pension reform by October 2003.

New Act on Pharmacies enters into force aimed at increasing competition.

May

The Ministry of Petroleum and Energy establishes Petoro AS to handle its oil and gas assets on the Norwegian continental shelf.

Ms. Gerd-Liv Valla succeeds Mr. Yngve Hågensen as president of Norway's Federation of Trade Unions (LO). She is the first woman and the first president with a public sector background to hold the post.

June

In an initial public offering (IPO), the fully state-owned oil company Statoil sells shares corresponding to 17.5 per cent of its capital to private investors.

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July

The VAT rate on food is halved to 12 per cent, petrol taxes are reduced further and the VAT base for services is broadened.

Norway tops the United Nations' standard of living ranking.

A new act on government procurements enters into force that aims at simplifying the legislation and improving efficiency.

August

Royal wedding of Crown Prince Haakon and Mette-Marit Tjessem Hoiby.

September

In the general elections, the governing Labour Party looses heavily. The main winners are the Conservative Party and the Socialist Left Party.

Terrorist attacks in the United States.

In reaction to the sharp fall in share prices after the terrorist attacks, capital adequacy requirements for insurance companies are softened to avoid extensive share sales that could reduce the long-run return of customers and could intensify the decline in the stock market.

October

The outgoing government and the social partners conclude an "agreement of intent" to reduce sickness absence by 20 per cent over the period 2001-05. The agreement includes a commitment by government to propose changes to the present sickness benefit scheme.

The outgoing government presents the draft 2002 budget to Parliament. The draft budget adheres to the new fiscal rule.

After negative financial market developments and strong political opposition, the Finnish financial conglomerate Sampo withdraws its friendly merger bid for the Norwegian insurance company Storebrand made in May 2001.

The King appoints a minority centre-right government with Mr. Kjell Magne Bondevik as Prime Minister. The Christian Democratic Party, the Conservative Party and the Liberal Party – with 62 of the 165 members of Parliament – are represented in this "co-operation" government.

Norges Bank moves to an easing bias.

November

The engineering and construction company Kvaerner reaches agreement with its largest shareholder Aker Maritime on a comprehensive restructuring.

After the government threatened to make the Parliamentary budget decision a vote of confidence, the Storting approves the 2002 budget. In November, the proposals of the new government did not gain majority backing in the Parliamentary Finance Committee.

Number portability is introduced for mobile telephony.

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December

Norges Bank cuts its sight deposit rate by 0.5 percentage point to 6.5 per cent and the first change in its key rates since September 2000.

The fully state-owned electricity company Statkraft agrees to buy regional utility Trondheim Energiverk (TEV) for NOK 4.25 billion. However in 2002, this merger is blocked by the Norwegian Competition Authority.

To prevent the oil price from falling to very low levels, the Norwegian Government decides to reduce crude oil production by 4.7 per cent (150 000 barrels per day) from 1 January until 30 June 2002 compared to the official estimate. The cut will be suspended if other countries do not implement announced cuts.

2002

January

The central government takes over responsibility for hospitals from local government. The hospitals become subsidiaries of one of five regional public enterprises.

The temporary 11 per cent dividend tax introduced in January 2001 is abolished. The consumption tax on electricity is reduced.

The ownership stake of the Norwegian insurance company Storebrand in the Nordic non-life insurance company If is reduced to 22.5 per cent due to the merger of the non-life insurance operations of the Finnish financial conglomerate Sampo with If. Sampo's ownership stake in If is 48.1 per cent and that of the Swedish company Skandia 29.4 per cent.

Norske Hydro agrees with the German utility E.ON to buy its aluminium unit VAW for USD 2.8 billion, the biggest take-over by a Norwegian company ever. The take-over will make Norske Hydro the world's third-largest aluminium producer.

February

Norges Bank removes its easing bias.

April

The airline passenger tax on domestic flights is abolished.

In its White Paper on state ownership, the government proposes to cut the state stake in some companies and to keep a blocking minority stake in several companies.

May

The social partners agree on wage settlements for 2002 that will lead to a wage rise of somewhat more than 5 per cent.

In its revised national budget, the government proposes a bigger rise in government outlays in 2002 but continues to adhere to the new fiscal rule.

Norges Bank introduces a tightening bias.

Partially state-owned Den norske Bank (DnB) makes a friendly bid for the Norwegian insurance company Storebrand. The intended merger collapses in June.

July

Norges Bank raises its sight deposit rate by 0.5 percentage point to 7 per cent while keeping its tightening bias.

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BASIC STATISTICS OF NORWAY (2001)

THE LAND

Area (1 000 km²):		Major cities (thousand inhabitants, 1.1.2002):	
Total (1999)	385.2	Oslo	512.6
Mainland (1999)	323.8	Bergen	233.3
Agricultural (1999)	10.4	Trondheim	151.4
Productive forests (1999)	70.5		

THE PEOPLE

Population (thousands, 1.1.2002)	4 524.1	Total labour force (thousands)	2 353
Number of inhabitants per km² (1.1.2002)	11.7	Civilian employment (thousands)	2 259
Net natural increase (thousands, 1.1.2002)	12.5	Civilian employment (% of total):	
Net migration (thousands, 1.1.2002)	7.9	Agriculture, forestry and fishing	3.8
		Industry and construction	21.5
		Services	74.5

PRODUCTION

Gross domestic product:		Gross fixed capital investment:	
NOK billion	1 472.0	% of GDP	19.0
Per head (USD)	36 202	Per head (USD)	6 876

THE GOVERNMENT

Public consumption (% of GDP)	20.0	Composition of Parliament (number of seats):	
General government (% of GDP):		Labour	43
Current and capital expenditure	41.3	Progressive	26
Current revenue	57.6	Christian Democrats	22
		Conservative	38
		Centre	10
		Socialist Left	23
Last general elections: 10.9.2001		Other	3
Next general elections: September 2005		Total	165

FOREIGN TRADE

Exports of goods and services (% of GDP)	47.5	Imports of goods and services (% of GDP)	30.0
of which: Oil and gas	20.8		
Main commodity exports (% of total):		Main commodity imports (% of total):	
Fish and fish products	5.6	Ships	3.4
Base metals and products	7.9	Raw materials (including fuel and chemicals)	11.5
Machinery and transport equipment (excluding ships)	7.3	Base metals and products	7.8
Mineral fuels	61.7	Machinery and transport equipment (excluding ships)	33.6
Non-oil commodity exports by area (% of total):		Non-oil commodity imports by area (% of total):	
EU	69.0	EU	67.4
of which: Denmark and Sweden	19.5	*of which*: Denmark and Sweden	23.0
United States	7.6	United States	7.3
Rest of the world	23.4	Rest of the world	25.2

THE CURRENCY

Monetary unit: Krone		June 2002, average of daily rates:	
		NOK per USD	7.75
		NOK per EUR	7.40

Note: An international comparison of certain basic statistics is given in an annex table.

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•

The economic situation and policies of Norway were reviewed by the Committee on 25 June 2002. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 4 July 2002.

•

The Secretariat's draft report was prepared for the Committee by Wim Suyker, Philip Hemmings and Isabelle Joumard under the supervision of Peter Hoeller.

•

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