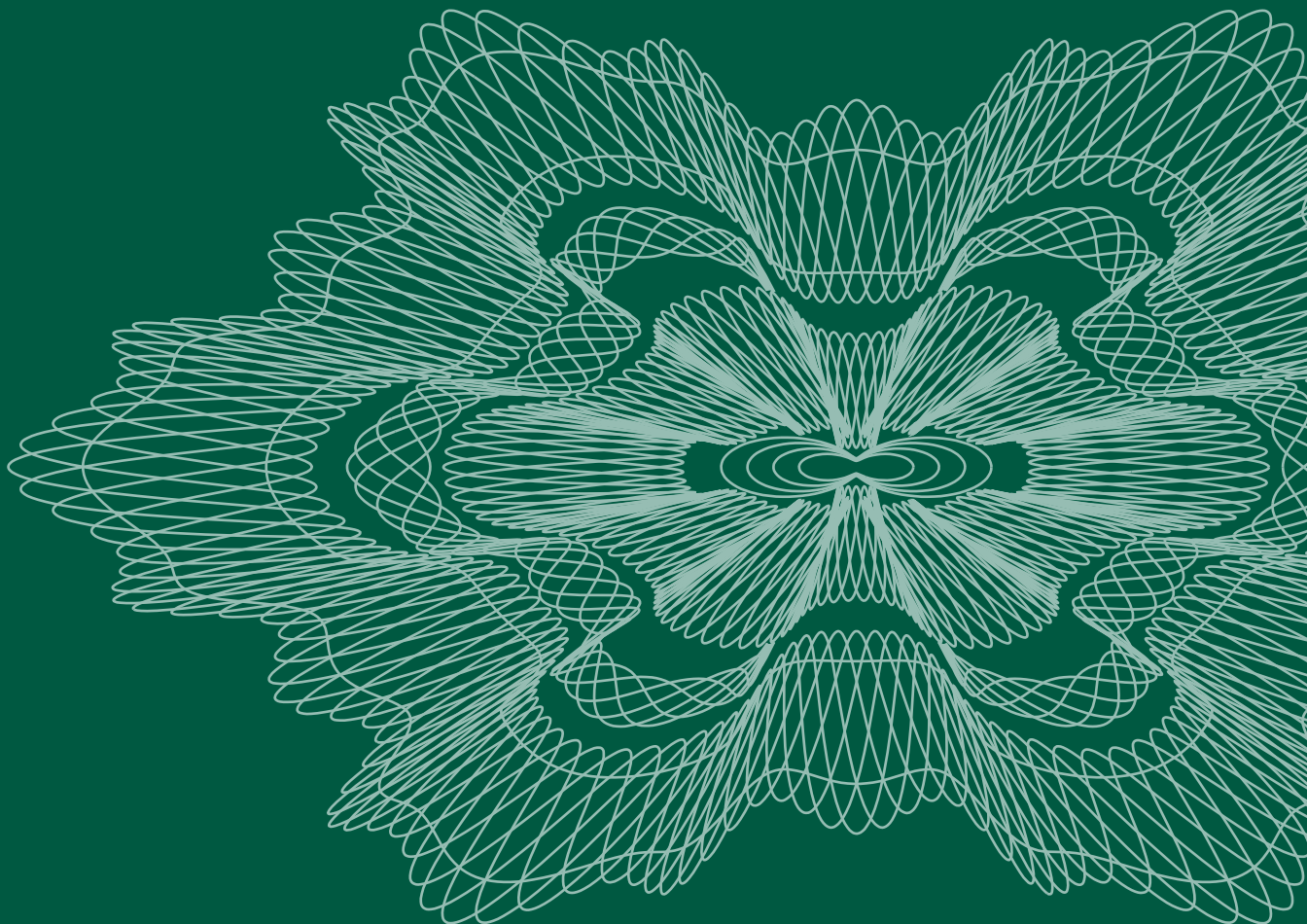




Economic Bulletin

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Economic perspectives

Annual address by Governor Svein Gjedrem at the meeting of the Supervisory Council of Norges Bank on 19 February 2004

Introduction

There is now growth in the Norwegian economy. Oil prices are high. Capacity utilisation in the mainland economy is at the level prevailing in the mid-1990s. Wage growth is slowing. White-collar workers have lowered their wage demands, and there are prospects of a moderate main settlement this spring – the first in eight years. The value of the krone is on a par with the mid-1990 level. The interest rate level is in line with the level among our trading partners.

In that respect, there is equilibrium in the Norwegian economy at present. But it is fragile.

The international division of labour is shifting, and when faced with major changes it is a disadvantage for Norwegian business and industry that costs are high. Inflation is very low.

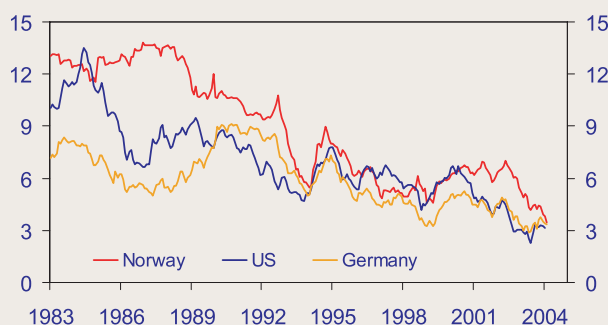
Short-term interest rates abroad have been unusually low over the past 2½ years, and there are no prospects of a considerable increase in the near term even if the world economy is expanding. Last year, interest rates abroad acted as a magnet on Norwegian interest rates. We now have the lowest nominal interest rate level recorded in decades.

Norwegian households are optimistic and are borrowing and investing in housing and property.

This stands in contrast to corporate behaviour. Businesses are rationalising and earnings are on the rise, but they are still investing and borrowing on a limited scale.

The upturn is still not entirely self-sustained.

Chart 1 Long-term interest rates. Per cent



Source: EcoWin

The chart shows changes in yields on five-year government bonds. Monthly figures.

A global financial market

Cross-border capital flows have increased considerably in recent decades. Bond markets have moved more in tandem, particularly since the mid-1990s (see Chart 1). This also applies to equity markets.

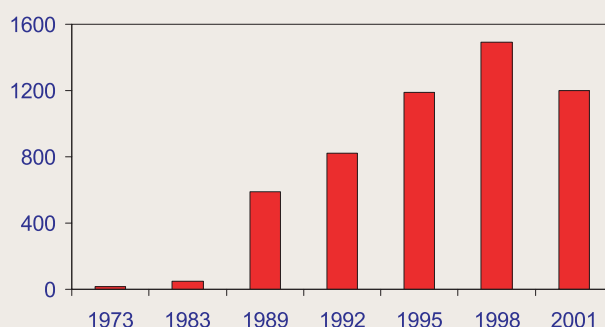
Investors are increasingly spreading their investments across countries. They are diversifying risk, and seeking high returns. In parallel, governments, banks and companies are issuing more debt externally.

Currency trading has increased markedly since the 1980s (see Chart 2). This trend was reversed when the number of currencies was reduced owing to the introduction of the euro. Large trading volumes enhance market liquidity. The growth in currency trading is ascribable to an increase in portfolio investment, higher foreign direct investment and growth in world trade.

The forward exchange and options market have expanded in recent years. A deeper market reduces transaction costs, and it is easier to find counterparties. This has provided companies with greater scope for hedging against foreign exchange risk. The use of instruments that reduce the risk associated with a floating krone is also increasing in Norway.

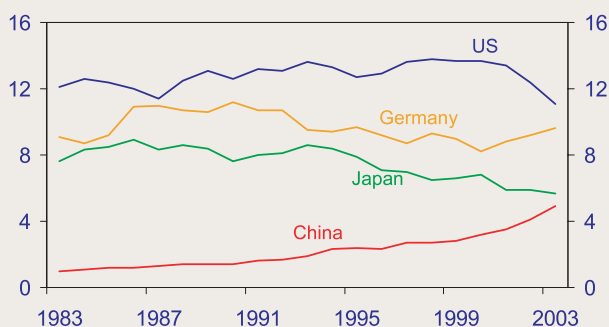
A considerably larger portion of credit in other countries is now channelled via the bond market. Less risk is being accumulated in banking systems. The development of new markets and instruments, for example credit derivatives, has also led to a broader risk spread than earlier.

Chart 2 Global daily foreign exchange trade. In billions of USD



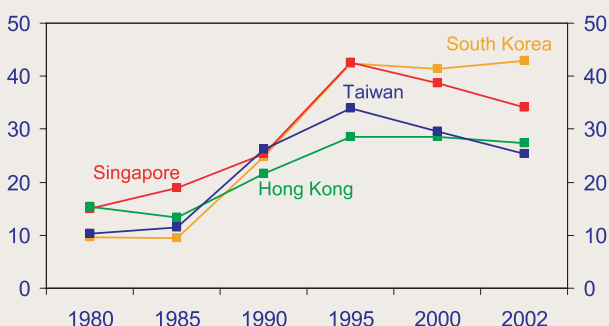
Sources: BIS, IMF, central banks

The chart shows average daily foreign exchange trading reported by member banks in the Bank for International Settlements (BIS). Every third year since 1989, BIS has conducted a survey of activity in the foreign exchange market by gathering data from the central banks of member countries. The figures do not include currency trading over the counter (OTC) and currency trading among member banks. The figures therefore underestimate actual currency exchange. The number of countries included in the study has increased over time. Growth may therefore be overestimated.

Chart 3 Share of global exports. Per cent

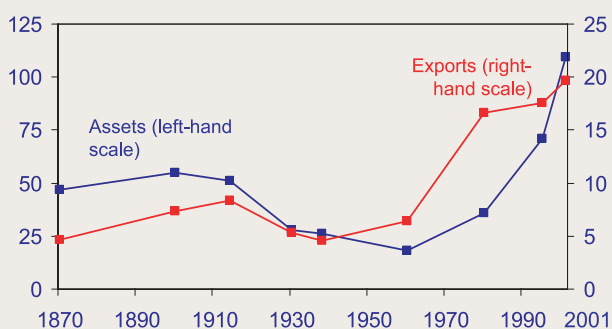
Sources: IMF, EcoWin and Norges Bank

Figures for 2003 for the US, Germany and Japan are based on projections from the IMF.

Chart 4 Wage level. Percentage of wages in the US

Sources: US Department of Labor and Norges Bank

The chart shows developments in hourly costs, measured in USD, for production workers in manufacturing as a per cent of the level in the US. Hourly costs include wages, health insurance and pension costs.

Chart 5 Exports and foreign assets. Per cent of global GDP. 1870 - 2001

Sources: IMF and Norges Bank

The curve "Exports" shows global exports as a share of global GDP. The curve "Assets" shows all countries' foreign assets (public and private) as a share of global GDP. Values up to 1995 have been estimated by the IMF. The value for 2001 has been estimated by Norges Bank on the basis of growth in foreign assets for the average of the G-7 countries in the period 1995-2001.

The improved diversification of risk is probably one of the reasons that world financial markets have coped with the stock market decline and the accounting scandals with limited damage to the wider economy. This is probably one reason why the downturn following the stock market decline in 2000 was considerably less pronounced than earlier downturns.

The new instruments spread risk, but do not eliminate it. Financial markets have become highly complex. This alone entails an operational risk, which is a challenge to participants and the supervisory authorities.

A shift in the international division of labour

Increased trade promotes growth and lays a basis for prosperity. A number of Asian countries have experienced strong, export-led growth – Japan from the 1950s and several countries in Southeast Asia from the 1960s. In recent years, China has become an important player in international trade, and the country is now probably the world's fourth largest trade nation (see Chart 3). The Asian economies and the rest of the world have become more integrated.

Technological advances and a sharp fall in prices in the IT and telecommunications sectors have exposed a number of services that were previously sheltered to competition from low-cost countries. Indian companies service three million customer telephones for companies in the US and the UK – daily. European airlines are transferring ticket settlement to India. US companies are outsourcing accounting services to India. Analytical activity in investment banks and development divisions in ITC companies are also being moved to India. Norwegian engineering companies are buying cheap engineering services in India and China. EU enlargement this spring, with ten new members, is also influencing the division of labour in Europe.

The advances in Asian economies have generally relied on an abundant supply of cheap labour, but wages have gradually increased in step with productivity gains (see Chart 4). A higher income level paves the way for higher imports.

Today's globalisation has a historical parallel (see Chart 5). In the period preceding World War I, the world experienced a period of strong growth in trade and cross-border capital flows. There were few political barriers and major technological advances fostered growth in trade. Prosperity increased. But this period was interrupted, and in the interwar period protectionism gained ground, with trade barriers and a contraction in international trade. This was combined with an economic recession. In the post-war period, trade barriers have gradually been scaled back. Trade picked up already in the 1950s, and since the 1980s financial markets have become evermore interwoven.

Implications for the Norwegian economy

Intensified competition from Japanese and Korean shipyards had serious implications for Norwegian shipbuilding in the 1970s and 1980s. However, Japan has also become an important market for Norwegian products. From the considerable deficits of earlier years, trade in traditional goods with Japan has moved into near balance.

Strong growth in Asia is probably one of the prominent factors contributing to high oil prices in spite of low growth in the OECD area in recent years. China accounted for close to 50 per cent of growth in world oil consumption in 2002 and 2003. Trade in Asia has stimulated Norwegian shipping.

The Chinese economy could continue to expand at a brisk pace for a longer period, which would open a large market that can also be entered by Norwegian enterprises. Norwegian exports to China have increased, but are still limited.

Over several years, enterprises in Central European countries have been a source of competition for Norwegian jobs. Integration is also opening new markets and providing new sources of income for Norwegian enterprises. At the same time, tender requirements and the freedom of establishment have increased the competition facing Norwegian industries that were previously sheltered.

A steadily larger share of Norway's consumer goods imports come from China and Central European countries (see Chart 6). Growth in imports from China was provided with an additional impetus after China became a member of the World Trade Organization in 2001. Imports from Eastern Europe have also continued to grow.

There are many economic agents in Norway that are benefiting from globalisation. Consumers are enjoying lower prices for goods and services. Input prices have

fallen and companies can sell their products in new markets. But there are also costs. Norwegian businesses and jobs may lose in the competition.

The challenge lies in moving idle resources to new business activities. This requires adaptability and a sound cost policy.

Monetary policy

The operational target of monetary policy, as defined by the Government, is inflation of 2½ per cent over time. The target is symmetrical – it is just as important to avoid an inflation rate that is too low as an inflation rate that is too high. The inflation target provides economic agents with an anchor for inflation expectations.

History shows that there is no long-term trade-off between lower unemployment or stronger economic growth and higher inflation (see Chart 7). We witnessed this in the 1980s when growth was low and inflation high. The task of monetary policy is to provide a nominal anchor. Low and stable inflation is such an anchor.

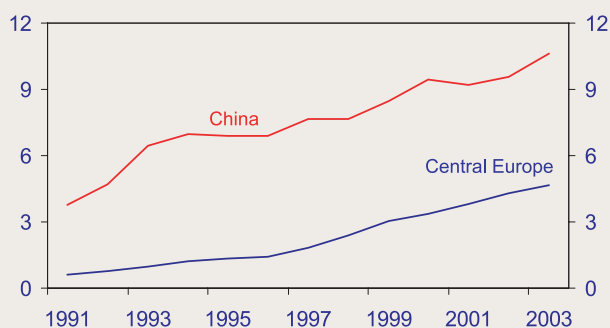
Why is a little inflation an advantage?

There are several reasons why it is an advantage for inflation to be higher than zero.

The structure of the economy is in flux. Demand for labour with different qualifications is changing. This requires changes in relative wages. There are rigidities in nominal wage growth. Nominal wages do not readily fall. With some inflation, relative wages can change without a fall in nominal wages. There may also be rigidities in the pricing of goods and services. Some degree of inflation will thus oil the economic machinery.

In periods, inflation and economic growth will be low. It is then appropriate for real interest rates to be low, or even negative. Nominal interest rates cannot be set below zero. If inflation becomes entrenched at a low

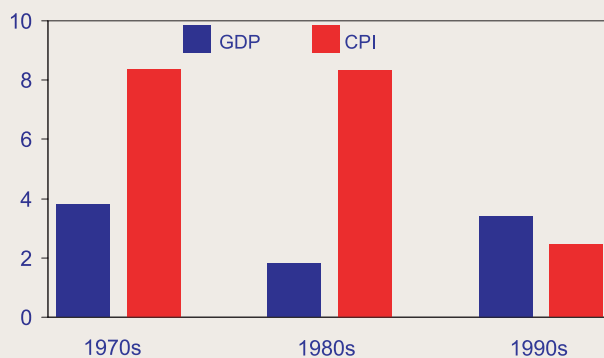
Chart 6 Imports to Norway. Share. Per cent



Sources: Statistics Norway and Norges Bank

The chart shows the share of Norway's import of consumer goods from China and Central Europe. In this chart, Central Europe includes Slovenia, Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, Poland and Hungary.

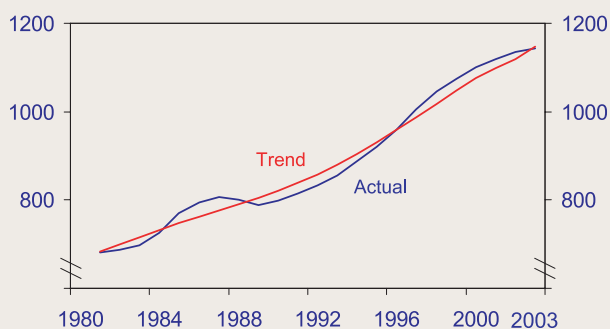
Chart 7 Consumer prices and mainland GDP. Percentage annual rise. Average



Sources: Statistics Norway and Norges Bank

The chart shows the average annual rise in the consumer price index and mainland GDP for the given decade.

Chart 8 Mainland GDP. In billions of NOK. Constant 2000 prices



Sources: Statistics Norway and Norges Bank

The chart shows mainland GDP in billions of NOK with constant 2000 prices. The curve "Trend" expresses trend output and is estimated using the Hodrick-Prescott method. The method allows gradual changes in trend output over time, whereas more short-term fluctuations in output are assumed to reflect cyclical variations in demand in the economy. Trend has been adjusted for the fact that the increase in the number of vacation days in 2001 and 2002 reduced the growth potential by approximately ½ percentage point in each of these years.

level or near zero, the interest rate will be less effective as an instrument.

There are different ways of measuring inflation. The consumer price index tends to overestimate actual inflation. The most important source of measurement errors is probably the difficulty of distinguishing between changes in the quality and price of goods. In other countries, findings show that the consumer price index overestimates actual inflation to the order of ½ -1 percentage point.

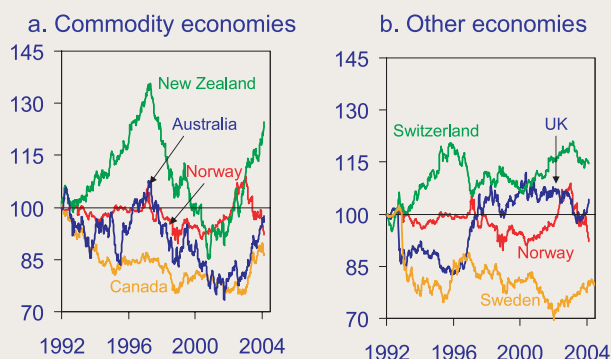
The conduct of monetary policy

Norges Bank normally sets the interest rate with a view to attaining an inflation rate of 2½ per cent two years ahead. If demand for goods and services is high and there is a shortage of labour, there will normally be prospects of higher inflation. When the interest rate is raised, demand is dampened and inflation is kept in check. If demand is low and unemployment rises, there will be prospects of lower inflation. The interest rate will then be lowered. The inflation target thus represents a framework, not an obstacle, for monetary policy to contribute to stability in output and employment.

In the long run, output is determined by the supply of labour and capital and adaptability, but in the short and medium term monetary policy can also have an impact on the real economy.

Norges Bank operates a flexible inflation targeting regime, so that weight is given to variability in output and employment and inflation. The economy grows over time (see Chart 8). Output will in periods lie below trend growth and in others above trend. Stabilising output growth means that one seeks to maintain actual output near trend.

Chart 9 Trade-weighted exchange rate. Index. 1992 Week 1 = 100



Sources: Bank of England and EcoWin

The chart shows developments in the trade-weighted nominal exchange rate. A rising curve denotes a stronger exchange rate. Weekly figures.

Monetary policy credibility

Expectations play an important role in price and wage formation. Expectations concerning inflation and economic stability are of crucial importance for the foreign exchange market. Inflation expectations also influence wage demands and pricing in the business sector.

With confidence in monetary policy, expected inflation in the long term will be close to the inflation target. This alone contributes to stabilising inflation.

Surveys indicate that enterprises, the social partners and other economic agents expect inflation to be 2½ per cent over time. Financial market participants also expect that inflation will be 2½ per cent ahead, as implied by long-term bond yields.

A flexible exchange rate

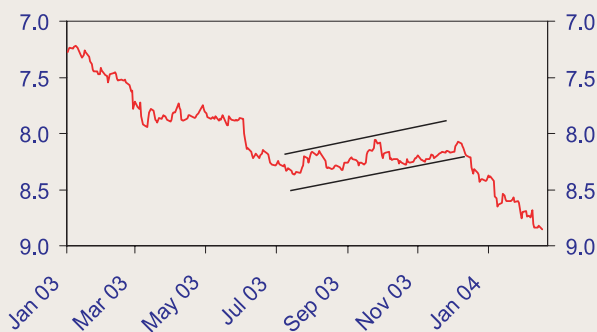
The krone exchange rate is an important channel for monetary policy.

The krone fluctuates. This is not surprising because other countries' currencies also fluctuate. The krone exchange rate is the price of our currency measured in a foreign currency. Developments in other countries are just as important for the krone as developments in the Norwegian economy. Capital flows freely and flows can change rapidly. This can spill over to exchange rates and interest rates as well as output and employment.

A structural feature of open economies like the Norwegian economy - with a national currency - is that the exchange rate fluctuates. The Norwegian krone does not stand out as particularly unstable. On the contrary, in countries like Sweden, the UK, Switzerland, Australia, Canada and New Zealand, the exchange rate fluctuates just as much – or more – than in Norway (see Chart 9).

There is a cost involved for businesses in hedging against fluctuations in the krone. A krone that is stable -

Chart 10 Exchange rate. NOK-EUR



Source: EcoWin

The chart shows developments in NOK measured against the euro. A rising curve denotes an appreciation of the krone. Daily figures.

but too strong - also entails costs in the form of low activity. Similarly, a krone that is stable - but weak - is a source of high inflation.

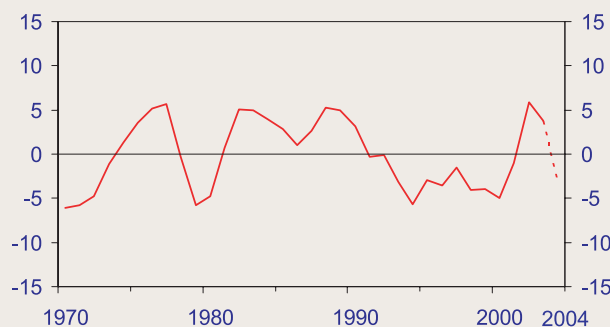
Petroleum revenues generally provide substantial, but uneven currency inflows into Norway. The currency flows might have resulted in a strong krone and large variations in the exchange rate. This tendency is countered when the annual use of petroleum revenues over the central government budget is predictable and independent of annual revenue inflows, and the remainder is invested abroad. The capital outflow through the Petroleum Fund contributes to both curbing the appreciation of the krone and maintaining its stability.

Norges Bank has not defined an exchange rate target. Nevertheless, developments in the krone are of considerable importance to interest-rate setting because exchange rate developments have an impact on inflation and output. When there are prospects of moderate economic activity, low wage growth and low inflation, Norges Bank will reduce the interest rate. This will normally result in a depreciation of the krone. Prices for imported goods and services will increase. A weaker krone strengthens the competitiveness of Norwegian enterprises and indirectly leads to higher output, employment and inflation.

Themes in foreign exchange markets shift. In periods, investor focus on stock returns feeds through to exchange rate movements. During periods of political and economic unrest, investors may choose individual currencies as a safe haven - often the Swiss franc. In the autumn of 2002, the Norwegian krone was probably also perceived as a safe haven. Wide fluctuations between major currencies have a tendency to result in a weaker krone. In the past 12-18 months, developments in the interest rate differential between Norway and other countries appear to have had a particularly marked impact on our currency. Norwegian interest rates have been pushed down to the level prevailing abroad.

In the autumn of 2003, the krone showed a tendency

Chart 11 Real krone exchange rate. Deviation from average. Per cent



Source: Norges Bank

The chart shows developments in the real exchange rate. The real exchange rate may be defined as the relationship between the price level in Norway and the price level among trading partners, measured in a common currency. An increase in the real exchange rate may be due to an increase in the Norwegian price level compared with trading partners, an appreciation of the nominal exchange rate in relation to other currencies or a combination of the two.

The consumer price index (CPI) provides the basis for these calculations. The nominal exchange rate used in the calculations is the trade-weighted exchange rate index (TWI).

The average has been calculated over the period 1970-2003.

The projection for 2004 is based on price projections in *Inflation Report* 3/03. The projections were based on the assumption of an exchange rate equal to the average in the period from 1 January to mid-February.

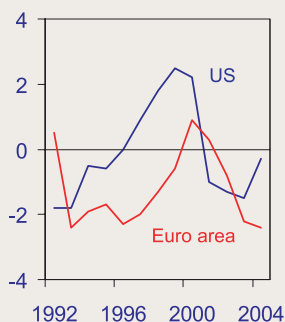
to appreciate against the euro (see Chart 10). This partly reflected lowered market expectations concerning an interest rate increase abroad and expectations that interest rates might rise earlier in Norway than in other countries. At the same time, the euro appreciated in relation to other currencies. Changes in the krone resulted in an unintended tightening of monetary policy. This trend was reversed in December owing to a reduction in interest rates and low inflation figures. The interest rate reduction was probably of considerable importance as it eliminated the excess return on NOK investments. Today, the krone is at a level that is more consistent with the objective of promoting stability in output and employment. The weaker krone will contribute to a rise in inflation from a level that is too low.

Normally, Norges Bank will not intervene in the foreign exchange market in order to influence the exchange rate. Exchange market intervention, whether it be purchases or sales of foreign exchange, is not an appropriate instrument for influencing the krone over a longer period. We do not wish to act in a way that may trigger a game situation in the foreign exchange market. Foreign exchange intervention rather than a change in the interest rate may give ambiguous signals to foreign exchange operators and a game situation may arise.

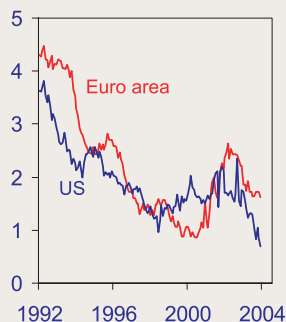
Although the krone may fluctuate in the short term, it will generally stabilise over time (see Chart 11). When inflation has been higher in Norway than among our trad-

Chart 12**a. Output gap**

Deviation from trend BNP. Per cent

**b. Inflation**

Per cent



Sources: OECD and EcoWin

The chart shows capacity utilisation (annual figures) and inflation (monthly figures) in the US and the euro area.

Capacity utilisation is measured by an output gap. The output gap measures output in the economy in relation to trend output, or to be more precise, potential output, as it is called in the economic literature. Potential output may be interpreted as the level of output that is consistent with stable domestic price and wage inflation.

Inflation in the US is measured by a deflator for private consumption excluding food and energy. Inflation in the euro area is measured by a consumer price index excluding energy, food, alcohol and tobacco.

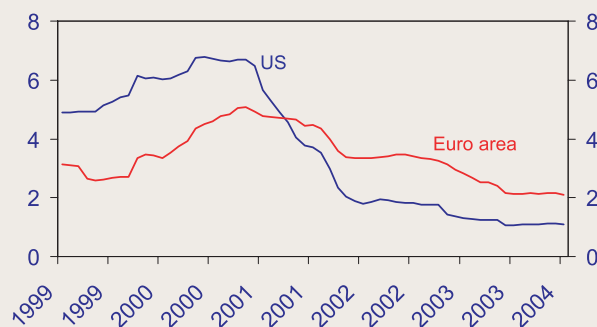
ing partners for a longer period, the krone has generally depreciated. When inflation in Norway is expected to be broadly in line with that of other countries, the exchange rate will normally also return to its normal range following periods when the krone has been particularly strong or particularly weak. This provides a basis for stable exchange rate expectations.

The advantage of a flexible exchange rate is perhaps most evident when the economy is sluggish. If the krone were to remain at a level that is too strong, nominal wages would have to remain unchanged over a longer period or fall in order to bolster companies and jobs. This only occurs when unemployment is very high. With a flexible exchange rate, a depreciation of the krone can also boost competitiveness. A flexible exchange rate can reduce fluctuations in employment and output.

Empirical studies do not provide any evidence that floating exchange rates have reduced growth in industrial countries. Rather, they suggest that industrial countries with floating exchange rates have fared well, and often better, than countries with an exchange rate target. A precondition is that there is an economic policy framework so that inflation does not spin out of control.

Economic developments and prospects

External cyclical developments and events have had considerable implications for developments in the Norwegian economy.

Chart 13 Short-term interest rates. Per cent

Source: Norges Bank

The chart shows developments in three-month money market rates in the US and the euro area. Monthly figures.

The US fuelled the international upswing in the 1990s, with strong growth in private consumption, rising equity prices and a high level of investment. Inflation was low because productivity increased (see Chart 12). In Continental Europe, the upturn started later and was weaker. Capacity utilisation in Germany and France was low through most of the 1990s.

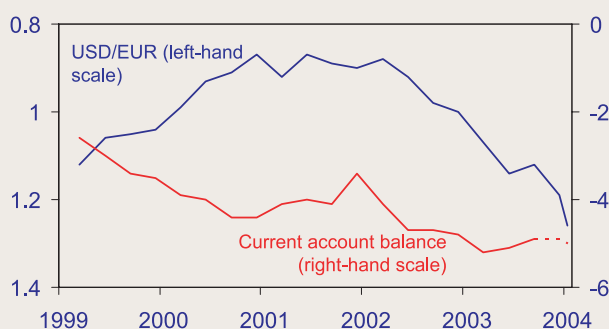
The international upturn came to a halt in 2000. The bubbles in the equity markets burst. Many years of high investment led to excess capacity, and rising unemployment. The terrorist attacks on 11 September 2001 put a new damper on economic activity. From the summer of 2002 to the spring of 2003, a highly extraordinary accumulation of negative events in the global community - accounting scandals, fear of terror, war and disease - put a brake on growth. US interest rates, which were sharply reduced at the beginning of the downturn, have subsequently been reduced further. Interest rates have also remained low in the euro area (see Chart 13).

There are now clear signs that the global economy has passed the trough. However, while the outlook is brighter, price inflation is still low and interest rates are being kept unusually low. Economic growth is high again in the US. Employment is rising, but there is still excess production capacity and very low inflation. It may take some time before interest rates are increased substantially in the US. Growth in Asia is solid, but a global rise in interest rates is unlikely to start there.

Inflation is higher in the euro area than in the US and approximately in line with the objective defined by the European Central Bank. In the euro area, however, capacity utilisation is very low, unemployment high and the outlook for growth is weaker. Against this background, it will probably also take time before interest rates rise markedly in the euro area.

The imbalances in world trade represent a particular risk (see Chart 14). The US is running a substantial trade deficit, which was financed for a number of years by pri-

Chart 14 USD/EUR and the US current account balance as a percentage of GDP



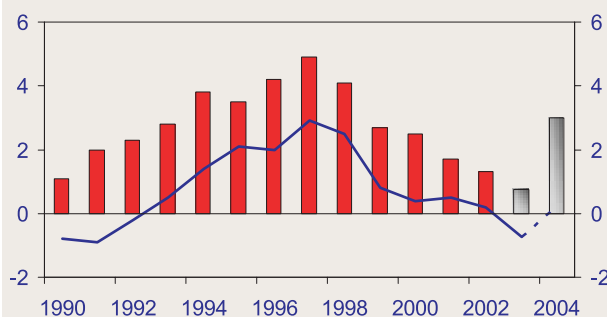
Sources: OECD and Norges Bank

The chart shows developments in USD/EUR and the US current account balance as a percentage of GDP. Quarterly figures.

The figure for Q1 2004 for USD/EUR is the average exchange rate in the period from 1 January to mid-February.

The OECD's estimates for Q4 2003 and Q1 2004 are used for the US current account balance.

Chart 15 Mainland GDP and employment. Annual growth. Per cent



Sources: Statistics Norway and Norges Bank

The chart shows annual growth in mainland GDP and employment. GDP growth for 2003 and 2004 are projections from *Inflation Report 3/03*. The same is the case for employment growth in 2004. Figures for annual employment growth in 2003 are taken from Statistics Norway's Labour Force Survey (LFS).

vate capital flows to the US business sector. The flows have subsided and led to a sharp fall in the US dollar at the same time as the euro has appreciated. Through purchases of US government securities, Asian countries have thus far kept their currencies stable against the US dollar.

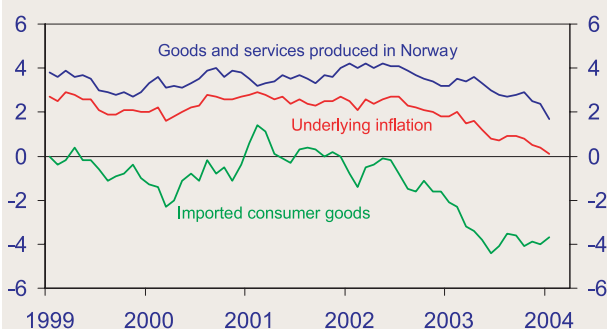
The US federal budget deficit is an important source of the imbalances in world trade. It appears that it will take time before the deficit is reduced to a considerable extent. This entails a risk that the dollar will depreciate further and that US long-term government bond yields will move up. Growth in Continental Europe, which is highly reliant on impetus from exports, may weaken markedly if the dollar continues to fall.

Norway, like other countries, experienced a period of strong expansion in the 1990s (see Chart 15). The expansion in Norway lasted considerably longer than in other countries. In 1998, the economy shifted from an upturn with high growth rates to an expansion with lower growth but low unemployment, labour shortages in many sectors and strong growth in labour costs.

Wage developments culminated in the spring of 2002 and the expansion was reversed in the second half of the year. Growth came to a halt and employment fell. A number of factors triggered this development. Higher wage costs weakened the purchasing power of public entities. Global stagnation had a dampening impact on Norwegian exports. In Norway, the interest rate was kept high after the wage settlement and a persistent, unexpected low level of interest rates abroad resulted in a strong krone. The sharp rise in electricity prices last winter also affected the domestic economy.

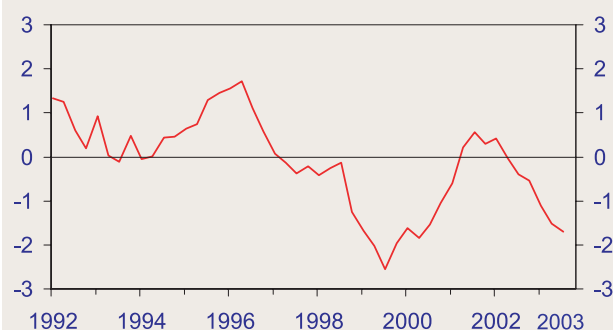
Consumer price inflation in Norway declined sharply through 2003 (see Chart 16). A number of factors appear to have contributed to the decline. The appreciation

Chart 16 Inflation. Per cent



Sources: Statistics Norway and Norges Bank

Chart 17 Price indicator for imported consumer goods. Foreign currency. Percentage rise



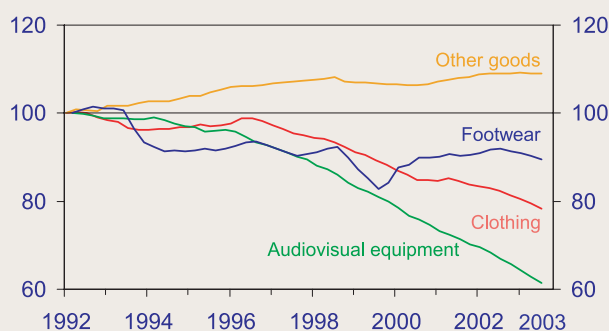
Source: Norges Bank

The chart shows a price indicator for imported consumer goods, measured in foreign currency. Quarterly figures.

The indicator summarises the rise in prices for various groups of consumer goods: audiovisual equipment, furniture and domestic appliances, clothing and footwear, vehicles and other goods (see chart 18).

The indicator is weighted on the basis of the size of the group of goods in the CPI-ATE. The weight is adjusted in relation to the share that is imported.

Chart 18 Price indicator for imported consumer goods. Foreign currency. Index. 1991 Q1 = 100

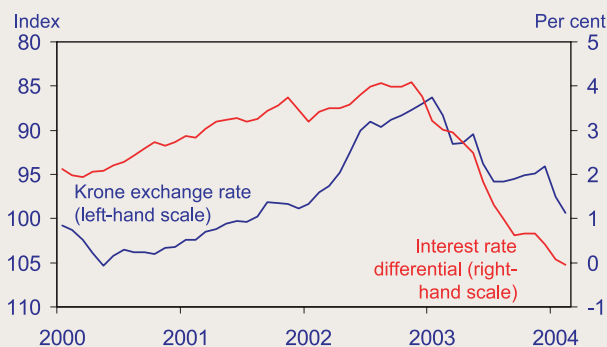


Source: Norges Bank

The chart shows a price indicator for imported consumer goods, measured in foreign currency. Quarterly figures.

Each indicator summarises the rise in prices in the various countries from which we import the individual consumer goods. In addition, account is taken of the effects of shifts in imports from high-cost to low-cost countries.

Chart 19 Import-weighted krone exchange rate and interest rate differential against trading partners



Source: Norges Bank

The chart shows developments in the interest rate differential between Norwegian three-month money market rates (NIBOR) and a weighted average of three-month money market rates among our trading partners. Developments in the exchange rate are measured by the import-weighted index (I-44). A rising curve indicates an appreciation of the krone. Monthly figures.

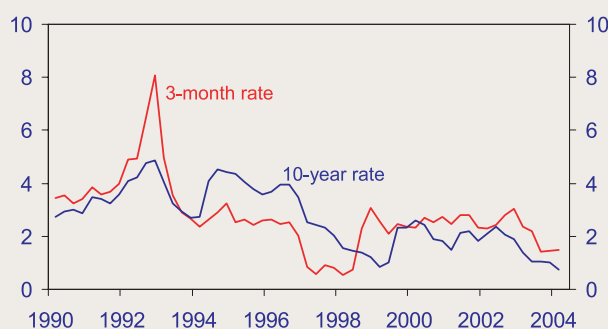
of the krone through 2002 pushed down import price inflation.

A change in trade patterns and external economic conditions have resulted in an unexpectedly sharp fall in import prices, even when measured in terms of what Norwegian importers pay in foreign currency (see Chart 17).

The change in trade patterns has made a considerable contribution to the sharp decline in prices for clothing, shoes and audiovisual equipment (see Chart 18). Rapid technological advances have also pushed down prices for audiovisual equipment.

In Norway, competition has probably increased in the

Chart 20 After-tax real interest rates. Quarterly figures. Per cent



Sources: Statistics Norway and Norges Bank

The chart shows real after-tax three-month money market rates and real after-tax yields on ten-year government bonds.

Three-month money market rates (NIBOR) have been deflated by underlying inflation the same year. The inflation rate used is the annual rise in the CPI excluding energy products until 1995, Norges Bank's calculations for the CPI adjusted for tax changes and excluding energy products from 1995 to July 2000 and subsequently the CPI-ATE.

The same deflator is used for ten-year government bond yields, but from Q2 2001, the inflation target of 2.5 per cent is used.

January 2004 figures are used for Q1 2004.

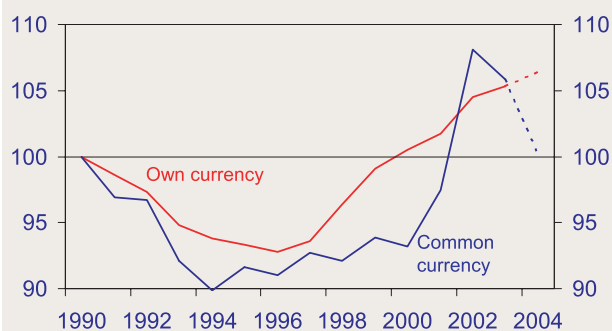
retail industry and other service sectors in recent years. Initially, heightened competition affects companies' profit margins. But enterprises will respond by reducing their costs. This will occur in part in the individual enterprise, but subcontractors will also be required to reduce their prices and enhance efficiency. Therefore, increased competition usually triggers higher productivity growth in the economy. Low inflation may therefore be matched by growth in productivity.

The cyclical downturn last winter, low wage increases last year, fiscal discipline, an unexpected decline in inflation and prospects of low inflation have resulted in a considerable easing of monetary policy. The interest rate has been reduced by 5 percentage points and is now approximately the same as among our trading partners. The krone has depreciated by about 12 per cent over the past year, and has returned to the level prevailing in the summer of 2001 and is in line with the average for the 1990s (see Chart 19).

Monetary policy is expansionary now. This is reflected in low after-tax real interest rates (see Chart 20). A long-term real yield on 10-year bonds can be estimated at about 1 per cent. We have adjusted the nominal interest rate for expected inflation. The short-term real interest rate is estimated at 1½ per cent. We have then adjusted the figure for actual inflation. The fall in nominal interest rates in 2003 has also reduced household net interest expenses. This has increased household purchasing power considerably.

The fall in the value of the krone over the past year has strengthened the Norwegian business sector. The business sector is, however, still feeling the effects of a sharp

Chart 21 Labour costs in Norway compared with trading partners. Index. 1990=100



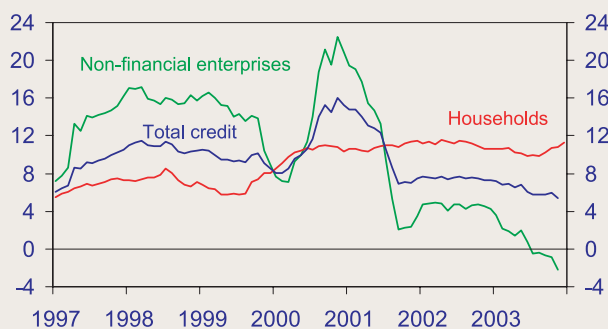
Sources: TRCIS, Ministry of Finance and Norges Bank

The chart shows relative hourly wage costs for manufacturing in Norway and among trading partners. Index 1990 = 100

The curve "Own currency" shows the index for relative hourly wage costs, without taking exchange rate movements into account. The curve "Common currency" shows relative hourly wage costs when exchange rate movements are also taken into account. This curve expresses developments in competitiveness. A rising curve indicates a weakening of competitiveness.

The figures for 2004 are projections. The projection is based on the average exchange rate for the period from 1 January to mid-February.

Chart 22 Credit growth. Per cent



Source: Norges Bank

The chart shows growth in gross credit to mainland Norway from domestic and foreign sources in the last twelve months, and an estimated distribution between households and non-financial enterprises.

The curve "Total credit" shows Norges Bank's credit indicator C3 for mainland Norway.

The curve "Non-financial enterprises" shows growth in gross credit to mainland non-financial enterprises from domestic and foreign sources. For the sake of simplicity, it is assumed that all borrowing from foreign sources goes to enterprises. In practice, a small share of the loans from foreign sources will also go to households.

The curve "Households" shows the increase in household's domestic gross debt (C2 households).

rise in labour costs over a period of several years. Relative labour costs measured in a common currency are in line with the level prevailing in 1990, but approximately 10 per cent higher than in the mid- 1990s (see Chart 21). The internationally exposed sector has been scaled back. Those companies that are currently operating may be in a better position to bear the high wage level. Nevertheless, costs may limit activity and employment.

Growth in the Norwegian economy picked up again through the summer of 2003. In the period ahead, solid growth in household income, subdued consumer price inflation and low interest rates will provide the conditions for high growth in private consumption. There is optimism in the building and construction sector. High petroleum investment is also supporting activity while mainland business investment has been low for a long period.

The number of persons employed began to increase in the summer of 2003 and unemployment stabilised. An economic turnaround has occurred, with a soft landing after the long period of high cost inflation in Norway and a low level of activity in other countries. But inflation is too low.

As mentioned, there are three main factors that have contributed to this.

First, the global downturn had considerable implications for the impact of interest-rate setting in Norway. A strong krone contributed to the decline in inflation. The krone has now returned to its previous level so that the effect will be reversed.

Second, low inflation in other countries and rapid changes in the international division of labour have resulted in a fall in prices for imported goods and services, even when measured in terms of what Norwegian importers pay in foreign currency.

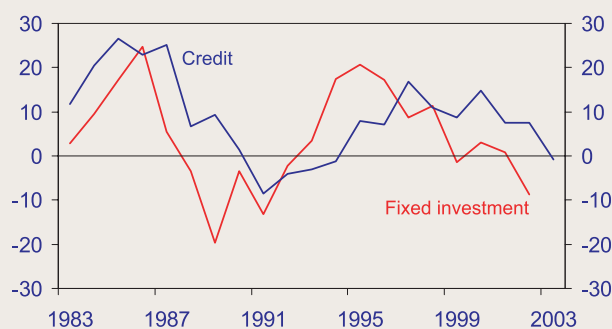
Third, intensified domestic competition also appears to have exerted downward pressure on prices.

As a result of both changes in the international division of labour and increased domestic competition, there is idle labour and available real capital in Norway. We cannot rule out that adjustments will be made over a period of time and that these adjustments will encompass a large portion of the domestic economy. Thus, it is possible that the level of output that is consistent with stable inflation will increase.

Inflation will remain low in 2004. However, the easing of monetary policy will gradually push up inflation. As mentioned, it may take some time before interest rates in other countries are increased to a considerable extent. We have seen that in periods, the krone is heavily influenced by changes in the difference between interest rates at home and abroad, and we must take this into account when setting interest rates. Themes in foreign exchange markets may shift, however. The impact of interest rate changes on the exchange rate may be less pronounced.

When inflation gradually moves up from a very low level, there will be a basis for gradually moving towards a more normal short-term interest rate level in Norway. This may counter the emergence of excessive pressures on domestic resources in the medium term. Interest rate

Chart 23 Enterprise credit and investments. Nominal growth. Per cent

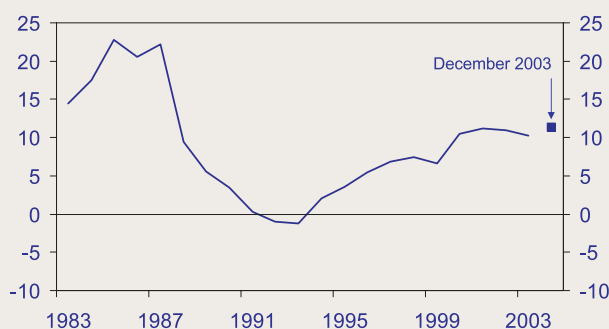


Sources: Statistics Norway and Norges Bank

The curve "Credit" shows the twelve-month rise in private, incorporated enterprises' domestic bond and loan debt at year-end.

The curve "Fixed investment" shows the annual rise in nominal investment in real capital in mainland Norway, excluding public investment and household investment in dwellings.

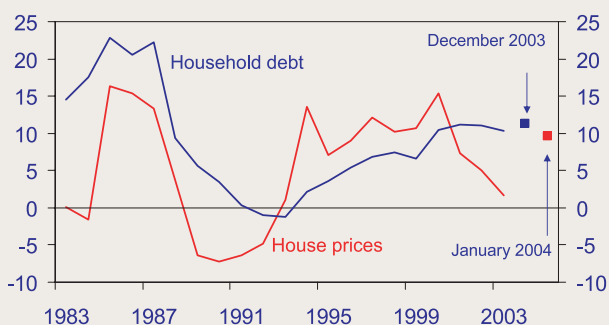
Chart 24 Household debt. Annual growth. Per cent



Source: Norges Bank

The chart shows developments in household debt. In addition to the annual figures for 1983-2003, the last months' observations have also been included.

Chart 25 House prices and household debt. Annual rise. Per cent



Sources: Norwegian Association of Real Estate Agents, Statistics Norway and Norges Bank

developments in other countries may also have considerable impact on the krone and hence on Norwegian interest rates.

When inflation is low – and as low as it is now – it is appropriate to place considerable emphasis on pushing up inflation. Therefore, we are particularly vigilant with regard to consumer price developments.

Financial stability

Developments in real economic variables are mirrored in credit markets.

In recent years, household income has shown solid growth, and household confidence has been high. However, corporate earnings have been low, and until recently enterprises have primarily focused on enhancing efficiency.

Credit developments (see Chart 22) are giving ambiguous signals to our interest-rate setting. Growth in household borrowing is high, but enterprises are reducing debt. The change in the breakdown of credit may have been amplified by banks' increased eagerness to extend credit to households after a period of losses on loans to the business sector. Total credit is expanding broadly in line with normal growth in nominal GDP.

Developments in credit to enterprises shadow developments in their investments (see Chart 23). Low credit growth indicates that mainland business investment has not yet picked up.

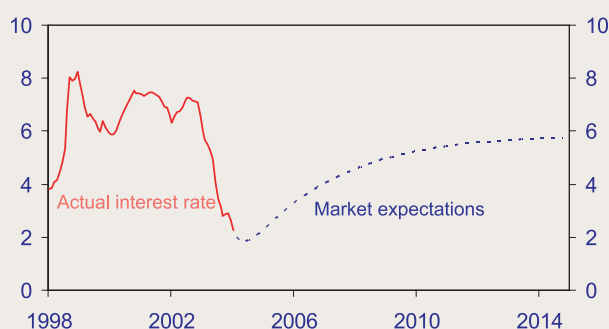
Household debt has increased sharply since 1999 (see Chart 24). Developments in debt in the 1990s may partly be interpreted as a delayed adaptation to the deregulation of the housing and credit markets in the 1980s after many households experienced financial difficulties following the relaxation.

Moreover, there now seems to be a tendency towards investing in property and incurring loans at a more mature age so that younger generations not only inherit dwellings, but debt as well. Both debt and wealth are on the rise for these more mature age groups.

Household credit demand is closely linked to developments in the housing market (see Chart 25). House prices have risen by an average of around 9 per cent over the past 10 years. High and persistent house price inflation can contribute to holding up credit growth even after prices have levelled off. Since only a portion of the housing stock is sold each year, some dwellings will be sold at a higher price than they were last sold for a long period. This is one of the reasons why growth in credit to households has remained high even after house price inflation moderated in 2002 and into 2003.

Home-owners who have seen the value of their dwellings rise have the possibility of taking up new mortgage-secured loans. They free up a portion of their home equity value to finance consumption and other investments.

Chart 26 Short-term interest rates in Norway
Actual and market expectations. Per cent



Source: Norges Bank

The chart shows nominal three-month interest rates ("Actual interest rate") and market expectations.

We have used estimated forward rates at 16 February 2004 as an indicator for market expectations. Forward rates are implied interest rates between two future dates. For example, expected three-month rates in three months may be derived from observations of three-month and six-month rates today.

Money market rates with one, three and six-month maturities and yields on government bonds with a residual maturity of from about 1½ to 9½ years have been used to calculate forward rates.

It is easiest to sell dwellings in the largest cities and some specific areas are particularly attractive. Residential property is now a fairly liquid and attractive investment.

Price developments in the housing market are characterised by the fact that there is little change in the housing stock from one year to the next. As a result, higher demand for housing will in the first round translate into higher prices. Housing prices fluctuate more than prices for goods and services, where supply can be rapidly adapted.

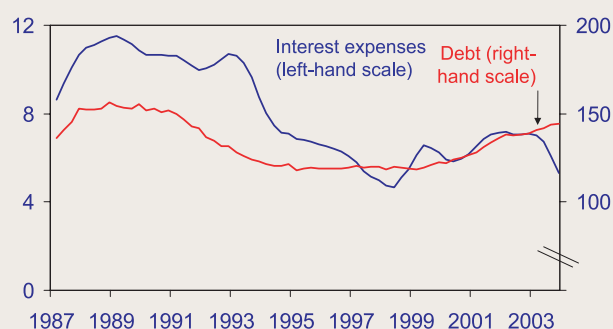
A persistently high rate of increase in house prices can in isolation engender expectations of a further rise and can thus prove to be self-reinforcing for a period.

Norwegian households generally finance their mortgages at an interest rate that follows the short-term money market rate. Floating interest rates tend to vary widely over time.

The interest rate level is very low at present, and long-term investments cannot rely on this interest rate spanning the life of a housing loan. According to money market expectations, the interest rate will eventually stabilise around 5½ per cent (see Chart 26). This is consistent with an inflation target of 2½ per cent and a long-term real interest rate in line with the level abroad. This interest rate, with a mark-up for banks' margins, provides a more realistic expression of the interest rate level that will apply over the loan's life than the floating interest rate prevailing today.

It may prove to be particularly challenging for borrowers to assess their debt-servicing capacity over time at a

Chart 27 Debt and interest expenses. Per cent of household income



Sources: Statistics Norway and Norges Bank

The curve "Debt" shows household loan debt as a percentage of disposable income.

The curve "Interest expenses" shows household interest expenses after tax as a percentage of disposable income plus interest expenses. The figures from March to December 2003 are projections. Quarterly figures.

time when the interest rate is abnormally low. Such a low interest rate also places particular demands on banks in assessing the creditworthiness of borrowers. But experience has shown that the underlying cause of loans defaults can be overly optimistic assessments on the part of both the lender and borrower.

House prices and developments in household credit influence consumption and housing investment. We seek to take account of these indirect effects in interest-rate setting.

A sharp rise in asset prices and debt accumulation may pose a risk to economic stability. With a view to mitigating this risk, it will be appropriate in some situations to apply a somewhat longer-than-normal time horizon than two years to attain the inflation target. However, at present debt accumulation is high only in the household sector. Enterprises are accumulating little debt. House prices are rising, but non-residential property prices are stable.

The debt to income ratio is now in line with the level recorded at the beginning of the 1990s (see Chart 27).

We have limited scope for restraining structural changes that occur when households increase their debt over several years to invest in housing and other property and assets. An interest rate that would effectively restrain these structural adjustments would also have an adverse impact on output and employment.

The interest rate can be used to reduce credit demand. At present – with low interest rates abroad and a close link between domestic interest rates and the krone – a tighter monetary policy would restrain credit demand primarily because job security would be reduced.

A flexible inflation targeting regime reduces the possibility of exposing households to a double shock in the

form of higher unemployment and higher interest rates, as was the case prior to the banking crisis in the beginning of the 1990s. If the economy is exposed to disturbances that lead to higher unemployment, inflation will normally decline and interest rates will be lowered.

Conclusion

To sum up:

The operational target of monetary policy is inflation of close to 2½ per cent over time. Norges Bank operates a flexible inflation targeting regime, so that weight is given to variability in output and employment and inflation.

Norges Bank has not defined an exchange rate target. A flexible exchange rate enhances stability in output and employment.

A structural feature of open economies like the Norwegian economy – with a national currency – is that the exchange rate fluctuates. The forward exchange and options markets have provided companies with greater scope for hedging against foreign exchange risk.

An economic turnaround has occurred, with a soft landing after the long period of high cost inflation in Norway and low activity in the global economy.

But inflation is too low.

The appreciation of the krone through 2002, a change in trade patterns and external economic developments

have contributed to low import price inflation. Domestic competition also appears to be exerting downward pressure on inflation.

As a result of both changes in the international division of labour and increased domestic competition, there is idle labour and available real capital in Norway. Thus, it is possible that the level of output that is consistent with stable inflation will increase.

Credit developments are giving ambiguous signals to our interest-rate setting. The interest rate can be used to reduce credit demand. At present – with low interest rates abroad and a close link between domestic interest rates and the krone – a tighter monetary policy will restrain credit demand primarily because job security would be reduced.

When inflation gradually moves up from a very low level, we can begin to move towards a more normal short-term interest rate level in Norway. This may counter the emergence of excessive pressures on domestic resources in the medium term. Interest rate developments in other countries may also have a considerable impact on the krone and hence on interest rates in Norway.

When inflation is low – and as low as it is now – it is appropriate to place considerable emphasis on pushing up inflation. Therefore, we are particularly vigilant with regard to consumer price developments.

Evaluation of Norges Bank's projections for 2003

Kristine Høegh-Omdal, economist in the Economics Department*

Consumer price inflation¹ in 2003 was substantially lower than previously projected by Norges Bank and other forecasters. The difference between actual and projected consumer price inflation can be mainly explained by a sharp fall in prices for imported consumer goods. This in turn is attributable to the krone appreciation in 2002 and the fall in prices for these goods measured in foreign currency. The rise in prices for goods and services produced in Norway was also somewhat lower than expected. Prices fell more than expected in the last part of 2003 in particular. Weaker economic growth, coupled with increased competition and greater efficiency in a number of industries, probably contributed to pressure on prices for both goods and services produced in Norway and imported consumer goods.

Since March 2001, Norges Bank's operational objective for monetary policy has been low and stable inflation. The inflation target is set at 2½ per cent. Monetary policy is forward-looking. Projections for price inflation and economic developments therefore form an important basis for monetary policy decisions.

Analysing forecast error can help us to improve the accuracy of our forecasts in the future and our understanding of the disturbance to which the economy has been subjected. In the light of new, lower projections for externally generated impulses to the Norwegian economy, Norges Bank has revised previous estimates of the exchange rate pass-through to prices for imported consumer goods. Preliminary estimates indicate that the pass-through to these prices may be somewhat weaker, and come later, than previously assumed.

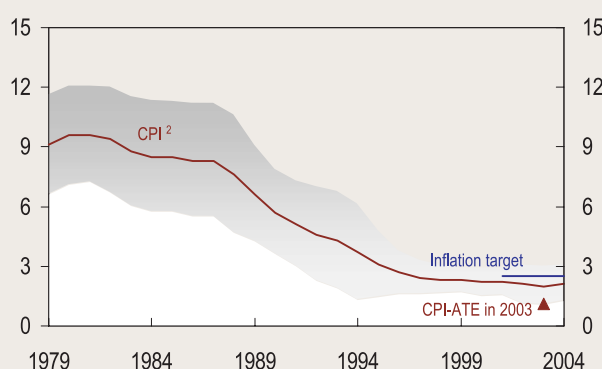
1 Introduction

Like other central banks with an inflation target for monetary policy, Norges Bank uses projections for consumer price inflation as a basis for the setting of interest rates. If monetary policy is to fulfil the operational objective of stable inflation, a thorough understanding of the factors behind price movements is crucial. By analysing forecast error, we gain a better insight into and understanding of economic relationships and price formation. This is important for enabling us to improve the accuracy of our projections.

There may be many reasons why projections do not tally with actual developments.²

- The projections in the *Inflation Report* are based on technical assumptions concerning interest rates and exchange rates. These assumptions do not necessarily reflect the most probable outcome. The purpose of Norges Bank's projections is to provide a basis for monetary policy decisions. Consequently, our projections will not always be the most accurate forecast of economic developments. If, for example, the conditional projection for consumer price inflation two years ahead is lower than the inflation target, the interest rate will normally be reduced with a view to achieving the inflation target. In such a situation, the interest rate is changed precisely in order to achieve a different outcome from the projected one. When the projections are evaluated, it is important to bear in mind that they do not necessarily represent Norges Bank's view of the most probable outcome.
- The projections are also based on assumptions concerning international economic developments, oil

Chart 1 CPI. Moving 10-year average¹. Per cent



¹ The moving average is calculated 7 years back and 2 years ahead

² The band around the CPI is the variation in the period, measured by +/- one standard deviation

Sources: Statistics Norway and Norges Bank

prices, public expenditure, and direct and indirect taxes. These are factors that monetary policy cannot influence. If developments differ from the assumptions made for these variables, the projections will not be accurate.

- The economy is constantly subjected to unexpected events or shocks that it is not possible to take account of in advance.
- There is uncertainty surrounding the actual state of the economy at the time the projections are published. This is because it takes time for the statistics to be published, and because the statistics are often extensively revised. If the basis for analysing future developments is incorrect, forecast error may result.

* With thanks to my colleagues at Norges Bank for their useful comments.

¹ Measured by the consumer price index adjusted for tax changes and excluding energy products

² For an in-depth discussion of the reasons for forecast error, see Heidi Lohrmann (2003): "Evaluation of Norges Bank's projections for 2001 and 2002" in *Economic Bulletin* 1/03.

- The analytical apparatus that is used may provide an inaccurate or inadequate description of actual economic relationships.
- All projections involve a certain degree of judgement. Forecast error may also arise if this judgement proves to be unsatisfactory.

This article is an evaluation of the inflation projections for 2003.³ Norges Bank has also provided an account of consumer price inflation in 2003 and the background to the deviation from the inflation target in the *Annual Report* for 2003 (March 2004).

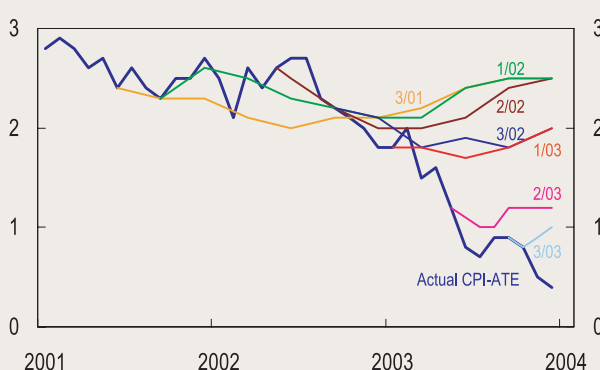
2 Projected inflation in 2003

Chart 2 shows changes in Norges Bank's inflation projections for 2003 and actual inflation. The projections were gradually revised downwards from the summer of 2001. Other institutions lowered their projections for inflation in 2003 to approximately the same extent as Norges Bank (see Chart 3). On the whole, Norges Bank revised its projections downwards somewhat earlier than most of the other institutions shown in the chart.

The difference between actual and projected price inflation in 2003 must be assessed in the light of developments in the economic variables that influence price inflation. Inflation is primarily determined by developments in the exchange rate, externally generated price impulses, wage growth in Norway and the competitive situation in the Norwegian economy. Developments in these variables are closely related to economic growth internationally and in Norway. Price inflation is influenced with varying time lags. Differences between actual and projected developments in variables that influence price inflation therefore have to be assessed over time.

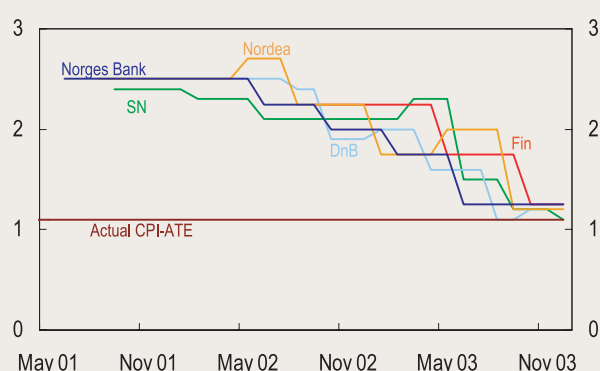
Table 1 shows the difference between actual and projected developments in 2002 and 2003 for a number of variables that influence price inflation. Since monetary

Chart 2 CPI-ATE projections made at different times. Year-on-year rise (historic monthly figures). January 01–December 03



Sources: Statistics Norway and Norges Bank

Chart 3 CPI-ATE. Projections for 2003 published at different times. Per cent



Sources: Statistics Norway (SN), the Ministry of Finance (Fin), DnB NOR, Nordea and Norges Bank

policy is as a general rule oriented towards reaching the inflation target two years ahead, it is appropriate to use projections made in 2001 for 2003 as the point of departure. We have used the projections published in *Inflation*

Table 1. Assumptions and projections for some key macroeconomic variables for the Norwegian economy in 2002 and 2003 published in *Inflation Report* 3/2001, and actual developments. Percentage change from previous year unless otherwise specified.

	2002			2003		
	Projection IR 3/01	Actual	Difference ¹⁾	Projection IR 3/01	Actual	Difference ¹⁾
Interest rate (%)	7	6.7	-¼	7	4.2	-2 ¾
Exchange rate (level, I-44)	98.9	91.6	-8 ²⁾	98.9	92.8	-6 ½ ²⁾
GDP trading partners	1 ¼	1.3	0	2 ½	1 ¼ ³⁾	-1 ¼
Producer prices, trading partners	0	-0.5	-½	¾	0.3	-½
Mainland GDP	1 ½	1.3	-¼	1 ¾	0.7	-1
Annual wages	5	5.7	¾	5	4 ½	-½
CPI-ATE	2	2.3	¼	2 ½	1.1	-1 ½

¹⁾ Percentage points. Negative figures indicate that projections are too high.

²⁾ Per cent. Negative figures denote a stronger exchange rate.

³⁾ Projections from *Inflation Report* 1/04.

Sources: Statistics Norway and Norges Bank

³ In this article, we consider how underlying price inflation, measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), has developed compared with our forecasts.

Report 3/01 as a reference. The analysis would not have been substantially different if we had used another inflation report from 2001.

Towards the end of 2001, it was projected that price inflation would be at the inflation target rate of 2½ per cent in 2003. The projection was based on the assumption that the pressures in the Norwegian economy would remain high in the years ahead. Since 1998, the Norwegian economy had been characterised by substantial labour shortages and a considerably higher rise in labour costs than among trading partners. The global economy had been experiencing a downturn since mid-2000. Global economic growth was expected to pick up the following year already. According to our evaluation, the Norwegian economy would be affected to only a limited extent by the global downturn.

In 2002, economic developments and inflation were approximately as expected. Wage growth in Norway was surprisingly high, however, and the exchange rate was substantially stronger than expected.

In 2003, developments were generally weaker than expected. Price inflation measured by the CPI-ATE was 1.1 per cent in 2003, almost 1½ percentage points lower than projected in 2001. Economic developments in Norway and internationally took an unexpected turn. External price impulses, measured by a weighted average of producer prices among 25 trading partners, were weaker than expected. The krone exchange rate was still at a stronger level than foreseen in 2001. Wage growth in Norway was somewhat slower than projected.

3 Reasons why price inflation was lower than expected

Sharper global downturn

In spring 2002, global growth appeared to be picking up, in line with forecasts. Long-term interest rates were increasing, and the equity market was rebounding. However, the upturn proved to be temporary, and during the summer and autumn growth prospects gradually deteriorated. Share prices on stock exchanges worldwide fell appreciably. Terror, the war in Iraq and SARS contributed to increased international uncertainty in the first part of 2003.

In 2002, overall economic growth was approximately as expected. In 2003, growth was markedly weaker than the IMF, the OECD, other analysts and observers or Norges Bank expected in 2001 and 2002. The Bank for International Settlements' Annual Report for 2002 states the following:

“The last year or so has been marked by economic disappointments. Interrelated developments in the geopolitical, economic and financial spheres held back growth and led to great uncertainty about the future. The recovery in the world economy seemed to stall. Indeed, the

Chart 4 Interest rate expectations in the euro area. Actual developments and expected key rate

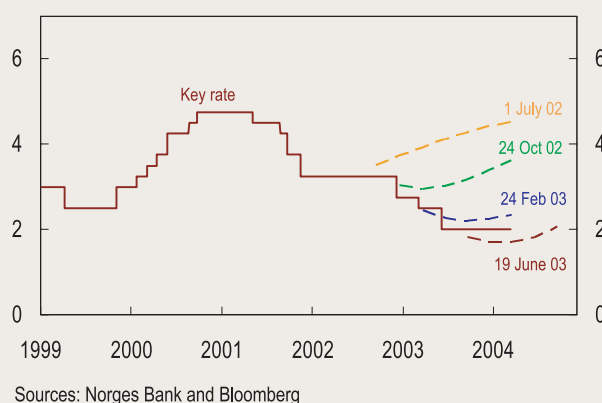
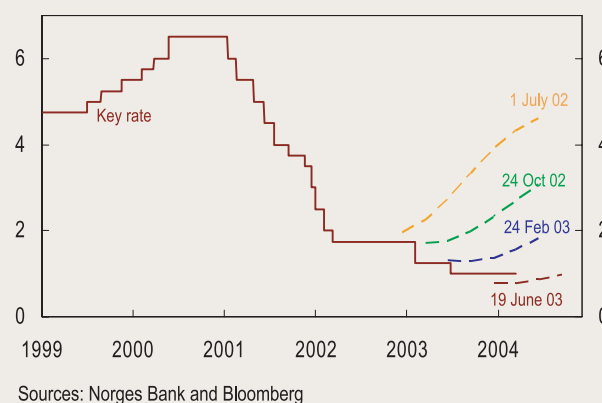


Chart 5 Interest rate expectations in the US. Actual developments and expected key rate



news got worse rather than better during most of the period under review. This was surprising to many given the high degree of policy stimulus being applied in large parts of the world.” (p. 3.)

The change in interest rate expectations internationally is a good indication of how far actual developments differed from expectations. Interest rate expectations may reflect the market's expectations regarding economic growth. These expectations were gradually revised downwards in the short and long term, in line with cuts in key rates in many countries and lowered growth and inflation expectations (see Charts 4 and 5).

The krone appreciated

The krone exchange rate (I-44) appreciated by 14 per cent between October 2001, when *Inflation Report 3/01* was published, and January 2003. Weak global economic developments were one important factor behind the appreciation of the krone.

In 2001 and the first part of 2002, the global downturn appeared to have had a limited impact on the Norwegian

economy. Economic resources were under strong pressure. The wage settlements in spring 2002 were surprisingly high, and it seemed likely that wage growth would remain high and push inflation up to above the target two years later. This contributed to the $\frac{1}{2}$ percentage point rise in the interest rate in summer 2002. A higher interest rate in Norway along with both lower interest rates and lower interest rate expectations internationally led to a substantial increase in the expected interest rate differential between Norway and trading partners in the course of 2002. In autumn 2002, the interest rate differential was the widest it had been since 1998.

The wider interest rate differential may partly explain the krone appreciation through 2001 and 2002. Moreover, special factors in the international economy led to a stronger krone than the interest rate differential alone would imply.⁴ The fall in equity prices in 2002 led to greater caution and expectations of a further decline. Many investors therefore wanted to shift more capital into fixed-income securities. According to market participants, the Norwegian krone, with a relatively high interest rate, was a good alternative. Higher oil prices in 2002 and the decrease in the expected fluctuations between the major currencies also increased interest in NOK. Smaller fluctuations in exchange rates among the main currencies reduced the scope for speculative gains in the market. Investors therefore placed greater emphasis on interest rate differentials than earlier and invested a larger portion of their portfolios in high interest rate currencies, such as the Norwegian krone. Moreover, global political uncertainty, in part related to a possible war in Iraq, led to NOK being regarded as a safe haven from time to time.

During 2003, NOK depreciated again. However, changes in the krone exchange rate affect consumer price inflation with a lag. Norges Bank's analyses indicate that most of the impact on price inflation of a change in the exchange rate comes after about 1-1½ years. The krone appreciation in 2002 therefore had a substantial negative impact on inflation in 2003. Chart 6 shows developments in the krone exchange rate and technical assumptions underlying the projections from one inflation report to the next from 2001 to 2003.

Growth in the Norwegian economy came to a halt

In 2003, growth in mainland GDP was 0.7 per cent, 1 percentage point lower than projected in Inflation Report 3/2001.⁵ The downturn in the Norwegian economy was probably closely related to the fact that the international downturn was more extensive than Norges Bank and most other observers had believed. The strong growth in investment in the late 1990s led to idle capacity in many enterprises when demand slowed, and investment dropped sharply. The equity price fall in

2002 also reduced the incentive to invest. In the light of the international downturn and clear signs of a slowdown in the Norwegian economy, Norges Bank and other forecasters made appreciable downward revisions during 2002 and 2003 of their growth estimates for 2003 (see Chart 7).

Unemployment increased through 2002 and 2003. In 2002 unemployment mainly increased in service industries such as ICT, consulting and the travel industry. These industries were strongly affected by the global economic situation. Despite this rise in unemployment, wage growth was the highest for many years, particularly in the public sector. In 2003, unemployment rose in a number of service industries, manufacturing and the public sector. The rise in unemployment in manufacturing was driven by weak international demand, the appreciation of the krone and several years of high wage

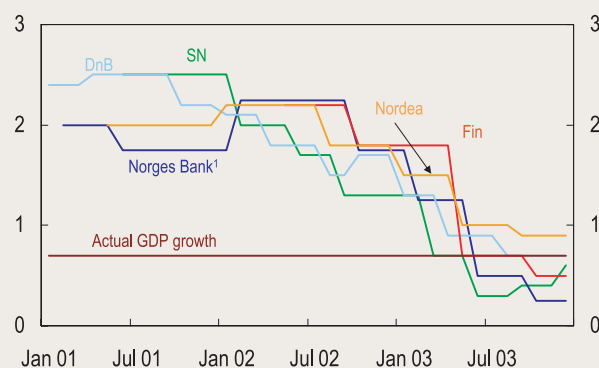
Chart 6 Effective krone exchange rate (I-44) and assumptions in inflation reports. Index¹. Daily figures. 1 January 01–31 December 03



¹ A rising curve denotes a weaker krone exchange rate

Source: Norges Bank

Chart 7 Mainland GDP. Projections for 2003 published at different times. Per cent



¹ Including changes in electricity production. Inflation Report 2/2003 and 3/2003 presented projections for mainland GDP adjusted for changes in electricity production.

Sources: Statistics Norway (SN), the Ministry of Finance (Fin), DnB NOR, Nordea and Norges Bank

⁴ For further details, see the box in *Inflation Report 1/03* and Bjørn Naug (2003): "Factors behind changes in the krone exchange rate – an empirical analysis" in Norges Bank's *Occasional Papers* no. 32.

⁵ Lower energy production contributed to curbing GDP growth in 2003. This may explain approximately $\frac{1}{4}$ percentage point of the difference between actual and projected GDP growth. Fluctuations in energy production were not taken into account in the projections.

growth. In the public sector there was no budgetary scope for maintaining employment after several years of sharply rising labour costs. Wage growth slowed in 2003 and was somewhat lower than projected.

Lower demand growth in the Norwegian economy may have influenced price inflation. In spring 2003, Norges Bank's regional network signalled a fall in demand and intense competition in several sectors, especially clothing and audiovisual equipment. The decline in demand must be viewed against the backdrop of the electricity price shock of winter 2002/2003. A sharp increase in electricity expenses led to a temporary decline in household purchasing power in spring 2003. At the same time, competition has intensified in recent years in industries such as telecommunications and air travel as a result of deregulation and new entrants. Low private sector demand may have contributed to intensified competition and squeezed margins in these industries.

4 Technical review of the difference between actual and projected inflation

Developments in prices for imported consumer goods in particular were different from the projections. Chart 8 shows actual and projected growth in the total CPI-ATE, and broken down into price inflation for imported consumer goods and goods and services produced in Norway, respectively.

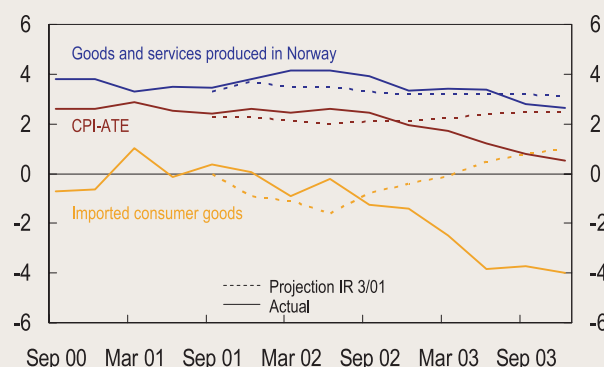
In *Inflation Report 3/01*, Norges Bank projected a temporary dip in import prices as a result of the krone appreciation from 2000, and a temporary dampening of external price impulses. In 2002, the rise in prices for imported consumer goods was approximately as expected. In 2003, price inflation was 4 percentage points lower than expected.

The rise in prices for goods and services produced in Norway remained surprisingly high through 2002. From the latter half of 2003, the rise in prices for this group was also somewhat lower than projected in 2001. On average, the rise in prices for goods and services produced in Norway was $\frac{1}{4}$ percentage point lower than estimated in 2003.

Imported consumer goods

The fall in prices for imported consumer goods must be viewed in the light of the krone appreciation through 2002. The exchange rate explains most of the difference between actual and projected price inflation for these goods. In addition, external price impulses, measured by producer prices, were lower than assumed. This must be viewed in the light of the global downturn. Towards the end of 2003, prices for imported consumer goods exhibited a surprisingly steep fall. The price fall was sharper than the krone appreciation and lower producer prices

Chart 8 CPI-ATE. Projections and actual developments. Total and by supplier sector. Year-on-year growth (historic monthly figures). Per cent. September 00–December 03



Sources: Statistics Norway and Norges Bank

alone would imply. As a result, we have looked more closely at possible other causes of the fall in prices.

Prices for clothing and audiovisual equipment have fallen substantially more than the exchange rate and producer prices should suggest and account for a large share of the fall in prices for consumer goods as a whole. Prices for imported clothing have been falling for many years partly as a result of the trade shift from high- to low-cost countries.⁶ New analyses indicate that this trend intensified in 2003. Prices for audiovisual equipment have fallen in most countries as a result of strong productivity growth in the manufacture of these goods.

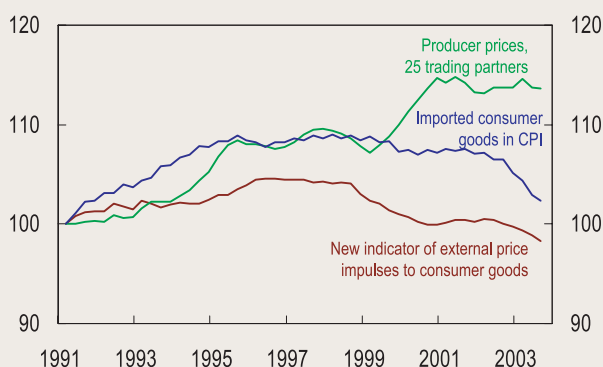
Box 1: Indicator of external price impulses to Norwegian consumer goods

Producer prices – weighted average of producer prices among 25 trading partners. Weighted by total imports to Norway (consumer goods, intermediate goods and capital goods). Includes prices for intermediate goods and capital goods, and prices for goods that only go to trading partners' domestic consumption. Influenced strongly by variations in oil prices. Does not capture the effect on prices of the shift in trade towards countries with a different cost level.

Norges Bank's indicator – Weighted average of inflation in prices for consumer goods in the countries that export those goods to Norway. Consumer prices, export prices or producer prices in the countries the goods are imported from are used, depending on availability and relevance to prices in Norway. Captures the effects on prices of the shift in trade towards countries with a different cost level.

⁶ *Inflation Report 3/01*: "Why has the rise in prices for imported consumer goods been low?" and *Inflation Report 2/02*: "Why have clothing prices fallen?" See also the article: "The effects of trade liberalisation on clothing prices and on overall consumer price inflation" in *Economic Bulletin 4/02*.

Chart 9 Developments in prices for imported consumer goods in the CPI and indicators of price developments in foreign currency. Index. 1991 Q1 = 100. 1991 Q1–2003 Q3



¹ 3-quarter moving average

Sources: Statistics Norway and Norges Bank

The decline in prices for clothing and audiovisual equipment is probably not reflected in producer prices (see box).

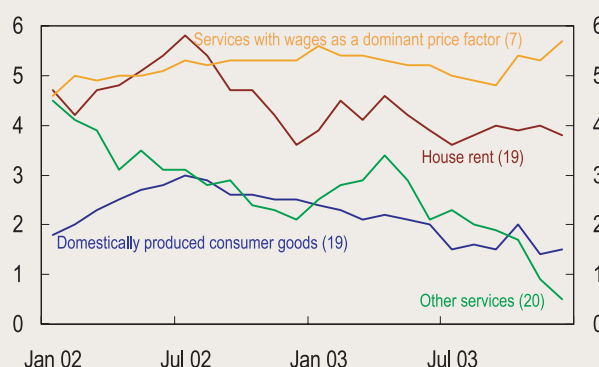
As a result, Norges Bank has calculated a new indicator of external price impulses as an alternative to producer prices. This indicator measures more directly developments in prices for consumer goods that Norway imports.⁷ The indicator captures the effects of the shift in trade to countries with lower price levels and the particularly high productivity growth in connection with the manufacture of certain types of goods, particularly audiovisual equipment.

Chart 9 shows the new indicator of external price impulses compared with prices for imported consumer goods in the consumer price index and producer prices. The new indicator of external price impulses has been declining since the mid-1990s. In 2003, external price impulses, measured in this way, fell by 1½ per cent. This is 2¼ percentage points lower than projected by Norges Bank in 2001.

In empirical studies of the factors that determine prices for imported consumer goods in the consumer price index, Norges Bank has previously used international aggregate indices for producer prices, export prices or consumer prices as an indicator of external price impulses. The new indicator of external price impulses showed slower price inflation in the 1990s than producer prices indicated. Preliminary empirical studies that take account of this show that the krone exchange rate has a somewhat weaker effect on prices than is indicated by earlier analyses.⁸ In addition, the studies show that the effects of the krone exchange rate occur somewhat later than previously assumed. However, the studies confirm that the krone exchange rate remains the most important cause of the fall in prices for imported consumer goods.

In addition to a stronger exchange rate and lower external price impulses than assumed, lower domestic

Chart 10 CPI-ATE by domestic supplier sector. 12-month rise. Per cent. January 02–December 03



Weightings in CPI-ATE in brackets

Sources: Statistics Norway and Norges Bank

demand probably contributed to pushing down prices for imported consumer goods in 2003. Information from Norges Bank's regional network indicates that the decline in demand in spring 2003 contributed to pushing down prices for these goods through more sales promotion than normal.

Goods and services produced in Norway

The rise in prices for goods and services produced in Norway was higher than expected in 2002 and lower than expected in 2003. The difference in 2002 must be viewed in the light of higher-than-projected wage growth that year.

Changes in wage growth affect prices over a period of time. Higher-than-projected wage growth in 2002 also exerted upward pressure on inflation in 2003. Lower-than-projected wage growth in 2003 had the opposite effect. The overall effect on inflation in 2003 of the differences between actual and projected wage growth in 2002 and 2003 was roughly neutral.

Towards the end of 2003, the rise in prices for goods and services produced in Norway declined to an unexpected degree (see Chart 8). Lower wage growth may have played a part. The rise in prices for services with wages as a dominant cost factor has remained high, however (see Chart 10).

Prices for some services have fallen. Prices for telecom services and air travel fell by 0.8 per cent and 3.8 per cent respectively from 2002 to 2003.⁹ The price fall gathered pace towards the end of 2003. The decline in prices must be seen in the light of structural changes and increased competition in these industries. Prices for some groceries have also fallen. They may have been cut in response to the establishment of the international low-price chain, Lidl, in Norway.

Operators in the air travel business and telecommuni-

⁷ The index is described in a box in *Inflation Report* 1/04, and further documentation will be provided in *Economic Bulletin* 2/04.

⁸ New empirical studies of the exchange rate pass-through are discussed in a box in *Inflation Report* 1/04.

⁹ Adjusted for tax changes.

Table 2. Decomposition of the difference between actual and projected CPI-ATE in 2003. Contribution to annual price inflation in percentage points

Difference between actual and projected rise in CPI-ATE	-1½
Decomposition of difference	
Stronger exchange rate in 2002	-(½-¾)
Weaker external price pressures	-(¼-½)
Higher wages in 2002, lower wages in 2003	0
Stronger competition	- ¼
Not explained/other factors ¹	- ¼

¹ Other factors that may explain the difference are falling prices for telecom equipment and the introduction of a maximum rate for day-care centres. The calculated index for external price impulses does not include prices for telecom equipment because some foreign statistics are not available. Prices for these goods are not published in Norway either, but the fall in prices is probably in line with, or even larger than the fall in prices for audiovisual equipment. The introduction of a maximum price for day care may explain up to 0.1 percentage point of the difference between actual and projected price inflation. This is a temporary disturbance that Norges Bank does not take into account in its setting of interest rates.

cations have cut costs through downsizing and restructuring. This probably led to increased productivity, which has provided room for lower prices. However, further falls in profitability in the airline industry indicate that increased productivity has not fully compensated for the fall in prices. Information from Norges Bank's regional network indicates that productivity is also improving at several stages of the value chain in the food retail sector. Several chains have begun cooperating with international food retail groups, making it possible to improve distribution efficiency.

Norges Bank did not include special effects on prices due to possible changes in the competitive situation in the assumptions underlying the projections for its inflation reports. Increased competition in some industries may therefore explain some of the difference between actual and projected price inflation in 2003.

Other factors may also have influenced prices for goods and services produced in Norway. The change in the krone exchange rate has an indirect effect on prices for goods and services produced in Norway, through lower prices for imported intermediate goods and services. The price of charter travel, for instance, fell sharply in spring 2003 as a result of the krone appreciation in 2002. The introduction of a maximum rate for day-care places has also contributed to curbing domestic price inflation.

Decomposition of the difference between actual and projected price inflation

In Table 2, the difference between actual and projected price inflation is decomposed into the various explanatory variables. New projections for external price impulses and new estimates of the pass-through from the exchange rate to prices are used in the decomposition. Norges Bank's analytical apparatus does not provide a basis for an exact calculation of the effects of increased

competition and structural changes in individual sectors. The effect is estimated by comparing actual price developments for some goods and services that may be influenced by these factors, with an estimated price rise of 2½ per cent on these goods and services. The difference can be assumed to be the effect on prices of changes in the competitive situation. In our calculations we have used prices for air travel, telecom services, hotel services and some groceries.

5 Conclusion

One important reason for evaluating the projections is to achieve a better understanding of economic relationships and price formation, so that Norges Bank can make more accurate projections in the future.

The difference between actual and projected price inflation in 2003 is due to several factors. A stronger-than-expected exchange rate can explain a substantial portion of the difference. In *Inflation Report* 3/01, the exchange rate was held constant in the period ahead as a technical assumption. If Norges Bank had assumed the "correct" krone exchange rate, the forecast error would have been smaller. However, it is difficult to project exchange rate movements in the short- and medium-long term. A number of studies have shown that today's exchange rate is a more accurate short-term forecast for the exchange rate than forecasts based on empirical exchange rate models or uncovered interest rate parity. One important cause of the krone appreciation in 2002 was that the global economy was subjected to a number of negative disturbances, and special conditions in the international equity and foreign exchange markets. Neither Norges Bank nor other forecasters succeeded in predicting actual global economic developments.

Another important source of difference between actual and projected price inflation is that external price impulses have been lower than previously projected. New calculations show that external impulses to Norwegian prices have been close to zero or negative since the mid-1990s. The new indicator of external price impulses will probably improve the basis for making inflation projections in the future. First, Norges Bank will know more than previously about actual external price impulses at the time of making projections. Second, Norges Bank will now be able to capture special factors that influence prices for consumer goods imported by Norway, but which are not reflected in aggregate international indices for producer and export prices.

New empirical studies, based among other things on the new indicator of external price impulses, may imply that the effect of the krone appreciation on consumer prices has been somewhat smaller and occurred somewhat later than our previous calculations suggest. However, estimates of the exchange rate pass-through

Growth forecasts from Statistics Norway, Ministry of Finance and Norges Bank, and actual growth. Last projections published previous year. Per cent. 1994 to 2003

Statistics Norway Ministry of Finance Norges Bank Actual growth

■ ■ ■ —■—

Chart 11 Mainland GDP

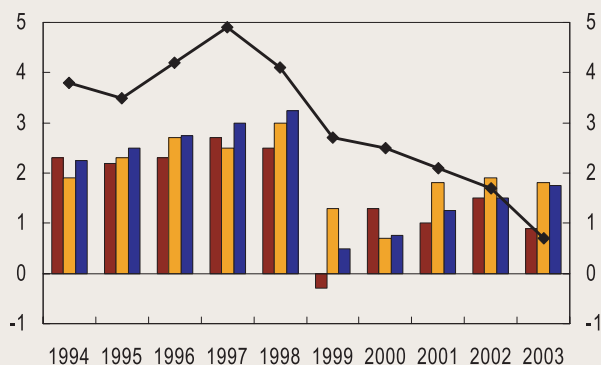


Chart 12 Mainland demand

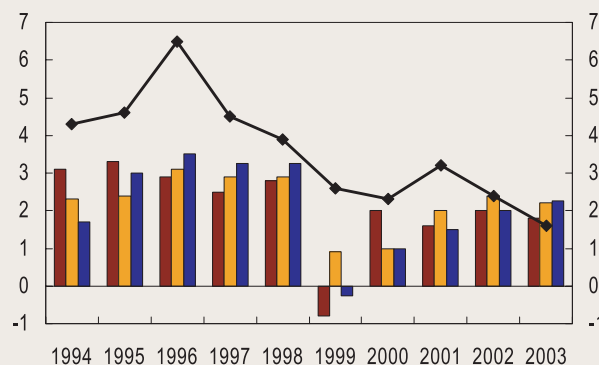


Chart 13 Employment growth

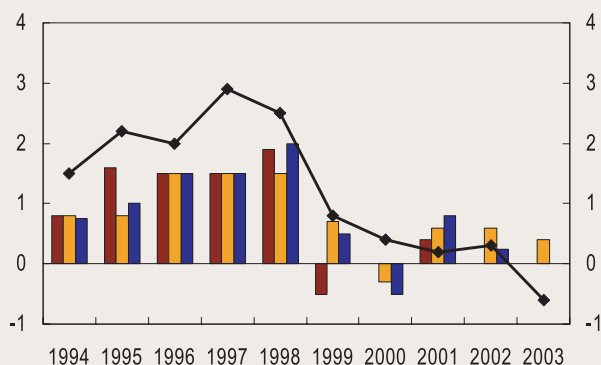


Chart 14 Unemployment rate

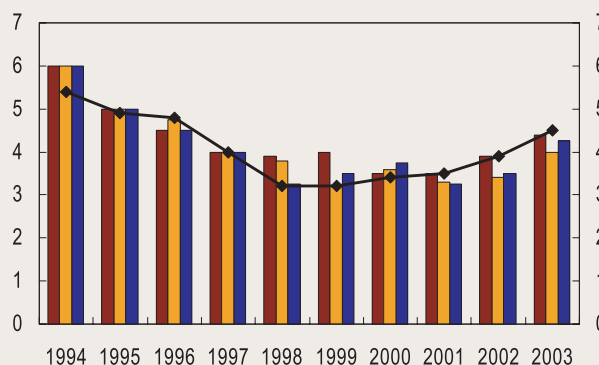
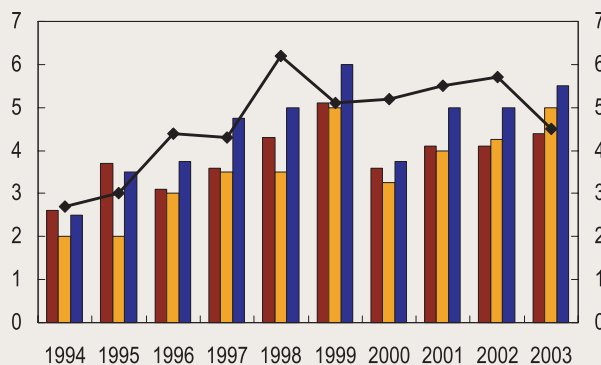
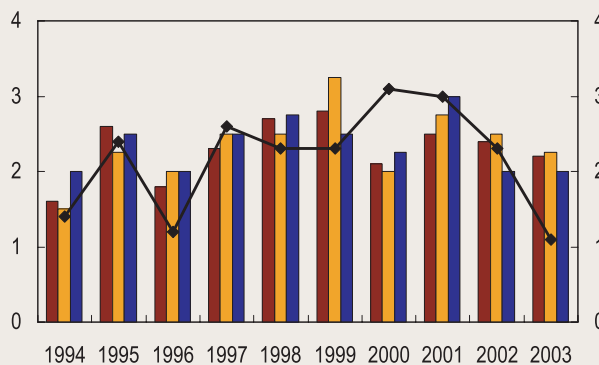


Chart 15 Annual wage growth¹



¹ The figures for 2000 and 2001 include the costs of extra vacation days

Chart 16 Consumer price inflation¹



¹ Projected and actual developments in CPI to 2001. Projected and actual developments in CPI-ATE from 2002

are uncertain. Norges Bank has relatively limited experience of how inflation and price-setting mechanisms function when monetary policy is oriented towards inflation targeting.

Weaker economic growth, a decline in demand and structural changes in some markets contributed to more intense competition in many sectors. The effect on prices of changes in competitive conditions may be substantial, but is difficult to quantify. As a result of experience from 2003, however, Norges Bank is now more aware of this type of factor. We use our regional network actively in an attempt to capture changes in competitive pressures and the effects they may have on prices in the different industries.

Annex: Overview of projections from 1994 to 2003

In addition to studying the projections presented in a single report, it is important to consider whether we make systematic errors over time. Charts 11 to 16 provide a comparison of actual figures for the period 1994-2003 with projections from Statistics Norway, the Ministry of Finance and Norges Bank made at the end of the year before the forecast year. All three institutions tended to underestimate the period of expansion in the 1990s. Growth in demand and GDP was higher than expected every year from 1994 to 2001. Employment was higher than expected from 1994 to 2000. There has also been a systematic tendency to underestimate wage growth. Projections for consumer price inflation have been relatively good, with some exceptions.

Table 3 shows the average forecast error, the average absolute error (AAE¹⁰) and the relative root mean square error (RRMSE¹¹). These are measures of the accuracy of our projections for the entire period. AAE provides an indication of the average actual forecast error in percentage points over the years, without the

Table 3. Average error, average absolute error (AAE) and relative root mean square error (RRMSE) Statistics Norway (SN), the Ministry of Finance (Fin) and Norges Bank (NB). 1994 to 2003

	SN	FD	NB
Growth in mainland GDP			
Average error	-1.38	-1.03	-1.07
AAE	1.42	1.29	1.28
RRMSE	0.52	0.64	0.64
Growth in employment			
Average error	-0.50	-0.41	-0.44
AAE	0.66	0.75	0.68
RRMSE	0.85	1.08	1.25
Growth in mainland demand			
Average error	-1.47	-1.38	-1.47
AAE	1.51	1.50	1.60
RRMSE	0.53	0.44	0.53
Annual wage growth			
Average error	-0.80	-1.11	-0.19
AAE	0.94	1.21	0.76
RRMSE	0.22	0.28	0.17
Consumer price inflation			
Average error	0.13	0.18	0.18
AAE	0.49	0.50	0.43
RRMSE	0.39	0.43	0.38

Sources: Ministry of Finance, Statistics Norway and Norges Bank

forecast errors with opposite signs offsetting each other. RRMSE penalises large forecast errors more heavily than small errors, and indicates the magnitude of the errors in relation to actual growth. This makes it possible to compare the magnitude of the forecast errors across different variables.

The table provides a summary of the information in the charts. Forecast error is least for price inflation, and greatest for demand growth and GDP growth. There is little difference in forecast error between the three institutions. The table shows that the Ministry of Finance has forecast demand growth most accurately, and Norges Bank has been most accurate on wage growth.

¹⁰ AAE (average absolute error) is defined as, $(1/N) \sum_{n=1}^N |y_n - \hat{y}_n|$ where y_n represents the actual growth rate and \hat{y}_n is the projected growth rate.

¹¹ RRMSE (relative root mean square error) is defined as $\sqrt{(1/N) \sum_{n=1}^N \left((y_n - \hat{y}_n) / y_n \right)^2}$ where y_n represents the actual growth rate and \hat{y}_n is the projected growth rate.

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2. Norges Bank. Specification of international reserves
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Norges Bank publishes more detailed statistics on its website, www.norges-bank.no. The Bank's statistics calendar, which shows future publication dates, is only published on this website.

Financial institution balance sheets

Table 1. Norges Bank. Balance sheet. In millions of NOK

	31.10.2003	30.11.2003	31.12.2003	31.01.2004	29.02.2004
FINANCIAL ASSETS					
Foreign assets	245 482	237 362	250 975	263 087	287 787
International reserves	245 450	237 331	250 941	263 052	287 749
Other assets	32	31	33	35	38
Government Petroleum Fund investments	828 934	824 354	844 587	905 626	928 081
Domestic claims and other assets	30 691	50 557	39 195	29 593	29 199
Securities	26 115	23 174	23 281	23 226	23 508
Loans	552	24 563	12 552	537	529
Other claims	2 557	1 362	1 901	4 378	3 708
Fixed assets	1 468	1 458	1 461	1 453	1 455
Costs	141 818	130 740	174 151	55 854	73 126
TOTAL ASSETS	1 246 925	1 243 013	1 308 907	1 254 160	1 318 193
LIABILITIES AND CAPITAL					
Foreign liabilities	55 709	50 883	51 963	54 569	74 637
Deposits	380	261	256	607	606
Borrowing	53 605	48 938	49 776	51 970	72 044
Other liabilities	27	30	267	242	240
Counterpart of Special Drawing Rights allocation in IMF	1 697	1 654	1 664	1 750	1 747
Government Petroleum Fund deposits	828 934	824 354	844 587	905 626	928 081
Domestic liabilities	174 056	193 942	191 993	180 595	182 411
Notes and coins in circulation	40 816	41 806	46 249	42 801	42 224
Treasury	109 987	132 138	108 586	104 860	102 734
Other deposits	17 469	13 082	28 343	16 151	28 932
Borrowing	4 693	5 824	8 229	15 456	5 810
Other debt	1 092	1 094	586	1328	2 712
Equity	25 439	25 439	46 213	46 213	46 213
Valuation adjustments	120 183	102 179	123 469	62 941	78 256
Income	42 603	46 216	50 682	4 217	8 595
TOTAL LIABILITIES AND CAPITAL	1 246 925	1 243 013	1 308 907	1 254 160	1 318 193
Commitments					
Allotted, unpaid shares in the BIS	310	310	275	275	275
International reserves					
Derivatives and forward exchange contracts sold	60 727	56 849	53 004	60 037	61 937
Derivatives and forward exchange contracts purchased	61 048	59 802	55 485	59 296	59 227
Government Petroleum Fund					
Derivatives and forward exchange contracts sold	211 081	234 525	236 920	252 809	268 323
Derivatives and forward exchange contracts purchased	211 375	248 329	248 582	251 607	256 230
Rights ¹⁾					
International reserves:					
Options sold	-1	1	646	3 603	3 449
Options purchased	1	2	647	3 483	4 270
Government Petroleum Fund:					
Options sold	-8	5	4 324	24 072	23 044
Options purchased	10	12	4 331	23 298	28 542

¹⁾ Options presented in terms of market value of underlying instruments as from December 2003.

Table 2. Norges Bank. Specification of international reserves. In millions of NOK

	31.10.2003	30.11.2003	31.12.2003	31.01.2004	29.02.2004
Gold	3 037	3 074	3 142	1 905	1 628
Special drawing rights in the IMF	2 384	2 351	2 237	2 224	2 246
Reserve position in the IMF	7 105	6 711	6 641	6 959	6 858
Loans to the IMF	753	728	703	756	751
Bank deposits abroad	87 306	86 872	92 681	101 129	136 018
Foreign Treasury bills	665	620	744	283	310
Foreign Treasury notes	0	95	107	113	92
Foreign certificates	1 395	1 163	1 315	1 525	1 591
Foreign bearer bonds ¹⁾	113 818	110 658	109 063	114 859	105 969
Foreign shares	29 838	29 485	33 566	35 664	36 633
Accrued interest	-851	-4 426	742	-2 365	-4 347
Total	245 450	237 331	250 941	263 052	287 749

¹⁾ Includes bonds subject to repurchase agreements

Source: Norges Bank

Table 3. State lending institutions. Balance sheet. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Cash holdings and bank deposits	2 803	2 284	2 172	2 130	2 561
Total loans	188 076	190 941	190 988	191 526	191 286
Of which:					
To the general public ¹⁾	185 801	188 608	188 726	189 323	188 598
Claims on the central government and social security administration	-	-	-	-	-
Other assets	6 193	8 219	6 736	6 699	4 756
Total assets	197 072	201 444	199 896	200 355	198 603
Bearer bond issues	34	33	29	29	25
Of which:					
In Norwegian kroner	34	33	29	29	25
In foreign currency	-	-	-	-	-
Other loans	187 482	191 156	191 056	191 539	189 764
Of which:					
From the central government and social security administration	187 482	191 156	191 056	191 539	189 764
Other liabilities, etc.	5 231	5 921	4 494	5 844	5 459
Share capital, reserves	4 325	4 334	4 317	2 943	3 355
Total liabilities and capital	197 072	201 444	199 896	200 355	198 603

¹⁾ Includes local government administration, non-financial enterprises and households

Sources: Statistics Norway and Norges Bank

Table 4. Commercial and savings banks. Balance sheet. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Cash	5 063	4 030	4 515	4 112	4 980
Deposits with Norges Bank	57 760	58 547	40 119	34 092	26 784
Deposits with commercial and savings banks	16 026	17 763	29 494	25 354	19 982
Deposits with foreign banks	29 596	23 390	37 061	32 315	56 636
Treasury bills	4 289	6 395	8 866	10 469	7 288
Other short-term paper	15 770	10 034	7 129	7 977	7 394
Government bonds etc. ¹⁾	3 128	2 576	3 702	4 561	5 529
Other bearer bonds	93 450	97 752	103 103	98 869	105 734
Loans to foreign countries	46 264	49 036	49 951	46 814	51 186
Loans to the general public	1 096 289	1 117 134	1 144 220	1 163 475	1 185 722
Of which:					
In foreign currency	81 765	84 446	89 541	88 806	85 731
Loans to mortgage and finance companies, insurance etc. ²⁾	96 485	96 737	107 062	107 895	108 850
Loans to central government and social security admin.	671	557	528	286	138
Other assets ³⁾	104 216	153 201	161 368	162 731	142 360
Total assets	1 569 007	1 637 152	1 697 118	1 698 950	1 722 583
Deposits from the general public	757 632	758 326	788 394	773 152	785 865
Of which:					
In foreign currency	20 129	21 768	22 286	23 892	24 001
Deposits from commercial and savings banks	19 369	21 917	33 835	29 953	21 737
Deposits from mortg. and fin. companies, and insurance etc. ²⁾	45 997	45 463	46 820	44 247	47 767
Deposits from central government, social security admin. and state lending institutions	8 611	9 652	7 341	7 770	10 090
Funds from CDs	78 509	80 638	66 344	66 759	70 673
Loans and deposits from Norges Bank	8 812	9 560	7 436	7 224	19 995
Loans and deposits from abroad	213 583	212 076	215 315	199 767	220 247
Other liabilities	331 113	394 447	423 870	459 640	433 953
Share capital/primary capital	28 157	28 399	28 553	28 667	28 530
Allocations, reserves etc.	72 430	75 076	75 228	75 351	77 066
Net income	4 794	1 598	3 982	6 420	6 660
Total liabilities and capital	1 569 007	1 637 152	1 697 118	1 698 950	1 722 583
Specifications:					
Foreign assets	125 352	137 522	160 566	154 256	193 506
Foreign debt	370 392	416 204	431 702	434 835	467 225

¹⁾ Includes government bonds and bonds issued by lending institutions.

²⁾ Includes mortgage companies, finance companies, life and non-life insurance companies and other financial institutions.

³⁾ Includes unspecified loss provisions (negative figures) and loans and other claims not specified above.

Sources: Statistics Norway and Norges Bank

Table 5. Commercial and savings banks. Loans and deposits by sector¹⁾. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Loans to:					
Local government (incl. municipal enterprises)	10 107	9 817	8 759	7 965	8 095
Non-financial enterprises ²⁾	358 997	366 176	371 478	364 038	356 290
Households ³⁾	727 186	741 141	763 983	791 472	821 336
Total loans to the general public	1 096 289	1 117 134	1 144 220	1 163 475	1 185 722
Deposits from:					
Local government (incl. municipal enterprises)	43 925	42 627	40 540	39 051	38 456
Non-financial enterprises ²⁾	225 553	219 261	221 815	220 971	234 257
Households ³⁾	488 154	496 438	526 038	513 129	513 152
Total deposits from the private sector and municipalities	757 632	758 326	788 394	773 152	785 865

¹⁾ Includes local government administration, non-financial enterprises and households.

²⁾ Includes private enterprises with limited liability etc., and state enterprises.

³⁾ Includes sole proprietorships, unincorporated enterprises and wage earners, etc.

Sources: Statistics Norway and Norges Bank

Table 6. Mortgage companies. Balance sheet. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Cash and bank deposits	3 089	4 291	5 730	3 613	2 954
Notes and certificates	3 504	2 869	5 926	2 626	973
Government bonds ¹⁾	656	657	941	665	882
Other bearer bonds	48 002	51 650	57 401	56 802	54 012
Loans to:					
Financial enterprises	28 001	30 150	31 018	33 764	37 032
The general public ²⁾	182 011	187 251	193 656	198 596	210 327
Other sectors	9 907	9 435	9 941	9 760	9 193
Others assets ³⁾	1 063	4 413	5 089	4 833	5 679
Total assets	276 233	290 716	309 702	310 659	321 052
Notes and certificates	29 981	33 809	37 832	28 173	32 440
Bearer bonds issues in NOK ⁴⁾	63 337	60 466	59 131	58 227	57 544
Bearer bond issues in foreign currency ⁴⁾	89 301	95 090	104 622	110 587	110 490
Other funding	80 269	83 824	91 765	96 326	102 984
Equity capital	11 554	12 345	12 709	13 002	12 765
Other liabilities	1 791	5 182	3 643	4 344	4 829
Total liabilities and capital	276 233	290 716	309 702	310 659	321 052

¹⁾ Includes government bonds and bonds issued by state lending institutions.

²⁾ Includes local government administration, non-financial enterprises and households.

³⁾ Foreign exchange differences in connection with swaps are entered net in this item. This may result in negative figures for some periods.

⁴⁾ Purchase of own bearer bonds deducted.

Sources: Statistics Norway and Norges Bank

Table 7. Finance companies. Balance sheet. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Cash and bank deposits	1 875	1 651	2 277	2 471	1 867
Notes and certificates	97	123	125	99	104
Bearer bonds	0	0	0	0	0
Loans ¹⁾ (gross) to:	86 518	88 923	90 946	91 660	92 990
The general public ²⁾ (net)	83 154	85 722	87 747	88 363	89 309
Other sectors (net)	3 226	3 018	3 059	3 130	3 503
Other assets ³⁾	2 249	2 469	2 618	2 390	2 347
Total assets	90 739	93 166	95 966	96 620	97 308
Notes and certificates	600	0	0	0	0
Bearer bonds	0	558	533	533	533
Loans from non-banks	10 896	10 996	11 161	10 824	10 163
Loans from banks	62 830	64 446	67 531	67 649	69 383
Other liabilities	8 786	9 356	8 604	9 146	7 937
Capital, reserves	7 627	7 810	8 137	8 468	9 292
Total liabilities and capital	90 739	93 166	95 966	96 620	97 308

¹⁾ Includes subordinated loan capital and leasing finance.

²⁾ Includes local government administration, non-financial enterprises and households.

³⁾ Includes specified and unspecified loan loss provisions (negative figures)

Source: Norges Bank

Table 8. Life insurance companies. Main assets. In millions of NOK

	30.09.2002	31.12.2002	31.03.2003	30.06.2003	30.09.2003
Cash and bank deposits	14 956	21 163	16 066	15 204	13 998
Norwegian notes and certificates	33 146	37 337	36 903	29 537	32 025
Foreign Treasury bills and notes	7 735	13 084	11 667	9 133	5 071
Norwegian bearer bonds	112 449	121 379	131 346	139 788	144 077
Foreign bearer bonds	105 789	96 277	99 165	104 317	104 633
Norwegian shares, units, primary capital certificates and interests	32 295	32 730	31 619	35 454	39 528
Foreign shares, units, primary capital certificates and interests	33 189	30 236	32 838	40 229	41 892
Loans to the general public ¹⁾	23 201	23 123	23 827	23 661	23 598
Loans to other sectors	680	656	680	664	693
Other specified assets	56 971	54 315	56 060	54 847	55 798
Total assets	420 411	430 300	440 171	452 834	461 313

¹⁾ Includes local government administration, non-financial enterprises and households

Source: Statistics Norway

Table 9. Non-life insurance companies. Main assets. In millions of NOK

	30.09.2002	31.12.2002	31.03.2003	30.06.2003	30.09.2003
Cash and bank deposits	7 285	7 861	7 835	7 220	6 722
Norwegian notes and certificates	6 055	7 949	10 707	12 330	13 681
Foreign notes and certificates	862	860	927	951	1 193
Norwegian bearer bonds	15 730	14 752	13 880	14 679	14 857
Foreign bearer bonds	14 582	14 138	13 758	14 765	12 475
Norwegian shares, units, primary capital certificates, interests	7 312	6 804	6 752	7 153	7 300
Foreign shares, units, primary capital certificates, interests	7 715	3 960	4 999	5 529	6 140
Loans to the general public ¹⁾	875	918	1 021	1 129	1 173
Loans to other sectors	138	212	281	278	264
Other specified sectors	41 499	40 541	44 959	45 414	44 949
Total assets	102 053	97 995	105 119	109 448	108 754

¹⁾ Includes local government administration, non-financial enterprises and households.

Source: Statistics Norway

Table 10a. Securities funds' assets. Market value. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Bank deposits	3 564	4 107	5 658	4 484	5 334
Treasury bills, etc. ¹⁾	2 372	4 099	5 292	5 855	4 356
Other Norwegian short-term paper	21 812	20 794	21 031	21 766	24 555
Foreign short-term paper	235	0	0	0	0
Government bonds, etc. ²⁾	3 521	3 504	4 121	4 080	4 149
Other Norwegian bonds	26 235	25 060	26 048	24 851	25 756
Foreign bonds	2 665	0	0	0	0
Norwegian equities	19 385	16 401	20 564	23 073	28 628
Foreign equities	26 796	31 423	38 237	43 076	52 141
Other assets	2 597	2 566	2 956	3 179	3 643
Total assets	109 182	107 955	123 907	130 365	148 561

¹⁾ Comprises Treasury bills and other certificates issued by state lending institutions.

²⁾ Comprises government bonds and bonds issued by state lending institutions.

Sources: Norges Bank and Norwegian Central Securities Depository

Table 10b. Securities funds' assets under management by holding sector. Market value.
In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	422	488	639	630	676
Banks	2 869	2 080	2 452	1 901	981
Other financial corporations	14 504	11 618	14 329	15 845	22 141
Local government admin. and municipal enterprises	8 674	8 914	10 158	10 110	10 889
Other enterprises	21 733	21 046	23 099	24 070	27 220
Households	56 111	57 907	66 625	70 785	78 629
Rest of the world	2 900	3 937	4 641	5 062	6 061
Total assets under management	107 213	105 990	121 944	128 401	146 597

Sources: Norges Bank and the Norwegian Central Securities Depository

Securities statistics

Table 11. Shareholdings registered with the Norwegian Central Securities Depository (VPS), by holding sector. Estimated market value. In millions of NOK

Holding sector	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	214 025	196 897	230 564	228 580	279 981
Norges Bank	0	0	2	2	3
State lending institutions	13	14	14	18	20
Banks					12 980
Savings banks	3 007	2 886	3 176	3 350	
Commercial banks	6 834	18 007	18 521	10 731	
Insurance companies	19 756	17 917	21 053	23 254	27 214
Mortgage companies	71	34	32	30	7
Finance companies	3	2	2	2	2
Mutual funds	21 637	18 491	23 310	26 280	31 769
Other financial enterprises	49 245	47 802	48 594	48 764	49 070
Local government administration and municipal enterprises	3 355	3 182	3 805	3 890	4 765
State enterprises	8 340	7 830	6 354	6 677	6 755
Other private enterprises	129 578	117 654	137 008	143 478	145 887
Wage-earning households	41 941	40 108	44 307	47 553	47 000
Other households	1 918	1 791	2 005	1 981	2 234
Rest of the world	186 552	151 501	193 777	209 647	228 064
Unspecified sector	943	705	487	720	543
Total	687 217	624 820	733 011	754 955	836 296

Sources: Norwegian Central Securities Depository and Norges Bank

Table 12. Share capital and primary capital certificates registered with the Norwegian Central Securities Depository, by issuing sector. Nominal value. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Banks					27 512
Savings banks	11 284	11 284	11 422	11 511	
Commercial banks	15 595	15 845	15 845	15 845	
Insurance companies	2 525	2 525	2 525	2 528	2 530
Mortgage companies	2 194	2 194	2 194	2 194	2 194
Finance companies	5	5	5	5	5
Other financial enterprises	20 048	20 238	20 114	20 092	16 861
Local government administration and municipal enterprises	2	2	2	2	2
State enterprises	18 468	18 268	18 268	18 268	18 273
Other private enterprises	44 817	46 108	49 646	45 814	45 220
Rest of the world	5 489	5 716	5 631	5 422	5 224
Unspecified sector	0	0	0	4	0
Total	120 426	122 184	125 652	121 684	117 821

Sources: Norwegian Central Securities Depository and Norges Bank

Table 13. Net purchases and net sales (-) in the primary and secondary markets of shares registered with the Norwegian Central Securities Depository, by purchasing, selling and issuing sector¹⁾. Estimated market value. In millions of NOK

Issuing sector	Purchasing/ selling sector																Total ²⁾
	Cent.gov't and social security	Norges Bank	State lending inst.	Banks	Insur. companies	Mort. companies	Fin. companies	Secur. funds	Other financ. enterpr.	Local gov't & munic. enterpr.	State enterpr.	Other private enterpr.	Wage-earning households	Other households	Rest of the world	Unsp. sector	
Banks	-12	0	0	1 696	-141	0	-1	43	183	-8	-5	-270	-217	-2	-100	1	1 169
Insurance companies	0	0	0	-1	-4	0	0	32	-8	9	0	48	8	0	-6	2	80
Mortgage companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finance companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial enterpr.	1 551	0	0	-763	187	-3	0	-119	-11	-21	-101	-1 338	-141	-129	917	-7	24
Local gov't. admin. and municipal enterprises	0	0	0	0	0	0	0	0	0	-93	0	0	1	0	-1	93	0
State enterprises	-7 898	0	0	-362	453	-12	0	239	86	71	-16	572	216	32	6 698	14	92
Other private enterprises	-1 198	2	5	773	623	-38	0	448	-1 817	362	-2 636	9 354	-1 345	-121	5 755	145	10 311
Rest of the world	-55	0	0	6 160	-251	0	0	-981	-870	-8	-6	-1 610	-403	-39	-1 438	5	505
Unspecified sector	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	-7 611	2	5	7 504	866	-53	-1	-339	-2 438	313	-2 763	6 756	-1 880	-259	11 825	253	12 179

¹⁾ Issues at issue price + purchases at market value – sales at market value – redemptions at redemption value.

²⁾ Total shows net issues in the primary market. Purchases and sales in the secondary market result in redistribution between owner sectors, but add up to 0.

Sources: Norwegian Central Securities Depository and Norges Bank

Table 14. Bondholdings in NOK registered with the Norwegian Central Securities Depository, by holding sector. Market value. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	26 709	24 658	25 942	27 183	28 630
Norges Bank	7 034	6 765	3 863	8 275	6 549
State lending institutions	166	162	145	141	126
Banks					83 504
Savings banks	33 813	34 185	37 036	34 638	
Commercial banks	44 209	42 956	49 945	45 872	
Insurance companies	182 923	195 999	204 979	208 000	213 906
Mortgage companies	14 968	15 084	17 522	16 348	16 912
Finance companies	67	65	58	63	61
Mutual funds	28 227	30 124	31 639	30 387	30 897
Other financial enterprises	4 061	7 650	7 993	8 245	5 231
Local government administration and municipal enterprises	18 591	20 350	22 568	22 801	23 283
State enterprises	2 951	3 060	2 976	2 813	6 087
Other private enterprises	22 092	23 544	25 578	23 075	24 451
Wage-earning households	16 512	16 987	17 232	18 125	20 134
Other households	5 042	5 846	6 341	6 436	6 933
Rest of the world	66 810	72 625	71 333	74 887	78 992
Unspecified sector	574	580	216	270	216
Total	474 748	500 640	525 366	527 559	545 910

Sources: Norwegian Central Securities Depository and Norges Bank

Table 15. Bondholdings in NOK registered with the Norwegian Central Securities Depository, by issuing sector. Nominal value. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	124 640	139 843	144 841	149 395	152 392
State lending institutions	199	194	173	169	148
Banks					159 244
Savings banks	77 604	81 534	90 704	88 407	
Commercial banks	68 756	70 310	68 764	70 132	
Insurance companies	435	435	435	317	317
Mortgage companies	70 703	66 840	64 573	62 856	62 854
Finance companies	500	500	500	500	500
Other financial enterprises	3 796	3 708	2 667	2 617	2 619
Local government administration and municipal enterprises	43 981	48 756	48 600	48 661	51 652
State enterprises	35 060	33 454	33 024	32 415	32 721
Other private enterprises	36 338	36 476	41 156	38 999	40 220
Households	81	196	196	196	213
Rest of the world	13 332	13 780	14 230	16 397	17 792
Unspecified sector	0	0	239	0	0
Total	475 425	496 026	510 101	511 059	520 673

Sources: Norwegian Central Securities Depository and Norges Bank

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Table 16. Net purchases and net sales (-) in the primary and secondary markets for NOK- denominated bonds registered with the Norwegian Central Securities Depository, by purchasing, selling and issuing sector.¹⁾ Market value. In millions of NOK

Issuing sector	Purchasing/ selling sector																Total ²⁾
	Cent.gov't and social security	Norges Bank	State lending inst.	Banks	Insur. companies	Mort. companies	Fin. companies	Secur. funds	Other financ. enterpr.	Local gov't & munic. enterpr.	State enterpr.	Other private enterpr.	Wage-earning households	Other households	Rest of the world	Unsp. sector	
2003 Q4																	
Central government and social security admin.	-2 813	-931	0	3 028	16 291	617	3	1 157	-624	648	41	87	-80	96	10 317	14	27 852
State lending inst.	0	0	-42	-7	-2	0	0	0	0	0	0	0	0	0	0	0	-50
Banks	2 262	0	0	3 004	6 175	852	8	914	-130	327	70	82	1 412	669	-1 951	63	13 757
Insurance companies	0	0	0	-27	-5	-5	0	-43	25	0	0	-42	0	-1	-27	0	-126
Mortgage companies	-89	0	0	-2 448	-2 875	579	1	-333	-423	-127	-123	-504	-291	13	-566	-2	-7 187
Finance companies	0	0	0	-45	7	0	0	5	0	2	0	30	1	2	0	0	0
Other financial enterprises	0	0	0	-74	-789	0	0	-7	1	55	0	-192	-29	37	8	-1	-991
Local gov't. admin. and municipal enterprises	471	0	0	61	5 051	-109	0	515	23	2 407	12	248	30	384	48	0	9 141
State enterprises	-114	0	0	334	-3 579	-4	0	-306	-70	202	5 116	-249	31	365	-1 071	0	655
Other private enterprises	-897	0	0	1 395	517	-169	0	754	-1 063	376	14	2 284	104	-46	392	-1	3 661
Households	0	0	0	-2	20	0	0	0	26	0	0	31	6	23	0	3	107
Rest of the world	0	0	0	161	2 200	-30	-22	-225	31	63	1	192	662	71	1 347	8	4 460
Unspecified sector	0	0	0	239	0	0	0	0	0	0	0	0	0	0	0	0	239
Total	-1 180	-931	-42	5 618	23 012	1 733	-10	2 431	-2 204	3 951	5 133	1 968	1 845	1 613	8 497	84	51 517

¹⁾ Issues at issue price + purchases at market value – sales at market value – redemptions at redemption value.

²⁾ Total shows net issues in the primary market. Purchases and sales in the secondary market result in redistribution between owner sectors, but add up to 0.

Sources: Norwegian Central Securities Depository and Norges Bank

Table 17. NOK-denominated short-term paper registered with the Norwegian Central Securities Depository by holding sector. Market value. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	3 806	9 037	11 198	9 257	1 443
Norges Bank	2 298	2 177	3 513	10 288	7 471
State lending institutions	0	0	0	0	0
Banks					16 439
Savings banks	4 424	3 878	3 890	3 924	
Commercial banks	14 890	10 721	9 589	12 333	
Insurance companies	52 320	49 107	50 388	58 291	53 719
Mortgage companies	1 238	3 525	5 014	3 247	1 778
Finance companies	30	33	41	36	41
Mutual funds	26 054	25 834	27 000	28 802	29 881
Other financial enterprises	2 722	3 518	2 758	3 695	3 286
Local government administration and municipal enterprises	6 526	5 860	3 543	2 296	2 031
State enterprises	1 510	12 847	6 696	4 293	6 473
Other private enterprises	7 038	5 456	3 786	3 676	3 761
Wage-earning households	274	301	258	237	160
Other households	1 049	1 387	1 376	1 152	1 293
Rest of the world	10 980	10 814	8 838	9 249	10 423
Unspecified sector	22	6	5	0	0
Total	135 180	144 502	137 893	150 775	138 200

Sources: Norwegian Central Securities Depository and Norges Bank

Table 18. Outstanding short-term paper, by issuing sector.¹⁾ Nominal value. In millions of NOK

Issuing sector	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Central government and social security administration	51 500	62 500	64 500	79 784	68 013
Counties	474	622	502	334	404
Municipalities	4 285	4 241	4 814	4 913	5 468
State lending institutions	0	0	0	0	0
Commercial banks	18 434	14 357	8 090	6 010	7 713
Savings banks	40 538	37 629	30 133	32 787	34 854
Mortgage companies	1 787	4 255	6 767	3 568	5 843
Finance companies	600	0	0	0	0
Other financial enterprises	0	0	0	0	19
State enterprises	6 555	3 370	2 960	3 280	2 860
Municipal enterprises	8 526	7 044	6 751	6 621	6 276
Private enterprises	8 412	9 852	7 674	8 065	6 674
Rest of the world	2 500	3 190	4 220	4 090	3 493
Total	143 611	147 060	136 411	149 452	141 617

¹⁾ Comprises short-term paper issued in Norway in NOK by domestic sectors and foreigners and paper in foreign currency issued by domestic sectors.

Source: Norges Bank

Credit and liquidity trends

Table 19. Credit indicator and money supply

	Volume figures at end of period NOKbn			Percentage growth				
				Over past 12 months			Over past 3 months, annualised rate ⁴⁾	
	C2 ¹⁾	C3 ²⁾	M2 ³⁾	C2 ¹⁾	C3 ²⁾	M2 ³⁾	C2	M2
December 1994	893.5	1 071.8	501.3	2.3	1.4	5.8	2.9	1.2
December 1995	936.0	1 123.6	530.3	4.9	5.6	6.0	5.4	1.3
December 1996	992.5	1 213.4	564.4	6.0	5.3	6.4	7.8	4.6
December 1997	1 099.1	1 363.7	578.5	10.2	10.2	1.8	10.1	3.0
December 1998	1 192.8	1 521.5	605.3	8.3	12.2	4.4	6.4	5.4
December 1999	1 295.0	1 697.2	670.1	8.4	8.0	10.5	9.9	8.4
December 2000	1 460.9	1 921.1	731.8	12.3	10.6	8.8	12.0	7.3
December 2001	1 608.2	2 078.1	795.4	9.7	7.1	9.3	9.0	10.5
October 2002	1 701.9	2 140.1	844.7	8.6	7.1	8.6	8.0	4.0
November 2002	1 724.0	2 156.9	829.2	8.9	7.0	7.7	8.8	9.8
December 2002	1 724.9	2 152.0	855.3	8.9	6.9	8.3	9.8	9.0
January 2003	1 735.1	2 159.0	866.6	9.1	6.9	6.3	8.7	7.3
February 2003	1 745.5	2 183.4	858.8	8.8	6.8	6.2	7.7	2.3
March 2003	1 756.8	2 198.6	854.3	8.7	6.5	5.5	6.3	1.5
April 2003	1 765.6	2 213.7	844.5	8.1	6.0	5.9	6.9	2.0
May 2003	1 780.0	2 214.9	850.7	8.3	6.3	5.8	7.1	3.1
June 2003	1 795.7	2 250.5	871.0	7.6	5.7	2.9	7.5	3.2
July 2003	1 797.5	2 245.6	870.9	7.5	5.5	3.9	6.6	3.0
August 2003	1 811.2	2 267.6	867.2	7.5	5.5	4.6	6.6	2.6
September 2003	1 817.4	2 249.4	855.3	7.6	5.3	4.1	6.7	2.5
October 2003	1 828.3	2 271.3	868.9	7.5	5.4	2.8	7.3	1.8
November 2003	1 840.3	2 276.9	856.9	6.9	5.1	3.3	7.3	2.9
December 2003	1 850.4		873.2	7.1		1.9	7.5	1.9
January 2004	1 867.9		880.2	7.2		1.3		

¹⁾ C2 = Credit indicator. Credit from domestic sources; actual figures.

²⁾ C3 = Total credit from domestic and foreign sources; actual figures.

³⁾ M2 = Money supply (see note to Table 21).

⁴⁾ Seasonally adjusted figures

Source: Norges Bank

**Table 20. Domestic credit supply to the general public¹⁾, by source. In millions of NOK.
12-month growth as a percentage**

	31.12.2001		31.12.2002		31.12.2003		31.01.2004	
	Amount	%	Amount	%	Amount	%	Amount	%
Private banks	1 030 694	9.6	1 097 144	8.2	1 185 763	7.8	1 196 239	7.9
State lending institutions	176 494	5.1	185 932	5.3	188 593	1.4	188 668	0.7
Mortgage companies	167 698	15.6	182 006	10.9	210 326	15.3	212 237	15.4
Finance companies	79 474	14.6	83 234	9.9	89 308	7.1	91 180	8.8
Life insurance companies	24 482	0.2	23 124	-5.5	20 628	-10.8	20 630	-11.7
Pension funds	3 742	7.1	3 936	5.2	3 936	0.0	3 936	0.0
Non-life insurance companies	934	-43.4	919	-1.6	1 170	27.3	1 170	23.2
Bond debt ²⁾	89 671	8.2	107 399	19.8	117 234	9.2	119 077	9.0
Notes and short-term paper	23 752	-2.1	26 145	10.1	19 794	-24.3	21 325	-17.6
Other sources	11 227	69.8	15 036	33.1	13 646	-9.2	13 458	-12.7
Total domestic credit (C2) ³⁾	1 608 168	9.7	1 724 875	8.9	1 850 398	7.1	1 867 920	7.2

¹⁾ Comprises local government administration, non-financial enterprises and households

²⁾ Adjusted for non-residents' holdings of Norwegian private and municipal bonds in Norway.

³⁾ Corresponds to Norges Bank's credit indicator (C2).

Source: Norges Bank

Table 21. Composition of money supply. In millions of NOK

Actual figures at end of period	Notes and coins	Transaction account deposits	M1 ¹⁾	Other deposits ²⁾	CDs	M2 ³⁾	Change in M2 last 12 months, total
December 1994	40 454	172 153	210 107	286 082	5 116	501 305	25 289
December 1995	42 069	178 653	217 727	296 799	15 731	530 257	28 952
December 1996	43 324	208 073	247 938	294 741	21 686	564 365	34 108
December 1997	46 014	227 382	269 597	278 741	30 200	578 538	14 173
December 1998	46 070	237 047	279 189	292 820	33 322	605 331	26 793
December 1999	48 020	300 128	343 494	295 820	30 802	670 116	64 785
December 2000	46 952	328 816	371 339	326 350	34 152	731 841	61 725
December 2001	46 633	344 110	386 148	370 171	39 048	795 367	63 526
October 2002	40 024	358 124	394 209	404 464	45 998	844 671	62 992
November 2002	40 783	349 028	385 823	398 520	44 822	829 165	55 219
December 2002	44 955	360 341	400 623	409 704	45 001	855 328	59 961
January 2003	41 157	360 621	397 903	426 301	42 388	866 592	45 568
February 2003	40 236	359 575	396 152	421 504	41 111	858 767	46 371
March 2003	39 718	363 230	399 372	412 803	42 135	854 310	41 438
April 2003	40 151	354 819	391 090	417 290	36 141	844 521	44 388
May 2003	41 244	360 530	397 834	416 160	36 736	850 730	45 022
June 2003	41 253	386 637	423 926	414 995	32 107	871 028	26 544
July 2003	41 101	380 559	417 465	421 656	31 773	870 894	33 809
August 2003	40 724	374 424	411 388	425 179	30 603	867 170	40 809
September 2003	40 262	375 762	412 349	411 515	31 433	855 297	34 594
October 2003	40 816	384 107	421 197	416 966	30 757	868 920	24 249
November 2003	41 806	379 363	417 288	407 412	32 234	856 934	27 769
December 2003	46 249	387 309	428 996	407 357	36 806	873 159	17 821
January 2004	42 802	389 629	428 510	419 530	32 129	880 169	13 703

¹⁾ Narrow money, M1, comprises the money-holding sector's stock of Norwegian notes and coins plus the sector's transaction account deposits in Norges Bank, commercial banks and savings banks (in NOK and foreign currency).

²⁾ Excluding restricted bank deposits (BSU, IPA, withholding tax accounts, etc).

³⁾ Broad money, M2, comprises the sum of M1 and the money-holding sector's other bank deposits and CDs (in NOK and foreign currency) excluding restricted bank deposits (BSU, IPA, withholding tax accounts, etc).

Source: Norges Bank

Table 22. Household financial balance. Financial investments and holdings, by financial instrument. In billions of NOK

	Financial investments					Holdings				
	Year			Q3		Year			At 30 Sept.	
	2000	2001	2002	2002	2003	2000	2001	2002	2002	2003
Currency and deposits	33.9	35.7	47.0	-13.0	-13.0	443.3	481.0	527.8	505.1	550.7
Securities other than shares	7.9	6.8	2.0	0.1	0.4	18.3	21.6	23.1	23.3	25.8
Shares and other equity	8.8	4.6	22.0	6.0	4.4	154.7	148.2	160.5	152.5	178.1
Mutual funds shares	11.4	2.7	-1.8	-1.2	1.0	85.7	78.1	61.4	66.9	76.1
Insurance technical reserves	21.8	40.1	31.0	14.6	8.6	465.6	490.0	505.3	504.7	537.6
Loans and other assets ¹⁾	18.3	8.6	14.4	8.5	6.8	141.2	149.0	163.6	164.9	176.0
Total assets	102.0	98.4	114.5	15.0	8.3	1 308.8	1 368.0	1 441.7	1 417.5	1 544.3
Loans from banks (incl. Norges Bank)	66.5	67.3	72.0	19.5	27.9	592.5	660.4	727.9	713.2	792.0
Loans from state lending institutions	5.7	7.7	7.5	2.5	0.3	140.9	148.5	156.0	154.9	159.1
Loans from private mortgage and finance companies	6.4	14.1	13.5	2.8	3.3	53.5	67.7	80.1	76.1	91.5
Loans from insurance companies	-2.5	-0.6	0.4	0.3	0.1	16.7	16.1	16.5	16.6	16.9
Other liabilities ²⁾	2.7	8.3	8.0	-8.4	-12.6	111.6	118.7	125.4	116.3	120.6
Total liabilities	78.7	96.8	101.4	16.6	18.9	915.2	1011.4	1106.0	1077.2	1 180.1
Net financial investments / assets	23.2	1.6	13.1	-1.6	-10.6	393.6	356.6	335.7	340.4	364.2

¹⁾ Loans, accrued interest, holiday pay claims and tax claims.

²⁾ Other loans, securities other than shares, tax liabilities and accrued interest.

Sources: Norges Bank

Table 23. Money market liquidity. Liquidity effect from 1 January to end period. In millions of NOK

Supply+/withdrawal–	1.1 - 31.12		1.1 - 30.11	
	2001	2002	2002	2003
Central government and other public accounts (excl. paper issued by state lending institutions and government)	5 950	-13 408	22 291	14 824
Paper issued by state lending institutions and government	-13 598	-41 322	-26 709	-6 306
Purchase of foreign exchange for Government Petroleum Fund	56 545	14 620	6 000	0
Other foreign exchange transactions	421	0	0	0
Holdings of banknotes and coins ¹⁾ (estimate)	1 741	-1 337	4 697	4 083
Overnight loans	0	0	0	0
Fixed-rate loans	-15 140	12 000	0	-12 000
Other central bank financing	-18 700	18 716	-26 303	-56
Total reserves	17 219	-10 731	-20 024	545
Of which:				
Sight deposits with Norges Bank	17 219	-10 731	-20 024	545
Treasury bills	0	0	0	0
Other reserves (estimate)	0	0	0	0

¹⁾ The figures are mainly based on Norges Bank's accounts. Discrepancies may arise between the bank's own statements and banking statistics due to different accruals.

Source: Norges Bank

Interest rate statistics

Table 24. Nominal interest rates for NOK. Averages. Per cent per annum

	1-month		3-month		12-month		Interest rate on	Interest rate on
	NIDR	NIBOR	NIDR	NIBOR	NIDR	NIBOR	banks' overnight loans in Norges Bank	banks' sight deposits with Norges Bank
October 2002	7.3	7.1	7.3	7.1	7.0	6.8	9.0	7.0
November 2002	7.3	7.1	7.3	7.1	6.9	6.7	9.0	7.0
December 2002	7.1	6.9	6.8	6.6	6.4	6.1	8.7	6.7
January 2003	6.4	6.2	6.2	6.0	5.9	5.6	8.3	6.3
February 2003	6.1	5.9	5.9	5.7	5.5	5.3	8.0	6.0
March 2003	5.8	5.6	5.7	5.5	5.4	5.2	7.6	5.6
April 2003	5.6	5.4	5.5	5.3	5.2	5.0	7.5	5.5
May 2003	5.3	5.2	5.1	4.9	4.7	4.5	7.0	5.0
June 2003	4.7	4.5	4.3	4.0	3.8	3.6	6.8	4.8
July 2003	4.1	4.0	3.6	3.5	3.4	3.2	6.0	4.0
August 2003	3.5	3.3	3.3	3.1	3.4	3.2	5.4	3.4
September 2003	3.0	2.9	3.0	2.8	3.2	3.0	4.8	2.8
October 2003	2.9	2.8	3.0	2.9	3.2	3.1	4.5	2.5
November 2003	2.9	2.8	3.1	2.9	3.2	3.1	4.5	2.5
December 2003	2.9	2.8	2.8	2.6	2.9	2.8	4.4	2.4
January 2004	2.5	2.3	2.4	2.3	2.5	2.3	4.2	2.2
February 2004	2.3	2.1	2.1	2.0	2.2	2.1	4.0	2.0

Note: NIDR = Norwegian Interbank Deposit Rate, a pure krone interest rate

NIBOR = Norwegian Interbank Offered Rate, constructed on the basis of currency swaps

Source: Norges Bank

Table 25. Short-term interest rates¹⁾ for key currencies in the Euro-market. Per cent per annum

	DKK	GBP	JPY	SEK	USD	Interest rate differential	
						EUR	NOK/EUR
October 2002	3.4	3.9	0.0	4.3	1.7	3.2	3.8
November 2002	3.2	3.9	0.0	4.1	1.4	3.1	3.9
December 2002	3.0	4.0	0.0	3.8	1.4	2.9	3.5
January 2003	2.9	3.9	0.0	3.8	1.3	2.8	3.1
February 2003	2.8	3.7	0.0	3.7	1.3	2.7	2.9
March 2003	2.6	3.6	0.0	3.5	1.3	2.5	2.9
April 2003	2.6	3.6	0.0	3.5	1.3	2.5	2.6
May 2003	2.5	3.6	0.0	3.3	1.2	2.4	2.4
June 2003	2.2	3.6	0.0	2.9	1.1	2.1	1.8
July 2003	2.1	3.4	0.0	2.8	1.1	2.1	1.2
August 2003	2.1	3.5	-0.1	2.8	1.1	2.1	0.9
September 2003	2.1	3.6	0.0	2.8	1.1	2.1	0.6
October 2003	2.1	3.8	0.0	2.8	1.1	2.1	0.6
November 2003	2.2	3.9	-0.1	2.8	1.1	2.1	0.6
December 2003	2.2	4.0	0.0	2.8	1.1	2.1	0.4
January 2004	2.1	4.0	0.0	2.7	1.1	2.1	0.1
February 2004	2.1	4.1	0.0	2.5	1.1	2.1	-0.2

¹⁾ Three-month rates, monthly average of daily quotations.

Sources: OECD and Norges Bank

Table 26. Yields on Norwegian bonds¹⁾. Per cent per annum

	3-year		5-year		10-year	
	Gov't	Private	Gov't	Private	Gov't	Private
October 2002	6.1	6.7	6.1	6.6	6.2	6.7
November 2002	6.0	6.6	6.0	6.5	6.1	6.6
December 2002	5.6	6.3	5.7	6.3	5.9	6.4
January 2003	5.3	5.9	5.4	6.0	5.7	6.1
February 2003	4.9	5.4	5.0	5.5	5.3	5.6
March 2003	5.0	5.3	5.1	6.3	5.2	5.7
April 2003	4.9	5.3	5.0	6.3	5.3	5.8
May 2003	4.4	5.2	4.6	5.7	5.0	5.6
June 2003	3.7	4.9	4.0	4.9	4.5	4.9
July 2003	3.8	4.8	4.3	5.3	4.9	5.2
August 2003	3.9	4.8	4.4	5.4	5.0	5.2
September 2003	3.7	4.7	4.3	5.2	4.9	5.1
October 2003	3.9	4.7	4.4	5.4	4.9	5.7
November 2003	3.9	4.8	4.4	5.2	5.0	5.2
December 2003	3.5	4.9	4.1	5.1	4.8	5.2
January 2004	3.2	.	3.7	.	4.5	.
February 2004	2.8	.	3.4	.	4.3	.

¹⁾ Whole-year interest rate paid in arrears. Monthly average. As of 1 January 1993 based on interest rate on representative bonds weighted by residual maturity.

Source: Norges Bank

Table 27. Yields on government bonds¹⁾ in key currencies. Per cent per annum

	DEM	DKK	FIM	FFR	GBP	JPY	USD	Interest rate differential
								NOK/DEM ²⁾
October 2002	4.6	4.9	4.7	4.6	4.6	1.1	3.9	1.6
November 2002	4.6	4.9	4.7	4.6	4.6	1.0	4.1	1.6
December 2002	4.4	4.7	4.5	4.4	4.5	1.0	4.1	1.5
January 2003	4.2	4.5	4.3	4.2	4.4	0.8	4.0	1.4
February 2003	4.0	4.3	4.1	4.0	4.2	0.8	3.9	1.3
March 2003	4.1	4.3	4.2	4.1	4.3	0.7	3.8	1.2
April 2003	4.2	4.5	4.3	4.2	4.4	0.7	4.0	1.1
May 2003	3.9	4.1	3.9	3.9	4.1	0.6	3.5	1.1
June 2003	3.7	3.9	3.8	3.7	4.0	0.6	3.3	0.8
July 2003	4.1	4.2	4.1	4.0	4.3	1.0	4.0	0.8
August 2003	4.2	4.4	4.2	4.2	4.5	1.1	4.4	0.8
September 2003	4.3	4.5	4.3	4.2	4.6	1.4	4.3	0.7
October 2003	4.3	4.5	4.3	4.3	4.9	1.4	4.2	0.6
November 2003	4.5	4.6	4.4	4.4	5.0	1.3	4.3	0.5
December 2003	4.4	4.6	4.4	4.3	4.9	1.4	4.3	0.4
January 2004	4.3	4.2	4.2	4.2	4.8	1.3	4.1	0.3
February 2004	4.2	4.4	4.2	4.1	4.8	1.2	4.1	0.1

¹⁾ Government bonds with 10 years to maturity. Monthly average of daily quotations.

²⁾ Differential between yields on Norwegian and German government bonds with 10 years to maturity.

Sources: OECD and Norges Bank

Table 28. Commercial and savings banks. Average interest rates and commissions on utilised NOK loans to the general public at end of quarter. Per cent per annum.

	Loans, excl. non-accrual loans							
	Total loans	Local government	Non-financial public enterprises	Non-financial private enterprises	Households	Credit lines	Repayment loans	
						Overdrafts and building loans	Housing loans	Other loans
2002 Q4								
Commercial banks	8.49	7.60	7.73	8.57	8.47	10.39	8.34	8.19
Savings banks	8.91	7.49	7.85	9.16	8.85	11.16	8.58	9.11
All banks	8.71	7.55	7.76	8.80	8.69	10.73	8.48	8.59
2003 Q1								
Commercial banks	7.52	6.48	6.67	7.66	7.47	9.45	7.32	7.30
Savings banks	7.94	6.48	6.98	8.32	7.84	10.25	7.56	8.26
All banks	7.74	6.48	6.75	7.92	7.68	9.81	7.46	7.71
2003 Q2								
Commercial banks	6.60	6.43	5.39	6.63	6.61	8.33	6.43	6.40
Savings banks	7.09	5.40	6.88	7.54	6.97	9.33	6.69	7.50
All banks	6.86	6.01	5.78	6.99	6.81	8.79	6.58	6.87
2003 Q3								
Commercial banks	5.01	4.29	4.09	5.21	4.92	6.83	4.70	5.05
Savings banks	5.44	4.02	4.24	6.14	5.27	8.11	4.96	6.06
All banks	5.24	4.16	4.14	5.58	5.12	7.42	4.85	5.49
2003 Q4								
Commercial banks	4.50	4.41	3.50	4.62	4.44	6.53	4.21	4.52
Savings banks	4.96	3.35	3.85	5.61	4.81	7.59	4.51	5.56
All banks	4.74	3.89	3.64	5.01	4.65	7.04	4.38	4.97

Source: Norges Bank

Table 29. Commercial and savings banks. Average interest rates on deposits in NOK from the general public at end of quarter. Per cent per annum

	Total deposits	Local government	Non-financial public enterprises	Non-financial private enterprises	Households	Deposits on transaction accounts	Other deposits
2002 Q4							
Commercial banks	5.74	6.22	6.23	5.85	5.62	5.18	6.36
Savings banks	5.85	6.60	6.53	5.89	5.75	4.55	6.53
All banks	5.79	6.46	6.36	5.86	5.69	4.92	6.46
2003 Q1							
Commercial banks	4.89	5.17	5.22	4.82	4.90	4.30	5.53
Savings banks	4.89	5.63	5.57	4.97	4.78	3.73	5.52
All banks	4.89	5.46	5.35	4.88	4.83	4.06	5.52
2003 Q2							
Commercial banks	3.92	4.24	3.89	3.70	4.01	3.18	4.76
Savings banks	3.84	4.51	4.28	3.92	3.76	2.64	4.56
All banks	3.88	4.42	4.03	3.78	3.87	2.95	4.65
2003 Q3							
Commercial banks	2.26	2.82	2.55	2.12	2.29	1.88	2.69
Savings banks	2.27	2.97	2.76	2.36	2.19	1.58	2.66
All banks	2.27	2.91	2.60	2.21	2.23	1.76	2.67
2003 Q4							
Commercial banks	1.81	2.48	2.16	1.81	1.77	1.63	2.03
Savings banks	1.87	2.53	2.37	1.91	1.80	1.32	2.18
All banks	1.84	2.51	2.25	1.84	1.78	1.50	2.12

Source: Norges Bank

Table 30. Life insurance companies. Average interest rates by type of loan at end of quarter. Per cent per annum

	Housing loans	Other loans	Total loans
31.12.2002	7.8	7.0	7.3
31.03.2003	6.9	6.4	6.7
30.06.2003	5.7	6.0	5.9
30.09.2003	4.3	5.5	4.9
31.12.2003	4.1	5.3	4.7

Source: Norges Bank

Table 31. Mortgage companies. Average interest rates, incl. commissions on loans to private sector at end of quarter. Per cent per annum

	Housing loans	Loans to private enterprises	Total loans
31.12.2002	7.8	7.7	7.3
31.03.2003	7.2	7.2	6.7
30.06.2003	6.6	6.8	6.3
30.09.2003	6.0	6.1	5.6
31.12.2003	5.5	5.7	5.2

Source: Norges Bank

Profit/loss and capital adequacy data

Table 32. Profit/loss and capital adequacy: commercial banks¹⁾.
Percentage of average total assets

	2001	2002	2003
Interest income	7.5	7.3	5.5
Interest expenses	5.8	5.5	3.9
Net interest income	1.8	1.9	1.6
Total other operating income	1.1	0.8	0.8
Other operating expenses	1.8	1.8	1.6
Operating profit before losses	1.0	0.9	0.9
Recorded losses on loans and guarantees	0.3	0.5	0.5
Ordinary operating profit before taxes	0.7	0.4	0.4
Capital adequacy ratio ²⁾	11.7	11.1	11.5
Of which:			
Core capital	8.7	8.4	8.4

¹⁾ Parent banks (excluding branches abroad) and foreign-owned branches.

²⁾ As a percentage of the basis of measurement for capital adequacy.

Source: Norges Bank

Table 33. Profit/loss and capital adequacy: savings banks.
Percentage of average total assets

	2001	2002	2003
Interest income	8.1	7.8	6.1
Interest expenses	5.6	5.3	3.8
Net interest income	2.5	2.5	2.3
Total other operating income	0.7	0.5	0.8
Other operating expenses	1.8	1.8	1.7
Operating profit before losses	1.4	1.2	1.5
Recorded losses on loans and guarantees	0.3	0.4	0.4
Ordinary operating profit before taxes	1.2	0.8	1.1
Capital adequacy ratio ¹⁾	13.8	13.5	13.4
Of which:			
Core capital	11.0	11.1	11.2

¹⁾ As a percentage of the basis of measurement for capital adequacy.

Source: Norges Bank

Table 34. Profit/loss and capital adequacy: finance companies¹⁾.
Percentage of average total assets

	2001	2002	2003
Interest income	10.3	9.7	8.5
Interest expenses	6.0	5.6	3.8
Net interest income	4.2	4.1	4.7
Total other operating income	2.8	2.5	2.3
Other operating expenses	4.4	4.1	4.1
Operating profit before losses	2.6	2.5	3.0
Recorded losses on loans and guarantees	0.5	0.6	1.0
Ordinary operating profit before taxes	2.1	1.9	2.0
Capital adequacy ratio ²⁾	11.3	10.9	10.8
Of which:			
Core capital	9.8	9.3	9.3

¹⁾ All Norwegian parent companies (excl. OBOS) and foreign-owned branches.

²⁾ As a percentage of the basis of measurement for capital adequacy.

Source: Norges Bank

Table 35. Profit/loss and capital adequacy: mortgage companies¹⁾.
Percentage of average total assets

	2001	2002	2003
Interest income	6.5	5.3	4.4
Interest expenses	5.7	4.7	3.8
Net interest income	0.8	0.7	0.7
Total other operating income	-0.0	-0.0	0.0
Other operating expenses	0.2	0.2	0.1
Operating profit before losses	0.6	0.5	0.5
Recorded losses on loans and guarantees	0.0	0.0	0.0
Ordinary operating profit before taxes	0.6	0.5	0.5
Capital adequacy ²⁾	14.7	12.7	12.2
Of which:			
Core capital	11.2	10.4	9.7

¹⁾ All Norwegian parent companies.

²⁾ As a percentage of the basis of measurement for capital adequacy.

Source: Norges Bank

Exchange rates

Table 36. The international value of the krone and exchange rates against selected currencies.
Monthly average of representative market rates

	Trade-weighted krone exchange rate ¹⁾	1 EUR	100 DKK	1 GBP	100 JPY	100 SEK	1 USD
October 2002	94.06	7.3405	98.80	11.65	6.04	80.62	7.48
November 2002	93.58	7.3190	98.53	11.49	6.02	80.59	7.31
December 2002	92.91	7.2953	98.24	11.36	5.87	80.20	7.17
January 2003	92.52	7.3328	98.66	11.16	5.81	79.93	6.90
February 2003	94.75	7.5439	101.51	11.26	5.87	82.49	7.00
March 2003	98.02	7.8450	105.62	11.49	6.12	85.03	7.26
April 2003	97.78	7.8316	105.47	11.37	6.02	85.56	7.22
May 2003	97.10	7.8711	106.01	11.04	5.80	85.97	6.80
June 2003	100.77	8.1622	109.93	11.63	5.91	89.51	7.00
July 2003	102.57	8.2893	111.52	11.84	6.14	90.24	7.29
August 2003	102.40	8.2558	111.08	11.81	6.24	89.37	7.41
September 2003	102.15	8.1952	110.34	11.76	6.36	90.37	7.31
October 2003	102.26	8.2278	110.74	11.80	6.42	91.32	7.04
November 2003	101.95	8.1969	110.22	11.83	6.41	91.14	7.01
December 2003	101.55	8.2414	110.74	11.74	6.22	91.34	6.71
January 2004	105.45	8.5925	115.36	12.42	6.41	94.04	6.81
February 2004	107.82	8.7752	117.77	12.96	6.51	95.63	6.94

¹⁾ The nominal effective krone exchange rate is calculated on the basis of the NOK exchange rate against the currencies of Norway's 25 main trading partners, calculated as a chained index and trade-weighted using the OECD's weights. The weights, which are updated annually, are calculated on the basis of each country's competitive position in relation to Norwegian manufacturing. The index is set at 100 in 1990. A rising index value denotes a depreciating krone.

Further information can be found on Norges Bank's website (www.norges-bank.no).

Source: Norges Bank

Table 37. Exchange cross rates. Monthly average of representative exchange rates

	GBP/USD	EUR/GBP	USD/EUR	EUR/JPY	JPY/USD
October 2002	1.5574	0.6299	0.981	121.5679	123.91
November 2002	1.5717	0.6371	1.001	121.6472	121.49
December 2002	1.5851	0.6421	1.018	124.1810	122.01
January 2003	1.6164	0.6571	1.062	126.1147	118.74
February 2003	1.6086	0.6697	1.077	128.5750	119.35
March 2003	1.5830	0.6825	1.080	128.1511	118.61
April 2003	1.5736	0.6890	1.084	130.0741	119.97
May 2003	1.6227	0.7130	1.157	135.6071	117.20
June 2003	1.6612	0.7017	1.166	138.0045	118.38
July 2003	1.6235	0.7004	1.137	134.9582	118.69
August 2003	1.5926	0.6991	1.113	132.2774	118.80
September 2003	1.6093	0.6969	1.122	128.9269	114.95
October 2003	1.6760	0.6976	1.169	128.1083	109.57
November 2003	1.6888	0.6927	1.170	127.8064	109.25
December 2003	1.7496	0.7022	1.228	132.4419	107.81
January 2004	1.8223	0.6921	1.261	134.1105	106.34
February 2004	1.8683	0.6768	1.265	134.7664	106.57

Source: Norges Bank

Balance of payments

Table 38. Balance of payments. In millions of NOK

	2001	2002	2003
Goods balance	232 340	186 875	192 566
Service balance	28 145	22 836	21 827
Net interest and transfers	-25 321	-13 632	-11 729
A. Current account balance	235 164	196 079	202 664
Of which:			
Petroleum activities ¹⁾	318 422	273 181	294 590
Shipping ¹⁾	41 786	37 601	37 546
Other sectors	-125 044	-114 703	-129 472
B. Net capital transfers	-53	-431	5 468
C. Capital outflow excl. Norges Bank	-32 524	21 465	-22 552
Distributed among:			
Central government sector	15 018	-1 204	-3 208
Local government sector	237	719	137
Commercial and savings banks	-32 892	-73 450	-39 538
Insurance	3 770	17 680	19 043
Other financial institutions	-23 370	-42 786	-31 412
Shipping	2 179	2 534	-976
Petroleum activities	-44 150	-37 946	-2 402
Other private and state enterprises	37 558	73 296	33 698
Unallocated (incl. errors and omissions)	9 126	82 622	2 106
D. Norges Bank's net capital outflow (A + B - C)	267 635	174 183	230 684
E. Valuation changes in Norges Bank's net foreign assets	-47 907	-175 470	41 802
Change in Norges Bank's net foreign assets (D + E)	219 728	-1 287	272 486

¹⁾ Specified by Norges Bank on the basis of items from the balance of payments.

Sources: Statistics Norway and Norges Bank

Table 39. Norway's foreign assets and debt. In billions of NOK

	31.12.2001			31.12.2002			31.12.2003		
	Assets	Debt	Net	Assets	Debt	Net	Assets	Debt	Net
Public administration	762.1	186.9	575.1	838.1	281.4	556.7	1 165.0	374.7	790.4
Norges Bank	217.9	58.1	159.9	226.7	64.4	162.3	253.9	61.5	192.4
Banks	136.1	355.9	-219.8	125.8	371.8	-245.9	193.3	473.1	-279.8
Other financial enterprises	114.1	162.5	-48.4	112.9	176.6	-63.6	116.5	216.7	-100.2
Insurance	201.8	30.9	171.0	171.5	25.5	146.0	219.6	26.0	193.6
Public non-financial enterprises	112.1	107.8	4.2	120.3	112.1	8.1	153.4	111.7	41.7
Private non-financial enterprises	379.7	430.4	-50.7	352.7	416.7	-64.0	351.0	422.0	-71.0
Households and non-profit organisations	59.3	13.0	46.3	62.6	11.4	51.3	54.9	11.4	43.6
Undistributed and errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	2.1	0.0	2.1
All sectors	1 983.1	1 345.5	637.6	2 010.6	1 459.7	550.8	2 509.8	1 697.2	812.7

Norges Bank calculates the holdings figures on the basis of Statistics Norway's annual census of foreign assets and liabilities and sectoral statistics for financial industries. These are combined with the figures on changes in the form of transactions and valuation changes from the balance of payments.

Sources: Statistics Norway and Norges Bank

International capital markets

Table 40. Changes in banks' international assets.¹⁾ In billions of USD

	2000	2001	2002	Q3		Outstanding At 30.09.03
				2002	2003	
Total	1 221.5	859.4	742.0	93.8	-132.8	14 929.9
Of which vis-à-vis:						
Non-banks	288.8	442.1	303.1	147.4	96.8	5 357.7
Banks (and undistributed)	932.7	417.3	438.9	-53.6	-229.6	9 572.2

1) International assets (external positions) comprise

- cross-border claims in all currencies
- foreign currency loans to residents
- equivalent assets, excluding lending

Source: Bank for International Settlements

Table 41. Banks' international claims by currency. Percentage of total international assets

	December			Q3	
	2000	2001	2002	2002	2003
US dollar (USD)	43.3	45.1	41.8	42.6	40.2
Deutsche mark (DEM)	..	..	..	..	..
Swiss franc (CHF)	2.2	2.1	2.0	2.1	1.9
Japanese yen (JPY)	8.2	6.1	5.5	5.6	5.0
Pound sterling (GBP)	4.4	5.3	5.2	4.4	5.2
French franc (FRF)	..	..	..	..	..
Italian lira (ITL)	..	..	..	..	..
ECU/EURO ¹⁾	27.8	28.5	33.3	32.3	36.2
Undistributed ²⁾	14.2	12.9	12.2	13.0	12.5
Total in billions of USD	10 778.6	11 627.9	13 374.7	12 694.1	14 929.9

¹⁾ From January 1999.

²⁾ Including other currencies not shown in the table, and assets in banks in countries other than the home countries of the seven currencies specified.

Source: Bank for International Settlements

Foreign currency trading

Table 42. Foreign exchange banks. Foreign exchange purchased/sold forward with settlement in NOK.¹⁾ In billions of NOK at end of month

	Purchased net from:					Purchased gross from:		Sold gross to:	
	Central gov't ²⁾	Other financial inst. ³⁾	Non- financial sector	Foreign sector	Total	Non- financial sector	Foreign sector	Non- financial sector	Foreign sector
January 2003	0.0	23.9	22.2	55.0	101.1	110.0	632.2	87.8	577.2
February 2003	0.0	32.7	46.7	64.9	144.3	121.7	630.8	75.0	565.9
March 2003	0.1	49.4	42.4	32.2	124.1	114.4	595.9	72.0	563.7
April 2003	0.0	36.3	44.1	55.5	135.9	110.7	620.7	66.6	565.2
May 2003	0.1	23.5	36.1	86.4	146.1	94.0	625.9	57.9	539.5
June 2003	0.1	14.1	30.1	91.4	135.7	60.7	556.8	30.6	465.4
July 2003	0.1	16.3	30.6	117.4	164.4	60.1	573.6	29.5	456.2
August 2003	0.1	14.5	35.9	118.2	168.7	62.1	591.8	26.2	473.6
September 2003	0.1	18.6	32.7	131.1	182.5	64.2	631.2	31.5	500.1
October 2003	0.1	-10.8	31.6	17.4	38.3	63.7	570.4	32.1	553.0
November 2003	0.1	-26.6	30.7	118.4	122.6	63.3	547.4	32.6	429.0
December 2003	0.1	-19.2	42.9	118.2	142.0	74.5	514.1	31.6	395.9
January 2004	0.0	-9.9	52.4	103.7	146.2	83.2	485.1	30.8	381.4

¹⁾ Excl. exchange rate adjustments.

²⁾ Central government administration, social security administration and Norges Bank.

³⁾ Incl. possible discrepancies between forward assets and forward liabilities within the category of foreign exchange banks.

Source: Statements from commercial and savings banks (registered foreign exchange banks) to Norges Bank

Table 43. Foreign exchange banks. Overall foreign currency position. In millions of NOK

	31.12.2002	31.03.2003	30.06.2003	30.09.2003	31.12.2003
Foreign assets, spot	192 705	215 543	241 240	223 876	249 446
Foreign liabilities, spot	326 594	365 732	388 607	392 606	418 397
1. Spot balance, net	-133 889	-150 189	-147 367	-168 730	-168 951
2. Forward balance, net	136 072	108 394	97 941	189 974	124 179

Source: Norges Bank

Table 44. Norges Banks' foreign currency transactions with various sectors. In billions of NOK

	2002		2003		Week in 2004										
	1-52		1-52		1	2	3	4	5	6	7	8	9	10	1-10
1. Norwegian customers															
Net spot ¹⁾	48	26	15.3	-9.8	1.2	-7.3	-0.7	0.3	14.2	7.2	-12.5	-6.4	1.6		
Net forward ¹⁾	10	11	11.8	2.9	-1.7	-3.3	1.0	-0.4	11.7	9.9	-9.5	-5.4	17.0		
-Change in purchase contracts ²⁾	38	15	3.5	-12.6	2.9	-4.0	-1.7	0.7	2.5	-2.7	-3.0	-1.0	-15.4		
- Change in sales contracts ³⁾	-12	-72	3.0	-0.7	5.7	-0.4	-6.1	2.4	10.9	-8.0	3.5	-1.3	9.1		
	26	-87	-0.5	11.9	2.8	3.6	-4.4	1.7	8.4	-5.3	6.5	-0.3	24.5		
2. Foreign sector															
Net spot ¹⁾	-81	-45	-5.0	0.8	-0.1	3.1	7.5	-10.0	-9.8	-1.4	12.0	0.0	-3.1		
Net forward ¹⁾	-18	15	-6.9	-19.3	9.6	0.1	6.9	-16.3	-4.2	8.7	0.0	1.1	-20.4		
-Change in purchase contracts ²⁾	-63	-60	1.9	20.1	-9.7	3.0	0.6	6.3	-5.6	-10.1	11.9	-1.1	17.3		
- Change in sales contracts ³⁾	-126	-184	-19.7	-10.5	0.3	-15.6	16.0	-12.1	16.7	-11.9	-12.7	1.0	-48.6		
	-189	-124	-21.6	-30.6	10.0	-18.6	15.4	-18.4	22.3	-1.8	-24.7	2.1	-65.8		
3. Norges Bank															
Net spot ¹⁾	53	13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net forward ¹⁾	53	13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
-Change in purchase contracts ²⁾	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
- Change in sales contracts ³⁾	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
4. Other															
Increase in Norwegian customers' net currency claims on banks	-11	-8	2.4	1.0	1.2	-0.8	0.2	3.4	-2.8	0.0	2.0	5.4	12.1		
Increase in banks' total positions	4	-1	-1.8	3.1	-2.0	2.2	-2.1	1.3	-0.5	-1.7	0.7	-0.5	-1.2		
Specification of foreign sector spot:															
Net NOK claims on banks ⁴⁾	-13	35	-7.6	-15.1	7.0	-1.4	4.9	-14.8	-1.5	8.1	-1.4	2.0	-19.9		
VPS-registered shares ⁵⁾	-2	-16	0.2	0.3	1.2	0.5	0.5	-1.0	-1.6	2.9	0.4	-0.4	2.9		
VPS-registered bonds ⁵⁾	-5	-5	0.8	-4.2	1.3	1.6	1.4	-0.7	-1.3	-2.5	0.8	1.0	-1.7		
VPS-registered notes and certificates ⁵⁾	1	2	-0.3	-0.3	0.1	-0.5	0.0	0.2	0.1	0.1	0.3	-1.5	-1.7		
Foreign sector purchases of VPS-reg. securities, total	-	-	16.5	47.0	60.5	38.5	44.4	46.4	56.1	57.1	56.6	66.6	489.6		
Foreign sector sales of VPS-registered securities, total	-	-	17.2	42.7	63.0	40.1	46.3	44.9	53.3	57.7	58.1	65.7	489.2		

¹⁾ Positive figures denote that the sectors in question purchase foreign currency from Norwegian banks.

²⁾ Positive figures denote that the sectors in question increase their contracts for purchase of NOK, and negative figures denote a decline in purchase contracts.

³⁾ Positive figures denote that the sectors in question increase their sales contracts in NOK, and negative figures denote a decline in sales contracts.

⁴⁾ Positive figures denote a reduction of NOK deposits from the foreign sector in Norwegian banks.

⁵⁾ Positive figures denote net sales of VPS-registered securities by the foreign sector.

