# Norwegian guidelines for discount rates for public projects

By
Geir Åvitsland, Ministry of Finance
Bergen, Seminar 24-25 of May

# Historical background

- High degree of economic planning
- Restriction on capital movements
- Credit rationing

- Discount rate estimated from a Ramsey optimal saving model
- Leif Johansen (1967): 10%
- Finn Førsund (1977): 7 %

# Current system

- Liberalisation of credit markets in the 1980s
- Free capital movements
- Small open economy assumptions reasonable

- 1997: Risk free rates and risk premiums from international markets
- Implication: Public discount rates equal to private (producer) discount rates

# Problems (old and new)

- Risk free rates for long term projects
- How do we measure risk premiums?
- What is a reasonable time structure for risk premiums (for different projects)?

- Are risk free real rates zero?
- Have risk premiums changed?

# A case for simple assumptions?

- Prolongation of observable long term risk free rates?
- Dynamic CAPM assumptions?
- Analysis of when it is most profitable to start an investment (real options).
- Some conservatism when risk free rates are far away from historical averages??