

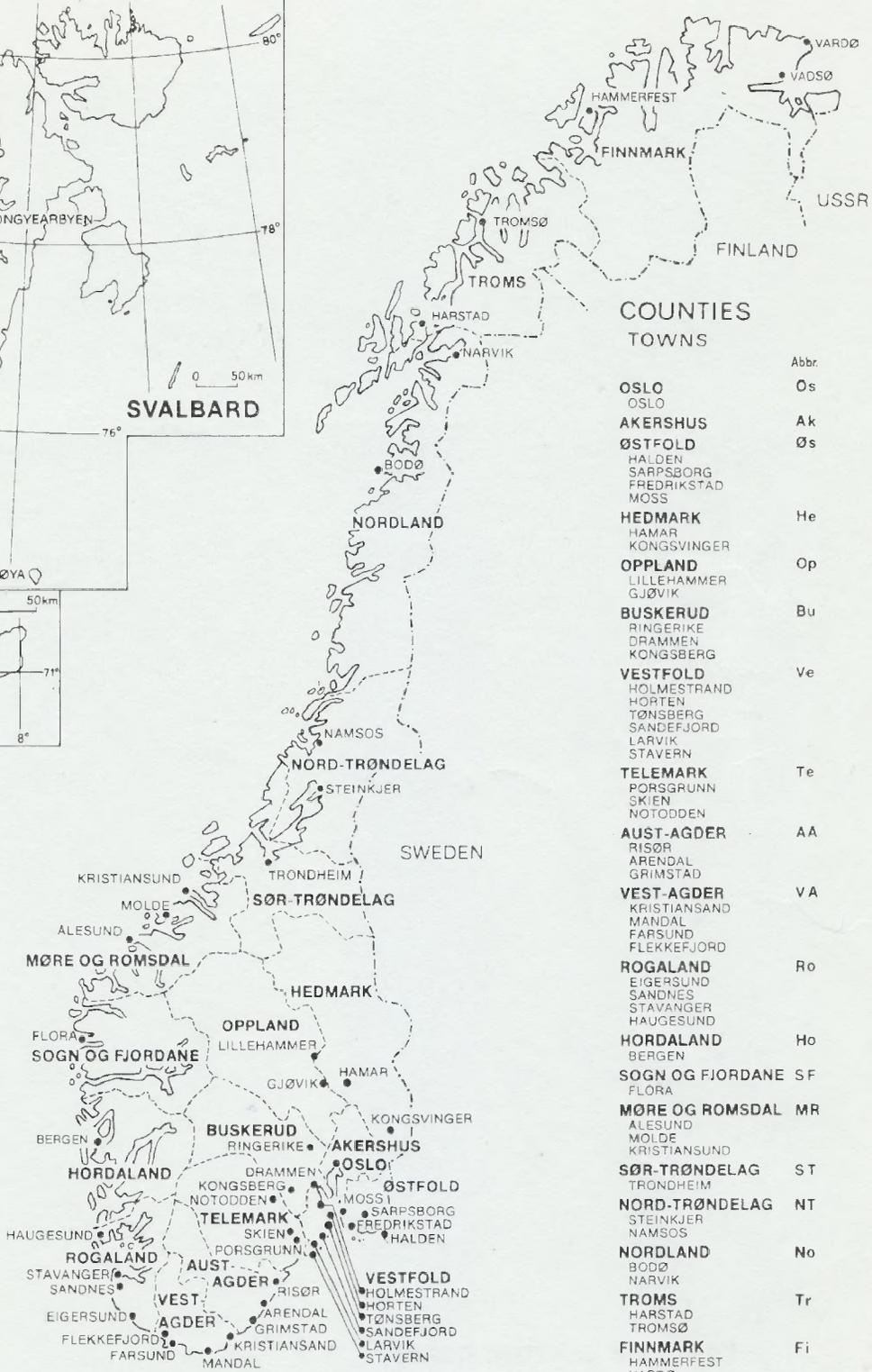
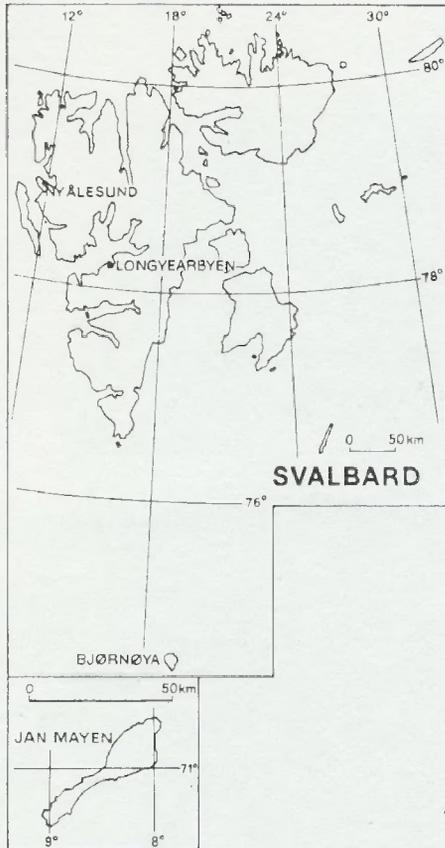
ECONOMIC SURVEY OF NORWAY 1981

A SUMMARY

Translation of the concluding chapter : Sluttord
in Økonomisk utsyn over året 1981

STATISTISK SENTRALBYRÅ
Central Bureau of Statistics of Norway

NORWAY



COUNTIES TOWNS

	Abbr.
OSLO	Os
OSLO	
AKERSHUS	Ak
ØSTFOLD	Øs
HALDEN	
SARPSBORG	
FREDRIKSTAD	
MOSS	
HEDMARK	He
HAMAR	
KONGSVINGER	
OPPLAND	Op
LILLEHAMMER	
GJØVIK	
BUSKERUD	Bu
RINGERIKE	
DRAMMEN	
KONGSBERG	
VESTFOLD	Ve
HOLMESTRAND	
HORTEN	
TØNSBERG	
SANDEFJORD	
LARVIK	
STAVERN	
TELEMARK	Te
PORSGRUNN	
SKIEN	
NOTODDEN	
AUST-AGDER	AA
RISØR	
ARENDAL	
GRIMSTAD	
VEST-AGDER	VA
KRISTIANSAND	
MANDAL	
FARSUND	
FLEKKEFJORD	
ROGALAND	Ro
EIGERSUND	
SANDNES	
STAVANGER	
HAUGESUND	
HORDALAND	Ho
BERGEN	
SOGN OG FJORDANE	SF
FLORA	
MØRE OG ROMSDAL	MR
ÅLESUND	
MOLDE	
KRISTIANSUND	
SØR-TRØNDELAG	ST
TRONDHEIM	
NORD-TRØNDELAG	NT
STEINKJER	
NAMSOS	
NORDLAND	No
BODØ	
NARVIK	
TROMS	Tr
HARSTAD	
TROMSØ	
FINNMARK	Fi
HAMMERFEST	
VARDØ	
VADSØ	
SVALBARD	
LONGYEARBYEN	

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OSLO 1982

THE ECONOMIC SITUATION

At the beginning of 1981 a moderate economic recovery was expected to take place in the OECD area in the first half of 1981. It was generally felt that an upturn would come early in the year in the United States and Canada, and that this would contribute to bolstering the production growth in Western Europe as well. These projections, however, did not materialize. Output did actually rise considerably in North America from the end of 1980 and through the first half of 1981, but new signs of weakness gradually appeared and industrial production in the United States fell by nearly 7 per cent from July to December. In Western Europe, the economic situation was marked by stagnation throughout the year.

The weak growth in production in the OECD area in 1981 may primarily be ascribed to the tight economic policy that was pursued to fight inflation. In particular, the tight monetary and credit policy in the United States, resulting in high interest rates and dollar exchange rates, was decisive. In order to curb the effects, inter alia in the form of unstable foreign exchange markets and higher import prices for goods quoted in dollars, some major countries in Western Europe also began to adopt a more restrictive monetary policy and increased the interest rate level. In addition, the fiscal policy stance was tightened further in all the large West European OECD countries with the exception of France. The policy probably contributed to a somewhat lower rise in prices in the OECD area compared with the preceding year. But it also resulted in an increase in unemployment. The number of people out of work in the OECD area in the second half of the year was as high as 26 million.

The oil activities in the North Sea have gradually become a very important factor in influencing cyclical movements in our own country, in addition to the cyclical impulses from abroad. The effects are manifested in several ways. Changes in the volume of investments on the shelf are reflected in new orders and production in manufacturing industry. Changes in the rate of production and prices of oil and gas have an immediate effect on the figures for the domestic product and exports. The use of oil revenue domestically has spin-off effects that influence most aspects of our economy. All total, the oil activities mean that what we have hitherto considered to be the traditional cyclical pattern, i.e. that developments abroad are transmitted to the Norwegian economy through exports of manufacturing industry's traditional export goods, has gradually taken on less importance. At the same time, the increasing integration of oil activities in the Norwegian economy entails that it is now more difficult and less meaningful than previously to analyze the oil activities separately from the rest of the economy.

The development of the world economic situation in 1981 entailed a weak market growth for Norwegian exports and increased price competition for import and export competing manufacturing industry. Domestically, the investment activities on the Norwegian continental shelf were expanded considerably; if the national accounts figures for fixed capital formation are adjusted for the reduction in stocks of oil platforms in progress, the investments in oil and gas production amounted to Nkr 12,700 million in 1981 compared with Nkr 10,000 million in 1980, measured at current prices. The production of oil and gas on the shelf was slightly lower in volume in 1981 than in the preceding year. Measured in terms of value, however, the production showed a strong growth. Combined with the economic policy that was pursued, this resulted in a domestic economic development marked by a weak growth, but without unemployment problems of significance. Other aspects of the economic picture included a large surplus on the current account of the balance of payments and a very strong rise in prices, particularly in the first part of the year.

The signs of weakness in the economy in 1981 were particularly evident in manufacturing industry. Manufacturing output, which had fallen through the second half of 1980, showed signs of resumed growth during the spring, but stagnated or declined slightly through the summer and autumn. At the end of the year manufacturing production was 4-5 per cent below the production peak of 1½ years earlier. As usual, it was primarily the production of goods that is traditionally classified as export goods (metals, chemical raw materials and pulp and paper) that contributed to determining cyclical movements in total manufacturing production through 1981. The volume of traditional merchandise exports passed a cyclical trough in the third quarter of 1980 and rose moderately, but steadily through 1981. This, along with the prospects for an economic recovery abroad, resulted in an increase in production in export industries. The seasonally-adjusted index for the production of export goods, which had fallen substantially through the second half of 1980, picked up again in the first half of 1981. The production of export goods stabilized through the summer and autumn when it became obvious that the expected economic upturn would fail to materialize.

The production of investment goods also contributed to the rise in total manufacturing production through the first half of 1981. The demand from the domestic market for engineering products expanded sharply through the last year up to a peak in mid-1981 and this was reflected in the production figures. The order books reached at the same time an extremely high level. There is reason to believe that the development was largely related to activities in the North Sea. The value of completed investments in manufacturing industry showed clear signs of levelling off through 1981. Judging from the figures for estimated investments, it is probable that manufacturing investments passed a cyclical peak during the second half of 1981. Housing investments declined throughout the year following a peak recorded at the end of 1980/beginning of 1981.

The domestic demand for consumer goods remained stable through 1980 and 1981 judging from the seasonally-adjusted volume of retail sales. In general the production of consumer goods has also shown little change over the last two years.

Registered unemployment passed a cyclical trough early in 1980 and exhibited a clear upward trend throughout 1981. At the end of the year 35,600 people were registered as unemployed. This corresponds to an unemployment rate of 2.1 per cent, which is higher than at any time since 1975, but still extremely low by international standards. The number of registered vacancies showed little change towards the end of last year following a weak decline up to the summer of 1981.

ECONOMIC POLICY

The Government's economic policy programme for 1981 aimed at regulating demand in such a manner as to safeguard full employment without reducing Norway's competitive position. The instruments were a relatively expansionary fiscal policy and a comparatively tight monetary and credit policy that aimed at allowing for higher investments but at the same time curbing credit-financed consumption.

The effects of this policy can be observed in the development of such indicators as unemployment, prices, incomes, etc. These indicators are discussed elsewhere in this survey. In certain connections such fiscal policy indicators as the surplus before loan transactions, central government expenditure on goods and services, and the supply of liquidity to the public are used as a basis for evaluating the overall effects of the policy on the activity in the

economy. If an evaluation is to be made of the effect of the budget surplus on the level of domestic demand, however, it is appropriate to exclude oil taxes because an increase in the taxation of foreign oil companies will normally not have an appreciable effect on the level of demand in Norway. In 1981, as in the preceding five years, there was a deficit before loans transactions when oil taxes are excluded. The deficit - according to preliminary and uncertain estimates for the central government and social security sector's accounts (including tax collectors' accounts) - amounted to Nkr 14,300 million (i.e. 5.5 per cent of gross domestic product excluding oil activities and shipping) in 1981, compared with Nkr 8,100 million (3.5 per cent) in 1980 and Nkr 8,000 million (3.9 per cent) in 1979. If, on the other hand, oil taxes are included, the accounts showed a surplus before loan transactions of Nkr 13,600 million in 1981 as against Nkr 14,700 million in 1980 and Nkr 1,900 million in 1979. This surplus entails that the central government can reduce its debt obligations and thus reduce interest expenditure over the government budget in future years. In this way the public sector's budget balance will be influenced by the development in oil revenue even when oil taxes are excluded.

The weakening of the budget balance, excluding oil taxes, in 1981 primarily reflects the development in taxes and transfers. In 1981, the central government and social security sector's tax revenue (excluding oil taxes), less transfers to private consumers, corresponded to 15.2 per cent of the gross domestic product, excluding shipping and oil activities, compared with 17.2 per cent in 1980. The transfers grew at a faster rate than tax revenue. The share of the gross domestic product, excluding oil activities and shipping, that went to central government consumption and investments showed a slight increase.

Fiscal policy also influences demand through the effect it has on the supply of liquidity to the public. The government's budget policy, the credit supply from the banks and the development in the external economy combined resulted, as in previous years, in an increase in the public's liquidity. The public's holdings of cash, deposits in private and public banks (excluding savings schemes allowing tax deductions) and unutilized overdrafts and building loans increased, according to preliminary estimates, by 13 per cent in 1981 compared with some 12 per cent in 1980. In both these years the public's liquidity has expanded considerably more than envisaged in the credit budget.

A main element in the fiscal policy programme for 1981 was a revision in personal taxation involving a reduction in direct taxation combined with higher indirect taxes and reduced consumer subsidies. The reduction in direct taxation was implemented by lowering the marginal rates for the national tax. A precondition for the tax programme was that the organizations on the labour market would arrive at pay increases that counteracted the distributional effects generated by this tax change. The new wage agreements that were concluded contained semi-automatic indexation clauses for most employee groups. In order to curb the rise in prices, which was higher than originally assumed, and avoid an indexation settlement involving additional wage increases, a price freeze was introduced on 3 August to be in effect for the remainder of the year. At the same time, a special tax deduction was granted for 1981 and the benefits under the National Insurance Scheme were increased.

The changes in the tax rules in 1981 resulted in a real reduction in direct personal taxes. The tax amount increased by 6.9 per cent which was considerably less than the growth in income.

The increase in indirect taxes comprised, among other things, excise duties on cars, tobacco and alcohol. In order to stimulate investments the investment tax was reduced on 1 July to 10 per cent, and the rules for exemption from the tax were expanded to cover investments in specific energy-saving plants. The reduction in subsidies related to butter, margarine, meat products and fish and entailed that the subsidies, measured as a share of private consumption,

were reduced in relation to 1980. Altogether, indirect taxes less subsidies rose by 14.0 per cent, compared with 8.7 per cent the preceding year (when the royalties for oil production, etc. are excluded).

Social security payments and other direct transfers showed the same growth as private consumption (15.4 per cent). Benefits under the National Insurance Scheme were adjusted three times, on 1 January, 1 May and 1 October. As in 1980, there was a strong real growth in family allowances. This expenditure item has doubled in two years.

The central government's accrued taxes and royalties from oil activities amounted to as much as Nkr 27,900 million in 1981, compared with Nkr 22,800 million in 1980 and Nkr 9,900 million in 1979.

An important element in the credit policy programme for 1981 involved the new provisions for the issuance of bonds which entered into force on 6 October 1980. The rules aimed at liberalizing the bond market, inasmuch as the regulation of new issues should no longer be used to the same extent as previously to limit new bond offers. By allowing a larger share of the credit to be channeled via the bond market the authorities hoped to strengthen the supply of long-term credit to industry at the expense of short-term loans for consumption purposes.

The total lending quotas of the State banks were revised downwards in the course of 1981 to some Nkr 11,000 million, about the same as in the preceding year. The lending rose by some Nkr 6,000 million, or almost 7 per cent, in the first three quarters, approximately in line with the credit policy programme. The increase in the same period in 1980 was 9.8 per cent.

In the commercial and savings banks, the lending in the first half of the year was higher than presupposed by the authorities. The growth in loans to households and municipalities was particularly high. It was therefore decided in May to limit the lending to these borrower groups through a direct regulation of lending. This appears to have had a clearly dampening effect on consumer demand.

At the beginning of the year the commercial and savings banks in the southern part of Norway were subject to the Monetary and Credit Act's higher permissible primary reserve requirements of 13 and 10 per cent, respectively. On 1 April the primary reserve requirement for the commercial banks was reduced to 10 per cent, i.e. the same ratio as that in effect for the savings banks. In May, when the authorities introduced supplementary reserve requirements based on the increase in lending, the primary reserve requirements for the banks were reduced at the same time. Emphasis was placed on regulating the banks' liquidity with the aid of sales of money market paper and foreign currency. On 16 November the primary reserve requirement was again raised to limit the banks' lending activities. The background was that there had been a sharp growth in non-regulated lending. For 1981, the guideline figures for the growth in loans from private banks were stipulated at Nkr 8,100 million. The banks exceeded these target figures by nearly Nkr 4,000 million.

The liberalization of the regulation of new bond issues led to a sharp growth in the supply of credit to the private sector and municipalities, and during the summer it became clear that the issues would exceed the target figure. In connection with the presentation of the National Budget for 1982 limitations were established on the issue of new bond loans by credit enterprises in order to curb this growth. Information at the end of the year indicates that the total bond credit increased by Nkr 10,000 million during the year, about Nkr 3,000 million more than the authorities' guideline figure. An important reason for the strong demand for private and municipal bonds was that these provided a higher yield than government bonds, and the banks therefore preferred to purchase such bonds for fulfilling the bond investment obligation. Their net holdings of bonds increased in the course of 1981 by almost Nkr 5,000 million. The interest rate level on this market rose by about two percentage points during the year.

Based on the Minister of Finance's interest rate declaration of 25 May the private banks were given the opportunity to raise the interest rate level for short-term loans by up to 1 percentage point.

In 1981 the exchange rate for the Norwegian krone has been relatively stable, measured by the Bank of Norway's currency index (basket index). In spite of sizeable fluctuations in the exchange rates for international currencies, it has not been necessary to undertake major interventions in order to influence the position of the Norwegian krone in the foreign exchange market.

THE GROWTH IN THE PUBLIC SECTOR

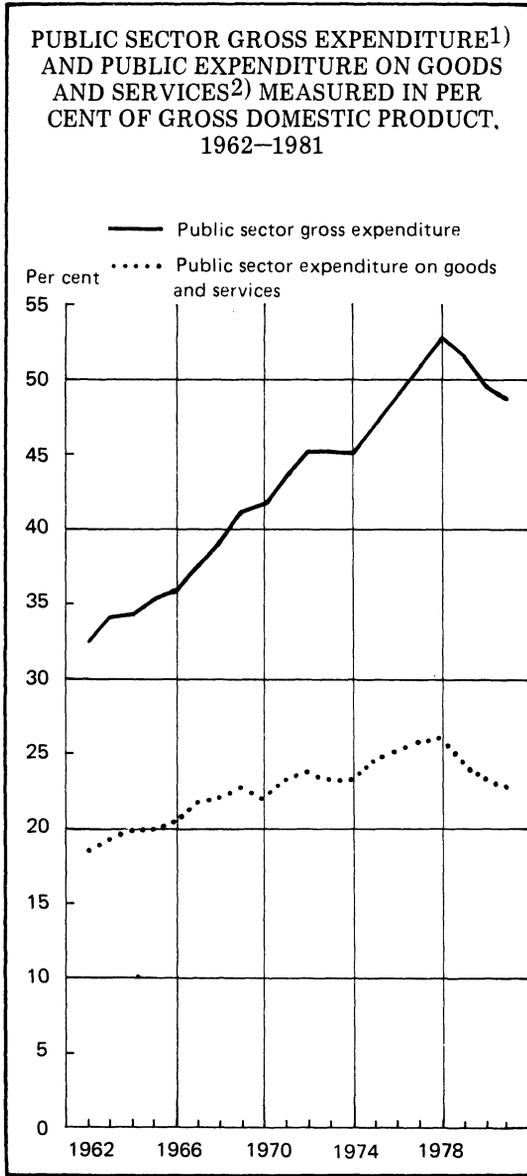
The public sector's total gross expenditure - measured in relation to the gross domestic product - has declined from 52.9 per cent in 1978 to 48.6 per cent in 1981. In relative terms all main items of public expenditure, excluding interest expenditure, have fallen since 1978. The greatest reduction has been registered for public sector expenditure on goods and services, which as a share of the gross domestic product has declined from 26.1 per cent in 1978 to 22.9 per cent in 1981.

This represents a clear break with a conspicuous trend in the Norwegian economy during recent decades. Up to 1978 the public sector's expenditure rose almost continuously measured as a share of the gross domestic product (see figure 39). In 1960 the share was about 30 per cent and rose to 41 per cent in 1970. A similar growth has been observed in other western industrial countries.

The distribution of the total domestic use of goods and services between the public sector and the private sector was relatively stable through most of the 1970s. In the first seven years of the decade both private and public consumption rose by about 5-6 per cent annually. This was noticeably higher than the growth in the gross domestic product during this period and was reflected in growing deficits in the external economy. A turnaround came in 1978 when a tighter economic policy was adopted, and since that time the total domestic use of goods and services has expanded more slowly than the gross domestic product. It is particularly the growth in the private sector that has been weak. Here, the total expenditure for consumption and investment has shown a decline in certain years. However, since 1979 the growth in the consumption of goods and services in the public sector has also been considerably slower.

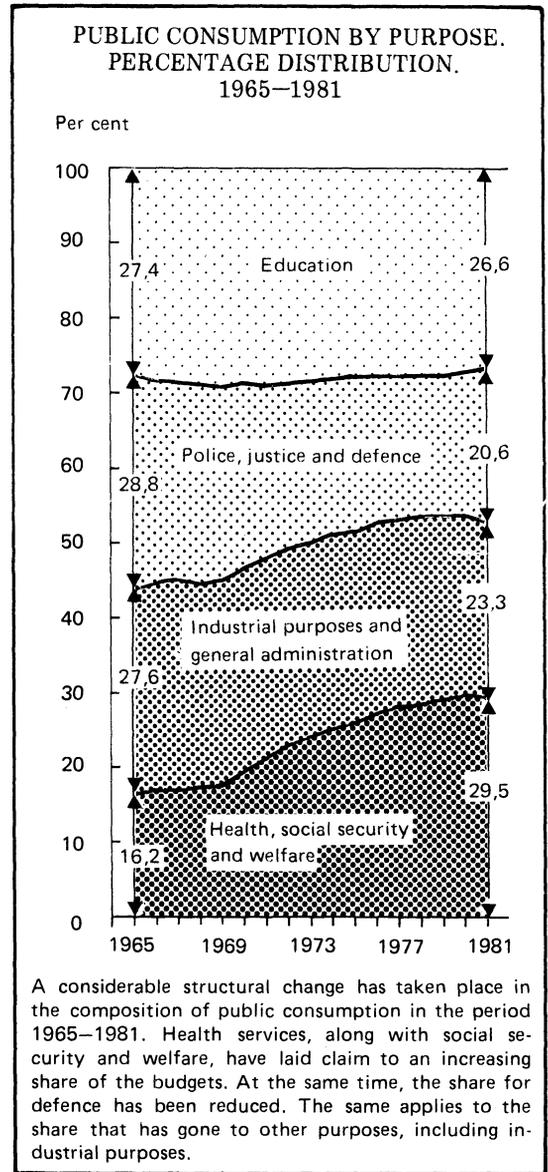
The lower growth in the consumption of goods and services in the public sector has primarily affected investments. While public sector gross fixed capital formation increased in volume by an average 6.4 per cent annually in the period 1970 to 1978, the growth was replaced by a decline in the next four-year period, so that the real value of public sector capital formation in 1981 only constituted about 87 per cent of the volume in 1978. The largest cut-backs took place in the local government sector where the rate of growth in investments has tapered off since the mid-1970s. The reduction was particularly great from 1980 to 1981 when local government fixed capital formation fell by as much as 13 per cent, measured in volume.

Public consumption, where expenditure for wages and salaries accounts for about two thirds, has grown faster than private consumption for quite some time. This is also true for recent years, even though the growth in public consumption has slowed somewhat during this period. The reduction has been greatest for local government consumption. While the situation up to 1980 was that the rate of growth for local government consumption was nearly double the rate of growth for central government consumption, it is central government consumption that has grown the most in the last two years.



- 1) The public sector's total gross expenditure is the sum of expenditure on goods and services (see footnote 2), interest expenditure, transfers and subsidies.
- 2) The public sector's expenditure on goods and services comprises expenditure for wages and salaries, expenditure for intermediate consumption and gross fixed capital formation. The public sector's use of goods and services (i.e. the sum of public consumption and public sector gross fixed capital formation) is defined as the value of this expenditure plus a computed depreciation of government fixed capital formation less the value of goods and services sold by the public sector for a fee.

Figure 39



A considerable structural change has taken place in the composition of public consumption in the period 1965-1981. Health services, along with social security and welfare, have laid claim to an increasing share of the budgets. At the same time, the share for defence has been reduced. The same applies to the share that has gone to other purposes, including industrial purposes.

Figure 40

One consequence of this development in consumption and investments in the public sector is that consumption as a share of the public sector's total use of goods and services has been noticeably altered. While the consumption share for the central government has remained relatively constant for 20 years, about 84-85 per cent, the consumption share for the local government sector has risen through the 1970s. In 1981, it was some 83 per cent compared with about 76 per cent in 1970.

The public sector has altogether absorbed about two thirds of the total increase in employment since the mid-1960s. This has brought the share of the total number of man-years performed in the public sector up from 14 per cent in 1965 to 22 per cent in 1981. The difference between the employment trend in the central and local government sector is also an important feature of this picture. Of a total increase in employment in the public sector of about 120,000 man-years from 1970 to 1980, as much as 94,000 went to the municipalities and 26,000 to the central government.

Public sector employment rose by about 2.4 per cent from 1980 to 1981. This was a considerably lower growth than in preceding years, a factor reflecting the reduced growth in public consumption. Since the first half of the 1960s we have registered a remarkably stable growth in employment within the public sector of about 4 per cent annually, while the growth in other industries has varied considerably during the same period. In the first half of the 1970s the increase in the number of man-years in the public sector was higher than the total increase in employment (see figure 41). Employment in the public sector continued to expand rapidly during the next five years. The total growth in employment, however, was now substantially higher than previously, all total close to 120,000 man-years in this period, and the private sector recorded an increase in employment of the same magnitude as the public sector.

PRODUCTION AND DEMAND

The gross domestic product rose by 0.7 per cent from 1980 to 1981, measured in 1975 prices. This entails a considerable reduction in the rate of growth compared with the remarkably steady growth of 4-5 per cent annually we registered in the 1970s. Among other OECD countries, only Portugal and Japan recorded a more rapid growth than Norway in the period 1975 to 1980 (5.2 and 5.1 per cent, respectively, compared with 4.6 per cent in Norway). The gross domestic product for the OECD area as a whole rose by an average 3.4 per cent annually during this period.

The number of man-years performed in the Norwegian economy also rose more slowly in 1981 than in preceding years. The increase in 1981 was 0.4 per cent as against 1.4 per cent as an annual average from 1975 to 1980.

The lower growth in the gross domestic product in 1981 as compared with preceding years was largely a result of the stagnation in oil and gas production in 1981. After oil and gas production for a number of years has contributed to boosting the growth in GDP, the growth in the gross domestic product, excluding oil activities (production, drilling and pipeline transport) was only 0.9 per cent in 1981 compared with 0.7 per cent all total.

The gross product in oil activities declined in 1981 by 1.6 per cent, measured in 1975 prices. According to preliminary calculations, production amounted to nearly 49 million tons oil equivalents, of which crude oil accounted for 47 per cent. Total oil activities measured as a share of the gross domestic product at current prices nonetheless increased because the price of crude oil in 1981 was about 20 per cent higher than the level in 1980.

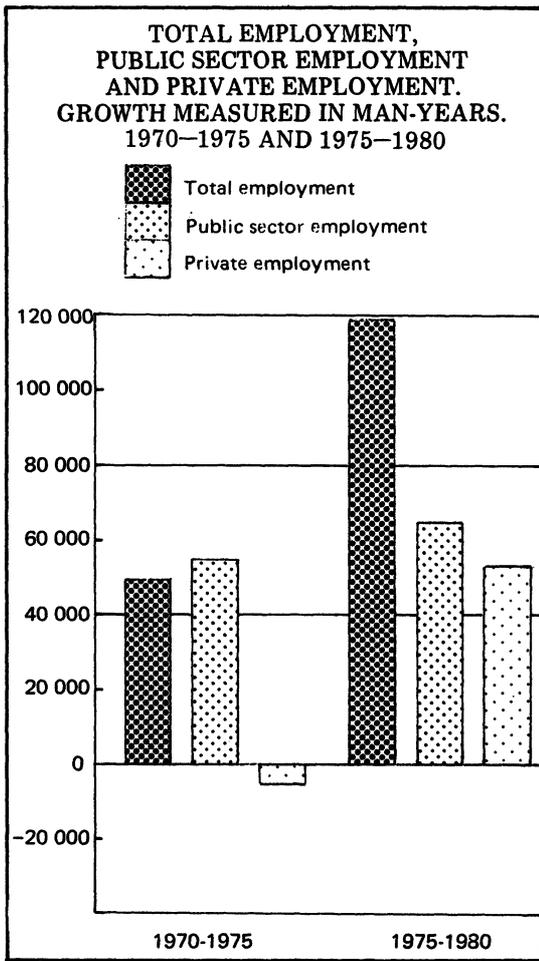


Figure 41

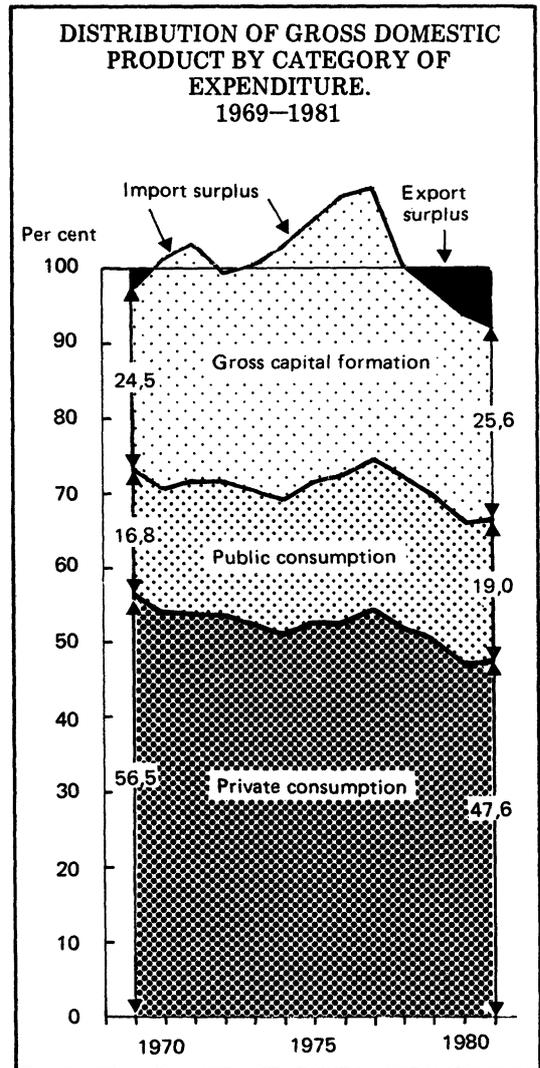


Figure 42

The Directorate of Labour's statistics for employment in oil-related activities, which also includes a number of activities on land, show that altogether 44,000 people were employed in such activities in August 1981; this is 15 per cent more than in the same period one year earlier. About half were employed in the building and maintenance of platforms and supply ships, while a fourth were involved in surveys, drilling and production, and a fourth were engaged in transport, catering and administration.

The output growth in 1981 continued to show considerable variations from one industry to another. The gross product in manufacturing industry declined by 1.3 per cent, and the volume was thus the same as the level in 1974. The corresponding reduction in employment was 1.8 per cent, and the number of man-years in manufacturing industry was about the same as in the mid-1960s. The power and water supply sector registered a particularly strong growth in gross product from 1980 to 1981, as high as 8.7 per cent. In agriculture, the gross product increased by 4.7 per cent, while at the same time employment was reduced by 2.7 per cent. The gross product of the forestry and fishing sectors also expanded in 1981; the growth rates were 3.2 and 6.5 per cent, respectively. The gross product in wholesale and retail trade grew by 1.1 per cent and employment by 0.5 per cent. The gross product for other service industries (excluding shipping) rose by 2.6 per cent and employment by 1.8 per cent measured in man-years.

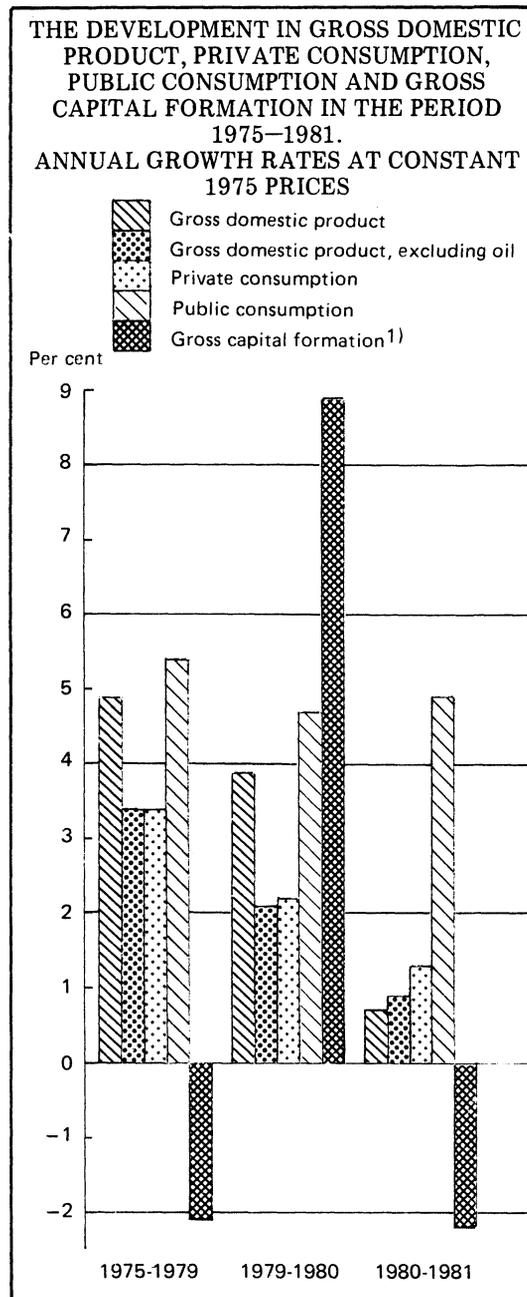
The pattern of the distribution of the gross domestic product by main components has exhibited new features the last few years (see figure 42). The export surplus measured as a share of GDP was almost 8 per cent in 1981; this share was also rising in the preceding three years. The share for exports last year was some 47 per cent, while the share for imports was about 40 per cent. Compared with 1980 the share for exports has shown a negligible change while the import share declined. Slightly more than 47 per cent of the gross domestic product went to private consumption last year. This is the same share as in 1980. The change in the share that went to public consumption was also small. After having declined the preceding two years, the share is now about 19 per cent. The share for capital formation, however, fell to about 26 per cent, which is lower than in any year in the 1970s.

Private consumption increased in 1981 by 1.3 per cent, a noticeably lower growth than in 1980 (2.2 per cent). Based on the figures available, the real disposable income of households showed a rise of 2.3 per cent in 1981 compared with 1.3 per cent, according to revised estimates for 1980. While the expansion of credit in 1980 generated a stronger impetus to the growth in private consumption than the increase in real income, the situation was the reverse in 1981. The tight credit policy - viewed in isolation - then had the effect of curbing the growth in consumption. The highest growth in consumption was registered by the group recreation and education, while the consumption of beverages and tobacco showed a considerable reduction. This is probably related to a large extent to the development in prices for these two commodity groups.

Public consumption rose by 4.9 per cent in 1981. Of this, deliveries of F-16 aircraft to the Defence alone accounted for as much as 1.3 percentage points.

Gross fixed capital formation expanded by 16.5 per cent. The increase was particularly great for the crude oil and gas production sector where gross fixed capital formation increased by 167.4 per cent. The increase in manufacturing industry was 11.4 per cent. Public, social and private services recorded the largest decline in gross fixed capital formation, primarily as a result of the nearly 13 per cent reduction in the local government sector's fixed capital investments. Housing investments showed only a negligible change from 1980 to 1981.

Stocks, measured at current prices, declined substantially last year. Following an increase of nearly Nkr 8,000 million in 1980, stocks in 1981 were reduced by nearly Nkr 4,800 million. This is largely explained by the completion of the Statfjord B platform. The decline



1) Includes changes in stocks of goods in progress and other changes in stocks.

Figure 43

in stocks as a result of reduced stocks of oil platforms in progress alone amounted to Nkr 4,500 million.

The value of exports of goods and services increased by 15.1 per cent from 1980 to 1981. The growth in volume, however, was only 1.0 per cent. The value of crude oil and natural gas exports rose by 13.0 per cent, while the volume fell by 7.4 per cent. The value of merchandise exports, excluding ships, oil platforms, crude oil and natural gas, expanded by 13.7 per cent with volume showing a rise of 4.1 per cent. The value of total exports of services increased by 17.8 per cent, with volume rising by 1.6 per cent.

Imports of goods and services rose in value by 10.6 per cent in 1981, while the increase in volume was nearly 2 per cent. The rise in import prices last year was again considerably weaker than the rise in export prices. The value of merchandise imports rose by 7.0 per cent; if imports of ships and oil platforms are excluded, the increase in value was 4.0 per cent while there was a decline in volume of 1.1 per cent. Imports of services increased by nearly 20 per cent in value, and the increase in volume is estimated at some 2 per cent.

The Central Bureau of Statistics has made calculations to identify the factors underlying the growth in production in 1981. The calculations show that the growth in public consumption involved an increase of nearly 0.6 percentage points in production. Private consumption resulted in a growth of 0.4 percentage points and gross capital formation (including changes in stocks) a growth of about 0.6 percentage points. If gross investments are split up by industry, the investments in oil activities, service industries and shipping had positive effects, while the decline in local government investments made a negative contribution to the growth in production. The calculations also indicate that the increase in exports of traditional goods and services - viewed in isolation - boosted the gross domestic product by 0.3 percentage points. The lower oil and gas production exerted a negative contribution of about 0.4 percentage points.

All total, the calculations show a growth of about 1.5 per cent in the gross domestic product in 1981 compared with 0.7 per cent according to the preliminary national accounts figures. The difference between the two growth estimates may have several causes; the analysis of the effect of oil activities and movements in stocks is particularly difficult. There is also reason to emphasize the uncertainty in the preliminary national accounts figures.

PRICES AND WAGES

The official consumer price index rose by 13.6 per cent from 1980 to 1981 compared with 10.9 per cent and 4.8 per cent, respectively, in the preceding two years. The rise last year was the highest we have registered since 1951 (the Korea crisis) and some 5 percentage points higher than the average rise in prices in the 1970s.

The particularly strong rise in prices from 1980 to 1981 may be traced to a number of factors. The change in tax policy from the end of 1980/beginning of 1981, involving higher indirect taxes and a reduction in direct taxation, entailed a direct increase of about 2 percentage points in the consumer price index. The companies' wage costs increased relatively sharply, some 11 per cent per man-year, in spite of the fact that one of the intentions of the tax change was to curb the growth in wages. At the same time, the production and productivity performance was very weak. A number of government-regulated prices were raised considerably after having risen for several years at a slower rate than the cost trend should imply. Preliminary national accounts figures also indicate that profit margins increased substantially in a number of important industries from 1980 to 1981. The contribution of import prices to higher consumer prices,

on the other hand, was relatively moderate; the sub-index for imported consumer goods in the consumer price index rose by only 7 per cent from 1980 to 1981. The price freeze, which was in effect the last five months of the year, also helped to curb the rise in the consumer price index.

Due to the changes in indirect taxes and subsidies, the rise in prices from 1980 to 1981 was particularly steep for food (16.7 per cent) and for beverages and tobacco (25.2 per cent). On the other hand, the rise in prices for the commodity groups clothing and footwear, rent, fuel and power, furniture and household equipment and transport was about as high as or somewhat weaker than the rise in the total consumer price index. The increase in the commodity group recreation and education was less than the average (some 9 per cent).

The prices of Norwegian export goods, measured in Norwegian kroner, rose relatively sharply from 1980 to 1981, but less than in the preceding year. On average for the first three quarters of 1981, the price index for all export goods, excluding ships, was 13 per cent higher than in the same period in 1980. The rise in the price of petroleum and petroleum products was particularly strong, 23 per cent, while several other important Norwegian export products registered a weak price trend in the same period. The prices of iron and steel thus declined by 5 per cent, while the prices of metals, excluding iron and steel, remained approximately unchanged. The rise in import prices was also weaker than in the preceding year but varied considerably from one commodity group to another; the price rise for processed goods was particularly low (nearly 5 per cent).

Measured by the national accounts price index for goods and services for domestic use, the rise in prices from 1980 to 1981 was 12.1 per cent. The price index for private consumption increased by as much as 13.9 per cent and for public consumption by 10.9 per cent. The price index for gross fixed capital formation rose by 8.4 per cent.

The wage settlements in the central government and local government sector, which in 1981 were concluded before the settlement in the private sector and based on a recommended mediation proposal, had a framework of 10.5 per cent and 12.25 per cent, respectively. Wage negotiations between the Norwegian Federation of Trade Unions and the Norwegian Employers' Confederation broke down and the settlement was resolved on the basis of compulsory arbitration. The economic framework for the settlement, which was decided by the National Pay Board, involved an average pay increase of 9.65 per cent from 1980 to 1981. As in the preceding year, considerable supplements were granted for low-paid groups. The decision of the National Pay Board also entailed a ceiling on wage drift for the remainder of the collective bargaining period. The Norwegian Federation of Trade Union appealed this point to the Labour Court, maintaining that it was a breach of the wage agreement, but the Court upheld the decision of the National Pay Board. The price freeze and the National income tax deduction, which were introduced at the same time, entailed that the organizations on the labour market agreed to drop the previously agreed indexation settlement in the autumn of 1981. This was included as part of the agreement in the settlements in the public sector and in the National Pay Board's decision for the private sector.

Of a total increase in wages from the first quarter of 1980 to the first quarter of 1981 of 13.2 per cent for men and 15.6 per cent for women in those industries covered by the Norwegian Employers' Confederation's statistics, some 8 per cent and about 9 per cent, respectively, are estimated to represent wage drift. Preliminary and uncertain calculations based on the wage statistics indicate a certain softening of wage drift for all industries combined in the second and third quarter of 1981. This must be viewed against the background of the weak wage drift through 1979 when there was a price and incomes freeze. According to the national accounts, the compensation of employees per man-year increased by 11.3 per cent from 1980 to 1981.

INCOMES AND THE DISTRIBUTION OF INCOME

The national accounts figures for the development in income are to a large extent based on calculations with considerable margins of error. A factor income is computed for each industry which, after deducting wage costs, gives an operating surplus as a residual. The uncertainty in the estimates is particularly great for the operating surplus and the distribution of this by industry. Experience shows, particularly for the preliminary figures for the last few years, that sizeable margins of error in both directions must be anticipated.¹⁾

The preliminary national accounts figures show that the total factor income rose by some 15 per cent from 1980 to 1981 compared with 21 per cent the preceding year. The increase in income was particularly strong in service industries. The factor income in oil activities showed a somewhat higher percentage growth than total factor income. The factor income in manufacturing industry expanded by 12 per cent, approximately in step with the rise in prices.

The total operating surplus increased by 22 per cent from 1980 to 1981, compared with an increase of as much as 44 per cent the preceding year. There was a sharp growth in the service industries in both years. The growth in banking activities was particularly pronounced. Another feature of the overall picture of the development in profitability, particularly for the service industries, was that 1981 showed a postwar record in the number of bankruptcies. The increase in the operating surpluses in both agriculture and fishing was lower than the average.

The national accounts figures for the operating surplus in manufacturing industry shows extremely large changes from one year to the next. To a large extent this is due to certain conventions that are chosen in connection with the arrangement of the accounts, among other things that world market prices of oil products are used as settlement prices for deliveries from the oil refineries to wholesale companies, which in the national accounts are part of the wholesale and retail trade sector. This has entailed that the accounts have registered large fluctuations in the operating surpluses of these two industries from one year to the next. If an analysis is to be made of cyclically-determined changes in the operating surpluses of manufacturing industry, it is therefore practical to exclude the oil refineries. Manufacturing industry, excluding oil refineries, increased its total operating surplus by as much as 30 per cent from 1980 to 1981, while the increase from 1979 to 1980 was only about 8 per cent. However, there were sizeable variations from one branch of manufacturing to another. A weak price trend, and for some industries a decline in output, resulted in a substantial reduction in the operating surpluses of export-competing manufacturing industry (excluding oil refineries) in 1981, to only a fourth of the level in the preceding two years, according to preliminary and very uncertain estimates. Corresponding preliminary figures for import-competing and sheltered manufacturing industry show that the operating surpluses were approximately doubled from 1980 to 1981, primarily because prices rose considerably faster than costs after the last remnants of the price regulations were discontinued at the beginning of the year.

The strong growth in the operating surpluses in the oil industry entailed that wage costs as a share of factor income in all industries combined (excluding the public sector) fell sharply from 1979 to 1980 and declined further from 1980 to 1981. The share for wages accounted for 59 per cent in 1981 according to preliminary national accounts calculations. The wage share in manufacturing industry, excluding oil refineries, showed very little change from 1979 to 1980 and declined by about three percentage points, to 79 per cent, in 1981. The share was then approximately equivalent to the level prevailing in the first half of the 1970s.

1) Information that has become available after the work on the preliminary national accounts figures for 1981 had been completed indicate that the estimate for wage costs is somewhat low. The error may be on the order of Nkr 1,000 million and is matched in part by an undervaluation of the size of the total factor income and in part an overvaluation of the estimate for the operating surplus.

Disposable income for Norway (net domestic product less net capital costs and transfers abroad) rose by some Nkr 36,000 million from 1980 to 1981. This involves an increase of 15.9 per cent in nominal kroner, while the increase in real terms (deflated by the price index for the domestic use of goods and services, net) was 2.7 per cent. The growth in real income was considerably lower than in the preceding year when it was 10.5 per cent. The growth from 1978 to 1979 was 7.6 per cent. The growth from 1980 to 1981 is to large extent due to an improvement in Norway's terms of trade.

Private disposable income (i.e. the income of households and private companies from labour and capital, plus transfers from the public sector and abroad minus direct taxes, social security premiums and transfers abroad) increased by some Nkr 26,000 million, or nearly 18 per cent, from 1980 to 1981. Private gross income (i.e. income before taxes have been deducted and transfers added) rose somewhat less, by 14.8 per cent. Transfers grew at the same rate as gross income, while the growth in accrued taxes was considerably weaker, 10.2 per cent. A rather large share of the growth in disposable income must thus be ascribed to a decline in taxes as a share of income. If private disposable income is deflated by a weighted average of the national accounts indices for private consumption and gross capital formation, it appears that the real value of private disposable income increased by 4.7 per cent from 1980 to 1981. The increase in the preceding two years was 6.0 and 7.0 per cent, respectively.

At the moment it is only possible to provide uncertain estimates for the distribution of private disposable income between companies and groups of households. The estimates suggest that the households combined increased their disposable income by about 16 per cent, while the companies' income rose by about 28 per cent. The companies also registered a far stronger growth in disposable income than households in the preceding two years. To a large extent this relates to income in companies with income from oil production. The variation from one industry to another, as mentioned previously, has otherwise been considerable.

The estimates for income entail that the real disposable income of households combined (after deflating by the consumer price index) increased by 2.3 per cent in 1981, compared with 1.3 per cent in 1980 and 1.4 per cent in 1979. Employee households recorded a somewhat weaker growth in total income, 1.5 per cent. Pensioners receiving the minimum pension have registered a weak rise in real disposable income, while the real income of pensioners receiving supplementary pensions has been reduced somewhat. The group comprising self-employed persons increased its income by 6.9 per cent according to preliminary calculations. The increase in family allowances has resulted in a relatively stronger growth in the real disposable income of families with 1-2 children than for other types of families.

In the tax programme for 1981 the tax thresholds for the national tax were raised more than the level corresponding to the rise in consumer prices from the preceding year. One consequence of this is that real disposable income increased from 1980 to 1981 for most income-earning groups with gross incomes that rose at about the same rate as prices. The increase was greatest for higher income groups. Each year from 1977 to 1980, however, we have had an automatic increase in taxation inasmuch as the adjustment in the tax thresholds has been less than the rate of inflation. If we consider the four-year period 1977-1981 as a whole, the tax relief in 1981 has not been sufficient to offset the increase in taxes in the preceding years.

THE BALANCE OF PAYMENTS. MARKET SHARES

The surplus on the current account of the balance of payments continued to rise in 1981. According to preliminary figures, the surplus amounted to Nkr 12,100 million, compared with Nkr 5,500 million in the preceding year. The increase related in its entirety to the balance of goods and services where the surplus in 1981 reached Nkr 25,300 million.

The most important factor underlying this improvement was an increase of 22.0 per cent in the export price of crude oil and natural gas. Net exports of crude oil and natural gas showed a decline in volume of 0.7 per cent, while there was an increase in value of as much as Nkr 7,400 million. Both the export and import value of crude oil are influenced by the fact that we are making increasing direct use of North Sea oil domestically; the value of direct deliveries of oil from the Statfjord field to Mainland Norway amounted to Nkr 3,200 million in 1981.

The deficit for goods excluding crude oil, natural gas and oil platforms (other goods) remained approximately unchanged from 1980 to 1981.

Net income from oil drilling rose by Nkr 800 million from 1980 to 1981, while the total balance of services increased by nearly Nkr 1,000 million. The deficit on the balance of interest and unilateral transfers rose by Nkr 1,300 million.

The terms of trade for goods and services improved by 5.1 per cent in 1981 compared with an improvement of as much as 9.5 per cent in 1980. This primarily reflected the fact that the increase in the price of crude oil and natural gas was not as high in 1981 as in the preceding year. The terms of trade for goods, excluding crude oil and natural gas, showed an improvement in both 1980 (1.7 per cent) and in 1981 (3.2 per cent).

Table 108. Main figures of the current account of the balance of payments. Net figures in million kroner

	1979	1980	1981
Goods and services	6 253	17 435	25 300
Crude oil and natural gas	16 314	33 673	41 113
Ships and oil platforms ¹⁾	1 727	2 070	1 615
Other goods	-18 467	-27 363	-27 428
Services	6 679	9 055	10 000
Interest and transfers	-11 531	-11 940	-13 200
Current account	-5 278	5 495	12 100

1) Including direct merchandise exports/imports through oil activities.

At the beginning of 1981 Norway had a net foreign debt of Nkr 93,300 million. If the surplus on current account is used as an estimate for our net repayment of debt, we find that the net debt at end-1981 amounted to about Nkr 81,000 million. Measured as a share of the gross domestic product, the net debt corresponded to about 25 per cent in 1981, a decline of 8 percentage points from the preceding year.

The export shares of Norwegian manufacturing industry exposed to competition (excluding production of ships, oil platforms, crude oil and natural gas) remained approximately unchanged in 1978 and 1979, according to calculations made by the Central Bureau of Statistics, while the figures for 1980 suggest that these shares were again reduced that year. Preliminary figures indicate that the market shares in 1981 remained approximately unchanged from the preceding year, and that there has been no major change in the size of these markets. There is reason

to emphasize, however, that there is considerable uncertainty attached to such calculations. It is obvious nonetheless that Norwegian manufacturing industry exposed to competition has not recaptured the markets that were lost in the first part of the 1970s.

The changes in Norway's market shares are related in part to the cost trend in Norwegian manufacturing industry compared with the development for our trading partners. In the course of 1978 and 1979 unit labour costs in Norwegian manufacturing industry rose by about 11 per cent less than in other OECD countries after having increased considerably faster for a number of years. The figures for 1980 and the first half of 1981 suggest that unit labour costs in Norwegian manufacturing industry showed approximately the same development as for our trading partners.

PROSPECTS

At the beginning of 1982 the Norwegian economy is exhibiting clear signs of weakness, but some distinctly strong features as well. The rise in prices is stronger and the growth in total production weaker than has been the case for a long time. On the other hand, employment is high following a strong growth in recent years, and the balance of payments does not emerge as any urgent problem. The rise in prices in 1981 was due in part to special reasons, including the change in taxation and cost-adaptation of government charges. The low growth in total production is to some extent a consequence of stagnating oil production and weak foreign demand. Inflation and a low growth in productivity are nonetheless not a new situation but problems we have lived with for a number of years.

In the somewhat longer run we know that oil activities will again make a positive contribution to the growth in the Norwegian economy. Oil production, however, will not change significantly up to the mid-1980s. Nor can we assume during this period that a rise in the real price of oil will contribute to a growth in the country's income. At the same time, there is little reason to expect that foreign demand will generate any particular impetus to growth for Norwegian manufacturing industry.

In fields we ourselves have little control over the prospects do not then appear particularly bright for the next few years. In addition, we must acknowledge that the structure of industry and trade in Norway has not been adapted to the changes that have taken place during the 1970s in our resource base and in market conditions abroad. It has been recognized for some time that oil as a resource will have to involve considerable adjustments in industry and trade if this new source of income shall be able to contribute to raising the material standards of living; oil production must supplant the production of other goods because we can increasingly cover our commodity needs abroad in exchange for oil and gas. The market shares on the domestic market will then be reduced. At the same time, we know that a change in the demand structure internationally and increased competition from new industrial countries have created considerable problems for certain branches of industry. Against this background it is no surprise that the commodity-producing industries have not registered an output growth since 1975 when the contribution to the net domestic product is used as a measure, while the average growth in service industries (excluding shipping) has been 3.6 per cent during the same period.

This notwithstanding, it is doubtful whether the adjustments have headed in a direction and had a scope that correspond to our current use of oil revenue and international developments. Adjustments are not without problems, and for many they have appeared as undesirable. This has entailed that agriculture, fishing and parts of manufacturing industry, often the least profitable

companies, have been sheltered from the adjustments, with increased pressures on the rest of industry and trade as a result.

We are using on a current basis most of the revenues from an oil and gas production of 50 million tonnes oil equivalents. At the same time we have not willingly accepted the consequences of this in our current policies. In this dilemma we may find some of the explanation at the main problems in our economy at present - the low growth in production and productivity, price and cost inflation, and the employment problems this may create.

NORWAY'S NORTH SEA CONTINENTAL SHELF WITH THE OIL AND GAS FIELDS

