

ECONOMIC SURVEY OF NORWAY 1975
(“ØKONOMISK UTSYN 1975”)

ENGLISH SUMMARY
(TRANSLATION OF THE CONCLUDING CHAPTER: “SLUTTORD”)

THE ECONOMIC SITUATION

For the Western world, 1975 was a year of depression with low utilization of capacity and the highest unemployment in the post-war period. The economic contraction, which began at the end of 1973 and became more severe towards the end of 1974, resulted in an unusually sharp fall in industrial production in most industrial countries through the spring of 1975. It appears that industrial production in the OECD countries combined bottomed out around mid-year. In the United States and Japan a distinct turnaround took place in the second quarter. In Western Europe output continued to fall throughout the summer and autumn, although the decline became gradually less pronounced. It is probable that some of the West European countries registered a slight growth in industrial production during the autumn. For the year as a whole, however, very few countries achieved a volume of gross domestic product which was as high as the preceding year.

Both the production decline in the first half of 1975 and the subsequent improvement were to a considerable extent related to variations in stocks in industry and trade. However, the turnaround must also be viewed as a result of the noticeably more expansionary policies adopted by several industrial countries in the course of the year. The shift in economic policy was spurred by the very high unemployment figures which were gradually registered, at the same time that the rate of inflation had abated somewhat, making it less difficult for the authorities to stimulate activity. The rise in prices in the OECD countries, however, remained so high - 11 per cent from the fourth quarter of 1974 to the fourth quarter of 1975 measured by consumer prices - that this motivated the countries to show some caution in introducing expansionary economic measures.

On the basis of calculations at year-end, the volume of gross domestic product fell by 2 per cent for the OECD countries combined and by 2½ per cent for Western Europe from 1974 to 1975. Production for the OECD area combined increased by some 2 per cent from 1973 to 1974, while the average rate of growth for the years 1960 to 1973 was as high as 5.1 per cent.

The output trend varied considerably from one country to another. Aside from Japan, where production rose by 1 1/4 per cent according to preliminary figures, gross domestic product showed a decline in all major industrial countries in the OECD in 1975. Production fell by as much as 4½ per cent in Italy, and West Germany also registered a sharp decline of 3 3/4 per cent. Gross domestic product dropped by 2 1/4 per cent in Great Britain and by 2 per cent in France. Production also declined in the United States, i.e. by 2 per cent, in spite of the sharp growth in output in the second half of 1975. In general, the smaller countries fared somewhat better than the larger countries, in 1975 as in the preceding year. Among the smaller OECD countries, Norway, Sweden, Greece and New Zealand recorded a growth of between 0 and 4 per cent, while production declined by between 1 and 2½ per cent in Denmark, Finland, the Netherlands and Belgium and by between 3 and 4 per cent in Ireland, Switzerland and Austria.

Norway experienced conflicting expansionary and contractionary forces in the economy in 1975. Strong contractionary stimuli emanated from abroad. At the same time, domestic demand was stimulated by counter-cyclical measures and spin-off effects from activities in the North Sea. The prospects for high oil revenue and thus an ample supply of credit from abroad gave the authorities the freedom of action necessary to sustain a high level of domestic demand. This resulted in a record deficit in the balance of payments, but on the other hand activity was maintained at a higher level in Norway than in most other West European countries. Gross domestic product expanded from 1974 to 1975 even when oil activities are excluded and the year could be added to a long series of post-war years with a growth in total production. Parts of Norwegian industry, however, were adversely affected by the economic slowdown. The prices of traditional export goods were generally falling through the year and profitability in the export industries declined, particularly in the second half of the year. Shipping was hard hit and the number of laid-up ships gradually reached an unusually high level. The year was also marked by a sharp rise in the level of domestic costs, and in import-competing manufacturing industry many companies were faced with a serious squeeze on profits. It is reasonable

to view the development in costs to some extent as a result of structural changes taking place in industry, generated by the oil activities.

Based on provisional figures, gross domestic product measured in constant prices increased by 3.0 per cent from 1974 to 1975. This represented a considerably lower rate of growth than in the preceding year (5.3 per cent according to revised figures), in spite of the fact that production in the North Sea did not begin in earnest until 1975. When oil activities are excluded, the growth in gross domestic product was only 0.6 per cent. The figure conceals sizable variations from one industry to another. The economic slowdown was reflected in a decline in gross product in shipping and manufacturing industry. According to preliminary figures the decline was close to 18 per cent in the shipping sector; the fall-off in shipping alone contributed to reducing the growth in gross domestic product by 1.6 per cent. The gross product in manufacturing industry declined by 2 per cent. In 1975 gross product also fell in agriculture (3 per cent) and in fishing (5.5 per cent). In other industries, where domestic demand is decisive for the level of activity, gross product increased. The growth in building and construction including oil drilling was 9.5 per cent; when oil drilling is excluded, the rise was 6 per cent. The total gross product in the service industries, excluding shipping, climbed by about 4 per cent.

In the beginning of 1975 foreign demand had already shown definite signs of decline for some time, but the international recession had not yet affected Norwegian economic activity to any great extent. However, the situation for Norwegian shipping and traditional export industry deteriorated rapidly during the first few months of 1975. The export industry encountered increasing marketing difficulties and the export prices of a number of goods declined through the spring. The fish processing industry was particularly hard hit at an early stage and had to resort to considerable cutbacks in production in the spring. Freight rates fell in a short time to an extremely low level, particularly for the tanker trade, and about a fourth of the merchant fleet had to be laid up in the course of the first half of the year. The effects spread quickly to the engineering industry where the order books dwindled considerably during the winter and spring of 1974-75. Within a short time the order backlog of the transport equipment industry was reduced by close to half as a result of cancellations of building contracts at the shipyards. Following the decline in the spring, foreign demand excluding oil stabilized at a low level in the second half of the year, as had to be expected in light of the economic situation abroad. Domestic investment demand, with ships representing an important exception, remained at a very high level throughout the year. In manufacturing industry the current development of the petrochemical industry played a significant role in this regard. The quarterly statistics on planned investments, however, show that the investment plans in other parts of manufacturing industry were gradually revised downwards somewhat towards the end of the year. Consumer demand, which had picked up in the second half of 1974 following only a moderate expansion in the preceding years, showed a considerable rise again in 1975. Large pay increases contributed to this along with tax reductions and increases in subsidies. Towards the end of the 1975 the development of the index of retail sales might perhaps suggest that the growth in consumer demand had tapered off somewhat.

Due to the high level of domestic demand maintained throughout 1975, the international recession generally had an impact only on activity in shipping and manufacturing industry, primarily export industry. On the other hand, the effects here were very pronounced. Based on seasonally adjusted figures, total industrial production reached a peak in late autumn 1974. From then on, the seasonally adjusted index of production indicated a downward trend until a bottom was possibly passed in September/October 1975. Production had then dropped by 7-8 per cent since the peak, more than had ever been recorded during earlier recessions in the post-war period. The earliest and steepest decline was shown by the production of export goods which had shown signs of weakness as early as the first part of 1974. The seasonally adjusted sub-index for the production of goods for export fell continuously from the autumn of 1974 and throughout 1975, so that in November 1975 - the last month for which figures are available at the time of writing - it was as much as 12-13 per cent lower than a year earlier. The output decline was particularly sharp for wood-processing products

(22-24 per cent) and metals (14-15 per cent). Through the first half of 1975 the production of intermediate goods for building and construction and other intermediate goods also showed a relatively sharp fall (6-8 per cent), although these sub-indices appeared to rise somewhat again during the autumn of last year. The sub-index for the production of investment goods showed a weak expansion, while the sub-index for consumer goods changed only slightly in the course of the year. Manufacturing production recorded a decline in 1975 in spite of the sizable production for stocks which took place in many companies. The Central Bureau of Statistics' index of volume for stocks showed an uninterrupted rise throughout the year in manufacturers' stocks of own goods; the stocks of goods produced for the export market were probably doubled. The effects of the economic contraction became visible on the labour market just after the beginning of the year. In February 80 companies (primarily in the fish processing industry and wood-processing) had to resort to production cutbacks (dismissals, lay-offs or reduced working hours) for shorter or longer periods. Other companies were faced with the same situation later in the year. All total, cutbacks in production were effected in 630 companies in 1975. The reversal on the labour market also became evident in the figure for registered unemployment which showed a clearly rising trend throughout the year, aside from seasonal variations. The unemployment figures showed a particularly rapid rise during the autumn. It was perhaps somewhat surprising that the increase in unemployment affected not only manufacturing industry and shipping, but to some extent the service industries as well.

At the end of 1975 the economic situation in Norway was somewhat ambiguous. There were certain indications that the economic slowdown continued. There were thus signs of a fall-off in investment demand, and according to the Central Bureau of Statistics' Economic Barometer Survey at the end of December a majority of industrial leaders expected a reduced inflow of orders and declining production in the first quarter of 1976. The figure for registered unemployment was clearly rising and as of 15 January 1976 totalled 32 500 persons, in spite of the extraordinary employment measures which had been initiated by the authorities. There were also indications, however, that an improvement might be imminent, or perhaps was already under way. The export figures for the fourth quarter of 1975, which showed an encouraging trend, were one indication. Another signal came from the index of production for manufacturing industry which in November last year was 4 per cent higher than the level two months earlier. The rise may have been a coincidence, although this cannot be ascertained until the figures for additional months are available. The possibility exists, however, that the trough in industrial production during this recession will in the future be dated the autumn of 1975.

ECONOMIC POLICY

As late as the autumn of 1974, when the National Budget for 1975 was submitted, the Norwegian economy was still characterized by pressure tendencies with a high and rising level of domestic demand, particularly pronounced for investment goods, as well as an unusually tight labour market. The authorities were prepared that the international recession gradually would result in weaker markets for large parts of manufacturing industry exposed to foreign competition, but expected that this would be counteracted by the expansion in oil activities. The deficit on current account in the balance of payments was rising sharply and the rate of inflation was increasing. Against this background, the authorities planned an economic policy for 1975 which would restrain the growth in private investments and in central and local government expenditure for goods and services, but which at the same time was intended to provide a considerable growth in private consumption.

In the course of 1975 it became apparent that the market conditions for the products of some manufacturing industries exposed to competition turned considerably worse than had been anticipated in the National Budget. It therefore became necessary to revise economic policy in an expansive direction with a view to maintaining the level of activity. A number of fiscal and credit policy measures were implemented with this in mind - generally in two stages, i.e. in February/March and early last autumn.

The spring measures were primarily focused on industries and companies with special problems. They primarily aimed at facilitating the companies' financing of stock accumulation, but also included special financing measures for the shipbuilding industry, fishing, and the fish processing industry. In addition, the target figures for the domestic supply of credit to industry were increased substantially, and the primary reserve requirements for the banks were gradually abolished.

The measures introduced by the authorities in the autumn were particularly aimed at countering the prospects for sharply rising unemployment during the winter months. The policy involving support for the financing of stocks and increased appropriations for special liquidity loans was extended, while investment demand was stimulated through a further increase in the long-term credit supply, inter alia from the State banks. Funds were also appropriated for extraordinary employment measures, and unemployment benefits were increased. The authorities contributed to bringing about a co-ordinated solution for the agreed-upon index settlement in the autumn, which included a reduction in withholding taxes, an increase in family allowances and in the special supplement from the National Insurance Scheme as well as increased subsidies on agricultural products. The purpose was to safeguard the negotiated cost-of-living compensation, but avoid a situation where this would be fully taken out in the form of inflationary nominal pay increases.

The original proposal for the fiscal budget for 1975 aimed at limiting the real growth in public expenditure. Nonetheless, the expenditure for goods and services in nominal amounts was as much as 17.2 per cent higher than in the current budget for 1974. The budget proposal envisaged an increase of 14.3 per cent in revenue as compared with the 1974 budget. This was primarily due to expectations concerning rising prices and incomes and increased private consumption, but also a certain increase in recorded revenue from taxes on petroleum production. The budget proposal balanced with a deficit prior to loan transactions of Nkr 1 050 million. The budget debate in the Storting resulted in additional increases in expenditure and a reduction in revenue, entailing that the approved budget balanced with a deficit prior to loan transactions of Nkr 1 280 million. The budget changes in the course of the year were highly marked by fiscal policy counter-cyclical measures in the form of support to industry and extraordinary employment measures. In spite of this additional expenditure, it is now envisaged that the accounts, as usual, will balance with a deficit prior to loan transactions which is somewhat lower than the figure in the approved budget, i.e. about Nkr 1 140 million. This is attributed to other changes in the budget which were made in the course of the year, inter alia an upward revision of tax estimates as well as the normal shortfall of spending as compared with appropriations. Compared with 1974, when the accounts showed a surplus prior to loan transactions of some Nkr 300 million, this represents a reduction of about Nkr 1 450 million in the balance prior to loan transactions.

The social security budget proposal for 1975 entailed an increase in expenditure of 17.6 per cent over the preceding year, representing a somewhat lower rate of increase than the average growth in the preceding two years. The social security budget did not include any major reforms, but was otherwise characterized by the aim of having the real disposable income of pensioners and wage-earners increase at about the same pace. The objective in adjusting the rates for social security benefits was to bring about such a development. The proposal entailed the same rates for members' premiums and for central and local government contributions to the National Insurance Scheme as those which had applied for the year 1974. A proposal was made to change the employers' contributions to allow for geographically differentiated rates with the aim of stimulating employment in development regions. Three different rates were proposed, varying from 14 per cent in North Norway and certain other regions to 17 per cent in most municipalities. It was estimated that the differentiated rates would result in somewhat lower revenue than if the rate of 16.7 per cent from 1974 had been applied for the entire country. The proposal for the social security budget was adopted with minor changes, with a revenue surplus of Nkr 1 147 million. As a result of revised estimates for revenue and other changes in the course of the year, it is now envisaged that the revenue surplus will amount to close to Nkr 2 330 million. Based on provisional figures, it is estimated that the revenue surplus for the social security sector as a whole, including accrued interest of the National Insurance Fund, will amount to nearly Nkr 3 000 million for 1975, or about the same revenue surplus as in 1974.

The surplus for other central government accounts, which include central government pension funds, tax collectors' balances and a number of other funds, is estimated at about Nkr 3 270 million. A major part of the surplus stems from taxes and fees which accrue in the year of income but which have not yet been transferred to public funds. An estimated Nkr 1 500 million of these taxes and fees may be ascribed to direct taxes on petroleum production, etc. For comparison, the revenue surplus for other central government accounts totalled Nkr 1 450 million in 1974, and no direct taxes on oil activities accrued that year.

It is estimated at year-end 1975 that the surplus prior to loan transactions for the three sectors, i.e. the central government appropriations account, the social security sector and other central government accounts (including tax collectors' accounts) combined, will amount to Nkr 5 100 million in 1975, as against Nkr 4 700 and 6 000 million in 1974 and 1973 respectively. The change in the magnitude of "surplus prior to loan transactions" has traditionally been used as a summary expression of changes in the contractionary or expansionary effects of budget policy. In the amounts specified above revenue from oil activities has been included. When petroleum taxes - which do not have the same contractionary effect as other taxes and which increased sharply from 1974 to 1975 - are excluded, the surplus prior to loan transactions will be reduced to Nkr 3 200 million in 1975 compared with Nkr 4 600 million and 6 000 million in 1974 and 1973 respectively. Calculated as a percentage of gross domestic product, the total surplus (excluding revenue from oil activities) declined from 5.4 per cent in 1973 to 3.6 per cent in 1974 and to 2.2 per cent in 1975. This indicates that the government's budget policy was considerably less tight in 1975 than in the preceding two years. This indicator, however, has some major drawbacks, inasmuch as it does not take into account that the same change in different revenue and expenditure items in public budgets will usually have a different effect on the level of activity depending on the revenue and expenditure item to which the change refers. In addition, experience shows that the estimates for the surplus - particularly for last year - are shrouded with uncertainty.

Credit policy in 1975 - which originally aimed at slowing the growth in investments - was gradually made less restrictive as the economic situation developed differently from that expected. The primary reserve requirements were abolished for the savings banks at the beginning of the year, and for the commercial banks they were reduced on several occasions in the first half of 1975 and entirely eliminated as of 20 June. In this manner considerable liquidity was made available to the banks, amounting to about Nkr 1 800 million for the commercial banks. The primary intention was to improve the banks' possibilities for financing industry's production for stocks. For the same reason but also to stimulate investments in plant and equipment, the budget figures for commercial and savings bank lending in 1975 were revised upwards on two occasions, as part of both the spring and autumn measures. The commitment quotas of the State banks were also increased sharply, inter alia with the aim of financing extraordinary employment measures. All total, the domestic credit supply in 1975 amounted to some Nkr 21 000 million and the credit supply from abroad to about Nkr 12 000 million based on provisional estimates. The credit supply from abroad was to a large extent related to activities on the Continental Shelf and was higher than in any previous year.

The interest rate paid on bank deposits and the interest rate on overdrafts were increased by $\frac{1}{2}$ per cent with effect from 1 July 1975. The Bank of Norway's discount rate was reduced from $5\frac{1}{2}$ to 5 per cent on 6 October. It was stipulated by the authorities that the reduction in the discount rate should not result in changes in the long-term lending rates or in the banks' deposit rates.

No changes were made in the Norwegian krone's central rate of exchange, i.e. the rate of the krone measured in SDR units, in 1975. Nonetheless, the international value of the Norwegian krone (computed as a weighted average of each country's currency with Norway's exports and imports for that country as weights) fluctuated considerably throughout the year, with a pronounced peak at mid-year. At the end of 1975 the value of the krone was at about the same level as at the beginning of the year.

PRODUCTION AND DEMAND

As in the preceding year, domestic demand components provided the most important impetus to growth in the Norwegian economy in 1975. On the whole, foreign demand provided only a weak impetus to growth. A sevenfold increase in oil exports and a substantial expansion in exports of oil platforms were offset by a decline in other merchandise exports and exports of shipping services. All total, it was demand, and only in extremely few sectors a shortage of capacity, which limited the production growth in 1975. A preliminary estimate suggests that of a total growth of three per cent in the volume of production, some one per cent can directly and indirectly be traced back to increased investment demand for plant and equipment and stocks, about $\frac{1}{2}$ per cent to changes in foreign demand, while some one per cent can be ascribed to the increase in public sector demand for goods and services. It appears that only about one per cent can be traced back to factors which influenced private consumer demand through changes in private real disposable income. On the other hand, shifts in demand from Norwegian-produced to imported goods contributed to reducing the growth by about one per cent.

Total exports of goods and services increased in value by 3.1 per cent from 1974 to 1975. This was considerably less than in the preceding year when exports advanced by as much as 22.8 per cent. There was only a slight increase in volume (about 0.5 per cent) in both years. Merchandise exports, including oil platforms and new ships from Norwegian yards but excluding exports of crude oil and second-hand tonnage, declined in volume by 5.8 per cent from 1974 to 1975, compared with only a negligible decline from 1973 to 1974. The decline in 1975 particularly related to such traditional export goods as wood-processing products, minerals, ores and metals, chemical products, timber and wood products. The average prices obtained for all these product groups, however, were higher in 1975 than in 1974, in spite of falling prices in the course of the year, so that the value of exports showed a considerably smaller decline than the figures for volume. Exports of crude oil rose in value from about Nkr 500 million in 1974 to Nkr 3 400 million in 1975. Oil platforms valued at more than Nkr 2 000 million were exported in 1975, while there were no such exports in 1974. However, this must be viewed in connection with the fact that the value of platforms under construction at the end of 1974 was calculated as an increase in stocks in 1974. Provisional calculations suggest that gross freight earnings were reduced from about Nkr 19,200 million in 1974 to Nkr 16,500 million in 1975. Measured by the size of the merchant fleet in operation, the decline in volume terms was about 12 per cent. Exports of second-hand tonnage were unusually high in both 1974 and 1975, amounting in value to about Nkr 4 000 and 3 000 million respectively. The volume of exports, however, increased by as much as 22.8 per cent from 1974 to 1975, a figure which reflects an unusually steep decline in the prices of second-hand ships. The figures must be viewed in terms of the sizable additions to the fleet as a result of contracts concluded in earlier years and the difficult freight market with a large surplus of tonnage.

According to preliminary figures, gross fixed capital formation increased in volume by 11.0 per cent, as against 7.5 per cent in the preceding year. The overall figure conceals sizable variations in growth from one industry to another. Investments in ships and boats increased in volume by 13.6 per cent (-29.7 per cent in 1974). Most of the investments in ships relate to imports, entailing that sizable annual fluctuations in these investments only affect the demand for Norwegian products to a limited extent. Investments in oil drilling platforms, oil production facilities, etc. continued to rise sharply (28.0 per cent increase in volume in 1975 compared with 55.7 per cent in 1974). When investments in ships and oil activities are excluded, gross fixed capital formation increased in volume by 7.8 per cent in 1975 (7.9 per cent in the preceding year). Housing investments expanded by 6.9 per cent in volume last year and public fixed capital formation by 3.8 per cent. Gross fixed capital formation, excluding shipping, oil activities, housing and public fixed capital formation, showed an increase in volume of 9.5 per cent in 1975, or considerably less than the growth in 1974 (12.5 per cent). While the growth in manufacturing industry's investments were reduced in volume from the record 31.9 per cent in 1974 to 14.9 per cent in 1975, the volume of investments in other industries rose from 5.3 per cent in 1974 to 7 per cent in 1975.

Based on preliminary and uncertain figures, investments in stocks measured in terms of volume were relatively high in 1975, but still considerably lower than the record level of 1974. Due to the fall in prices of a number of commodities, the value of investments in stocks in 1975 was relatively moderate and far lower than in 1974. Investments in stocks also include goods in progress, which in 1975 showed a substantial reduction due to the delivery of oil platforms, the production of which were started in 1973 and 1974. The total volume of investments in other categories of stocks was somewhat lower than in 1974. Stocks of export goods increased sharply again in 1975, and two consecutive years involving an unusually large accumulation of stocks suggest that stocks of many export goods are now higher than ever before. Stocks of imported goods, on the other hand, showed small changes in 1975. Manufacturers' stocks of raw materials showed a slight rise in 1975, particularly in the case of timber and fuels, while the stocks of consumer goods were reduced somewhat.

Private consumption, calculated at constant prices, advanced by 4.1 per cent from 1974 to 1975, compared with 3.3 per cent from 1973 to 1974. Preliminary figures concerning both consumption and income are uncertain, but bearing this reservation in mind, the growth in private consumption appears to have been considerably lower in 1975 than the increase in real disposable income might suggest: Based on experience from previous years, the change in income from 1974 to 1975 should have resulted in a growth in private consumption of about 6 per cent. In 1974 as well, the growth in consumption was lower than would normally be expected on the basis of the increase in income. In view of the incomplete and rather uncertain data available at this time, it is difficult to provide an explanation for this development. Experience from previous years, however, suggests that such discrepancies are often less in the final figures than in the preliminary figures; thus, the income figures now available for 1974 have been subjected to a downward revision in relation to the figures which were published in last year's Economic Survey, while the estimate for consumption have been revised upwards somewhat. The preliminary figures for the relative changes in volume in the various categories of expenditure for consumption vary, as in previous years, considerably. The increase in volume was greatest for the group transport, postal and telephone services (7.9 per cent), a development which must be viewed in conjunction with the low growth in volume for this group in the preceding year (only 0.7 per cent) as a result of the special situation related to the oil supply towards the end of 1973 and first half of 1974. The figures on volume for other groups appear to have been influenced by the development in prices. The smallest rise in volume was thus registered by the two groups "food" and "beverages and tobacco" (2.1 and 2.0 per cent respectively), which recorded a sharp increase in prices (15.1 per cent and 14 per cent). On the other hand, the group clothing and footwear increased by 5.5 per cent in volume, following a decline in both 1972 and 1973 and a slight expansion in 1974. The price index for clothing and footwear showed the smallest rise of all the sub-indices for private consumption in 1975 (7.5 per cent).

Public consumption advanced in volume by 3.8 per cent from 1974 to 1975, according to preliminary and uncertain estimates, representing a considerably lower rate of increase than in the preceding two years. Public civilian consumption increased in volume by 4.3 per cent in 1975 (5.6 per cent in 1974). The rate of growth was greatest for central government civilian consumption. Military consumption rose by 1.9 per cent in volume following a decline of 1.6 per cent from 1973 to 1974.

Total imports of goods and services expanded in volume by 5.7 per cent from 1974 to 1975, compared with a growth of 4.7 per cent in the preceding year. Imports of ships, which declined in volume by 30.4 per cent from 1973 to 1974, again rose in 1975 by as much as 41 per cent. Shipping expenditure abroad (operating expenditure, expenditure for repairs and investment outlays) declined in volume in both years. Imports, excluding ships and shipping expenditure abroad, expanded in volume by 4.2 per cent last year, or considerably less than in the preceding year when the rise was 11.2 per cent. Imports directly related to offshore oil activities showed a smaller rise in volume last year than in the preceding year, 12.5 per cent and 24 per cent respectively. In 1975 these imports amounted to about Nkr 5 400 million at current prices, accounting for 7.5 per cent of the

value of total imports. Imports, excluding ships, shipping expenditure abroad and imports related to oil activities, increased in volume by 3.4 per cent from 1974 to 1975.

PRICES AND WAGES

The worldwide inflation of recent years has demonstrated how difficult it is for a country which maintains relatively fixed rates of exchange to achieve a rate of price increase which deviates from the rest of the world. In the 1970s Norway has been confronted with an unusually sharp rise in prices on the world market, and the Norwegian economy has been forced to adjust to an international price level which is now considerably higher than previously. The Norwegian import and export price indices for merchandise, measured in kroner, rose by about 60 and 75 per cent respectively from 1969 to 1975, in spite of the fact that the international value of the Norwegian krone during this period appreciated by about 12 per cent. It is no coincidence that the rise in domestic prices and costs between 1969 and 1975 was of the same order of magnitude: During this period the Norwegian consumer price index rose by about 65 per cent, while the average annual wage for industrial workers more than doubled.

The international rise in prices has gradually become stronger in the course of the 1970s. It gathered considerable momentum in 1973 and 1974, when the rate of increase for consumer prices in the OECD area reached 8.2 and 13.5 per cent respectively compared with an average annual rate of 3.5 per cent during the period 1959-1972. International inflation reached its peak towards the end of 1974 and abated somewhat in the course of 1975, although the rate remained high compared with earlier years; consumer prices in the OECD area combined rose by an average of 10.5 per cent from 1974 to 1975, according to preliminary figures. The international rise in prices has been particularly noticeable in the Norwegian export and import price indices since the summer of 1973. Since that time and until the end of 1974 import prices, measured in kroner, rose by no less than 35 per cent and export prices by some 40 per cent. This provided a strong spur, both directly and indirectly, to the rise in prices in Norway in 1973 and 1974.

In 1975 the Norwegian economy was not subject to direct inflationary stimuli from abroad to the same extent as in the preceding years. Import prices varied in the course of the year around the level reached at the end of the preceding year, and some export prices showed a falling trend. Nonetheless, the official consumer price index through the year rose by 11.0 per cent from December to December. It seems obvious that domestic factors represented the most important direct spur to price increases, even though after-effects of the sharp rise in foreign prices in 1973 and 1974 were of importance indirectly. The sub-index for agricultural products showed a particularly strong rise (26.5 per cent) during the year, but Norwegian-produced consumer goods which are not much affected by world market prices also showed a rise in prices which was sharper than the average (12.5 per cent). A price rise which was lower than the average was recorded by imported consumer goods (8.5 per cent) as well as Norwegian-produced consumer goods which are influenced by world market prices due to a high content of imported raw materials (4.7 per cent) or competitive conditions (8.0 per cent). This deviates sharply from the pattern of the preceding two years. In both 1973 and 1974 the prices of agricultural products showed a weak rise because of sizable increases in subsidies, and most of the rise in the consumer price index in those years stemmed from imported consumer goods and Norwegian-produced consumer goods whose prices are influenced by world market prices. It is estimated that the increases in subsidies and VAT compensation for food reduced the rise in the consumer price index by as much as 2.6 percentage points in 1974 but by only 0.5 percentage points in 1975.

An overall measure of the price rise in Norway may be found in the national accounts price index for goods and services for domestic use; this showed an increase of 12.4 per cent from 1974 to 1975. The price index for public consumption showed the sharpest rise (14.5 per cent), while total gross investments (when investments in stocks are included) recorded the lowest increase (11.6 per cent). When investments in stocks are excluded, the rise in prices for gross investments

was as much as 15.9 per cent. Prices of consumer goods rose by 12.2 per cent from 1974 to 1975 measured by the national accounts price index for private consumption and by 11.7 per cent according to the official price index.

There were few wage settlements in 1975. The agreements for most wage-earners were last revised in 1974 and do not expire until 1976. The 1974 agreements, however, contained provisions for built-in supplements and a wage increase guarantee to be effected in the spring of 1975. In addition, the agreements contained provisions for automatic index compensation in late autumn 1974 and semi-automatic index compensation in the autumn of 1975. The negotiated pay increases in 1975 were therefore relatively high even in the absence of a main settlement. In accordance with the agreement concluded between the Norwegian Federation of Trade Unions (LO) and the Norwegian Employers' Confederation (N.A.F.), a general increase of Nkr 1.00 per hour and a special increment of 30 øre an hour for low-paid workers were provided in the spring of 1975. At the same time, central and local government employees received an increase of 7.5 per cent, with 2.5 per cent as a wage increase guarantee, plus a fixed krone supplement of Nkr 400 a year for all employees. The Government was involved in the N.A.F.-LO negotiations concerning the semi-automatic index compensation in the autumn of 1975. The result was a "co-ordinated" settlement, with employees in private industry receiving the same compensation as employees in the central and local government sector. The agreement provided 80 per cent compensation for the rise in prices since the last adjustment in wages, with the employers covering 30 per cent and the central government 50 per cent. The central government's contribution consisted of reduced withholding taxes and increased family allowances with effect from 1 November as well as increased subsidies. As part of the settlement, a price freeze was also introduced with effect from 1 September through the end of 1975.

Wage drift, which was the highest ever recorded in 1974, was considerably weaker beginning in the spring of 1975. Wage drift for adult male workers in manufacturing industry is estimated at about 5 per cent from the third quarter of 1974 to the third quarter of 1975. Wage drift in the same period a year earlier was more than 8 per cent. The decline in wage drift must be viewed in terms of both the increasing degree of slack in the labour market and the fact that parts of industry were gradually less capable of paying higher wages than the negotiated rates.

In spite of the decline in wage drift, the rise in wages from 1974 to 1975 was the steepest Norway has recorded after the war, perhaps with the exception of 1946. The total wage bill per man-year for all industries combined (including the employers' contributions to the National Insurance Scheme and other social benefits) rose by 18.1 per cent from 1974 to 1975, according to preliminary national accounts figures. In manufacturing industry average hourly earnings increased by about 20 per cent according to preliminary estimates. There appears to be a clear relationship between - on the one hand - the sharp increase in wages in 1975 and - on the other hand - the rise in foreign prices which took place in 1973 and 1974 and which increased the domestic prices of consumer goods and the ability of industries exposed to competition to pay higher wages.

INCOMES AND INCOME DISTRIBUTION

The national accounts' income figures are to a large extent based on indirect calculations, entailing that there may be considerable margins of error in the preliminary figures. There is particular uncertainty attached to the estimates for entrepreneurial income and its distribution by industry.

With this reservation in mind, calculations at year-end show that total nominal incomes in Norway rose sharply again in 1975. There were substantial shifts in the distribution of income from 1974 to 1975, characterized inter alia by an increase in the share represented by wages and salaries and a decline in the entrepreneurial income share. While labour costs rose more sharply in 1975 than at any time during the post-war period in nominal terms, entrepreneurial income declined somewhat from the unusually high level of the preceding year. The decline in entrepreneurial income was

related to the international recession which resulted in losses, or sharply reduced profits, in shipping as well as in several other Norwegian industries exposed to foreign competition.

Based on preliminary figures in the national accounts, total factor income expanded by Nkr 13 600 million, or 14.3 per cent, from 1974 to 1975, as against 16.7 per cent in the preceding year. Factor income showed a weak development in agriculture and even more in fishing (+6 per cent and -20 per cent respectively), while it rose sharply in forestry (27 per cent). There were considerable variations in manufacturing industry; sheltered manufacturing groups recorded a growth of 20 per cent in factor income, while manufacturing groups competing on the domestic market showed a rise of 16 per cent and manufacturing groups competing abroad registered a decline of 4 per cent. Factor income in building and construction, including oil drilling, rose by 23 per cent. Factor income in shipping in 1975 was only half the level recorded in 1974.

The total wage bill increased by Nkr 13 900 million from 1974 to 1975, with Nkr 11 700 million representing an increase in wage and salary payments and Nkr 2 200 million the rise in the employers' contributions to the National Insurance Scheme, etc. This corresponded to an increase of 19 and 20 per cent respectively from the preceding year. Since entrepreneurial income registered a decline, wage and salary payments calculated as a percentage of factor income increased from 64.2 per cent in 1974 to 66.9 per cent in 1975. This share is the highest ever registered in the post-war period. Employers' contributions to the National Insurance Scheme amounted to 11.9 per cent of factor income in 1975, as against 11.3 per cent in the preceding year.

Entrepreneurial income showed a development in 1975 which differed from the preceding two years. Entrepreneurial income rose sharply in 1973 and 1974; this was particularly pronounced for industries exposed to competition. In 1975, however, the industries exposed to competition, primarily shipping, were severely affected by the international recession. In parts of manufacturing industry the rise in domestic costs was also very noticeable. Entrepreneurial income in the industries exposed to competition, excluding the production and pipeline transport of crude oil and natural gas, declined by Nkr 4 400 million from 1974 to 1975. This reduced these industries' entrepreneurial income as a share of total factor income from 9.1 per cent in 1974 to 4.0 per cent in 1975. Most of the decline related to shipping where entrepreneurial income fell from Nkr 1 700 million in 1974 to Nkr -2 000 million in 1975. Entrepreneurial income in manufacturing groups exposed to competition declined by Nkr 1 000 million. The decline was particularly pronounced in parts of the consumer goods industry. It was also considerable in traditional export industries, while the engineering industry - where production was partly based on orders received earlier at favourable prices - appeared to have fared better. The sheltered industries increased their entrepreneurial income by Nkr 1 800 million, or by 11.8 per cent, from 1974 to 1975. Entrepreneurial income for crude oil and natural gas production and pipeline transport showed a positive figure for the first time in 1975. The amount is provisionally estimated at Nkr 2 100 million or 1.9 per cent of total factor income.

Total public and private disposable income (disposable income for Norway) rose in nominal amounts by Nkr 15 300 million, or 14.1 per cent, from 1974 to 1975 according to preliminary figures. Of the total increase, the rise in volume in net domestic product accounted for 2.3 percentage points. A deterioration in the terms of trade from 1974 to 1975 corresponded to a reduction of 1.5 percentage points in disposable income for Norway, and inasmuch as the deficit on the balance of interest and unilateral transfers also increased, total disposable income for Norway in real terms was only negligibly higher than in the preceding year. The increase of 14.1 per cent in disposable income must therefore primarily be ascribed to higher nominal wage rates and profit margins. Of the total increase in disposable income, the public sector claimed Nkr 4 500 million in the form of an increase in net taxes as well as net capital revenue (including the capital growth in public enterprises). This corresponded to a growth of 14 per cent in the public sector's disposable income.

Private disposable income (i.e. private earned income plus transfers from the public sector and abroad minus social security premiums and direct taxes) increased by about Nkr 10 800 million, or 14.2 per cent, from 1974 to 1975. This was a lower rate of increase than the growth in private income

before taxes (+15.1 per cent), the explanation being that net taxes, i.e. after deduction for transfers, increased more sharply than income (+19.0 per cent). Taxes as a percentage of pre-tax income thereby showed an increase from 1974 to 1975 while this share recorded a slight decline from 1973 to 1974.

When private disposable income is deflated by a weighted average of the national accounts price indices for private consumption and investments (including increases in stocks), it appears that the purchasing power of private disposable income in terms of goods and services increased by 1.9 per cent in 1975.

Only summary and comparatively unreliable information is available to show how changes in private disposable income were distributed among different social groups last year. For the category wage and salary earners, social security recipients and pensioners taken as a whole, provisional estimates show a rise of as much as 21 per cent in nominal disposable income from 1974 to 1975. This group's income is primarily used for consumption; when deflated by the price index for private consumption in the national accounts, this corresponds to an increase of 7.8 per cent in real disposable income (purchasing power in terms of goods and services for consumption). Provisional estimates indicate that there was a decline of 11.4 per cent in nominal disposable income for all other income earners combined - primarily self-employed persons and business enterprises. This corresponds to a decline of some 21 per cent in purchasing power in terms of goods and services for consumption. (When evaluating this figure, however, it must be taken into account that a major part of this income is used for the purchase of investment goods, which - when investments in stocks are included - showed a weaker rise in price than consumer goods from 1974 to 1975.) This sizable percentage decline is due to the fact that the incomes for a considerable number of companies - particularly in the shipping industry - declined so sharply from 1974 to 1975 that their expenditure exceeded income in 1975. The fact that some companies recorded a deficit in operations had a restraining effect on the growth in pre-tax income for the groups self-employed persons and business enterprises combined, but did not have a corresponding effect on the growth in total taxes. Taxes as a percentage of pre-tax income for the group therefore rose substantially from 1974 to 1975 (from about 27 per cent in 1974 to 37 per cent in 1975).

The share of private disposable income represented by public transfers was higher in 1975 than in the preceding year. Even though some of the transfers are made to the economically active groups, this entails that the share of factor income which was transferred from the active groups to those which are permanently or temporarily economically inactive was higher in 1975 than in the preceding year. This trend has been in evidence for a number of years.

Calculations of the changes in real disposable income from 1974 to 1975 for selected households show that taxation in 1975 along with the development in prices and income resulted in a sharp growth in real disposable income for most wage-earner households. The rise was generally 5-7 per cent for households with low or medium incomes and a change in nominal wages corresponding to the average for industrial workers (cf. table 68). The calculations indicate a shift in the distribution of income generally in favour of households with ordinary incomes. This is related to the fact that tax and social security rates, income deductions and the progressive tax scale were not adjusted in step with the increase in income; since the tax system is progressive, this entails that the rate of growth in real disposable income for a given percentage increase in pre-tax income generally declines with rising incomes. This effect was accentuated in 1975 inasmuch as income taxes that year were more progressive than in 1974 for incomes exceeding Nkr 75 000. The figures are also influenced by the fact that the rates for family allowances were changed less than the tax rates, etc. so that the growth in real disposable income for all income levels was weakest for families with many children. The real disposable income of insured married couples with no other source of income than the basic pension provided by the National Insurance Scheme (Nkr 20 696 in 1975) showed a growth of 2.5 per cent from 1974 to 1975, i.e. considerably less than the increase recorded for wage-earner households. The same was true in 1974 while the growth in real disposable income in the preceding years was considerably higher for pensioners than for wage-earner households. It should be emphasized that the figures in

table 68 are based on very definite assumptions concerning the development of pre-tax income, factors which have a bearing on taxation, and price developments. Considerable individual deviations from the calculated averages must therefore be expected.

Total private and public savings in 1975 amounted to Nkr 19 200 million, or about the same as in the preceding year according to preliminary and relatively uncertain figures. Public savings rose from 1974 to 1975 while private savings showed a decline. Calculated as a percentage of net domestic product, total savings amounted to 15.2 per cent in 1975. Close to Nkr 12 000 million were public savings and Nkr 7 200 million private savings. The private savings ratio (defined as private savings as a percentage of private disposable income) was some 8 per cent in 1975, a decline of two percentage points from the preceding year. The decline must be viewed against the background of the fall in entrepreneurial income in such groups as shipping and manufacturing industry.

THE BALANCE OF PAYMENTS

The deficit on current account in the balance of payments amounted to Nkr 12 300 million in 1975 according to preliminary figures, i.e. nearly twice as high as in 1974 and the highest Norway has ever recorded. The deficit in 1975, which corresponded to about 8 per cent of gross domestic product, must be viewed against the background of the economic situation and the counter-cyclical policy which was pursued. Activities in the North Sea also played a role inasmuch as the revenue from oil exports were still not sufficient to cover imports related to the development of offshore oil fields.

The balance of goods and services showed a change of Nkr 5 300 million, from an import surplus of Nkr 4 100 million in 1974 to Nkr 9 400 million in 1975. Exports and imports rose in terms of value by 3.1 and 11.2 per cent respectively. Exports of crude oil were about Nkr 2 900 million higher in 1975 than in 1974. Net imports of ships for the merchant fleet (imports of new and second-hand ships minus exports of second-hand tonnage) rose by Nkr 2 800 million. Net merchandise imports excluding crude oil and ships (but including exports of new ships) increased by Nkr 2 300 million. Net foreign freight earnings in the shipping sector declined by Nkr 3 000 million or by a fourth. Net imports related to tourism and other services increased by some Nkr 100 million.

The deficit on the balance of interest and unilateral transfers increased by Nkr 600 million, to Nkr 2 900 million in 1975. Much of the increase was due to increased government transfers abroad.

The total terms of trade deteriorated in 1975 for the second consecutive year. The deterioration was 2.4 per cent in 1975 and 1.3 per cent in 1974. The price development for earnings and expenditure in the shipping sector was particularly responsible for the deterioration in both years. The terms of trade for merchandise excluding ships showed an improvement of 5.3 per cent in 1975, i.e. about the same as in the preceding year.

Norway's total net gold and foreign exchange reserves showed only minor changes in 1975 in spite of the extremely large current account deficit. The reserves declined somewhat at the beginning of the year but again increased in the autumn, and at the end of November were Nkr 1 200 million higher than at the end of 1974. The official gold and foreign exchange reserves held by the Bank of Norway, based on the definition of the International Monetary Fund, expanded by Nkr 1 400 million during this same period. At the end of November 1975 total net gold and foreign exchange reserves amounted to Nkr 11 500 million.

PROSPECTS

At the beginning of 1976 it is generally expected that the world economic situation will improve in 1976. However, there is considerable uncertainty concerning the timing of the recovery as well as the strength and duration of the growth in production. It is obvious that an economic recovery has been under way in the United States and Japan since last spring. Industrial production in both

these countries at the end of the year was considerably higher than in the spring of last year, although the rate of growth at year-end does not appear to be particularly strong. In Western Europe the economic situation is more ambiguous. In some countries, including West Germany, the trough has been passed and the economy has resumed an upward course. For the remainder of Western Europe, however - including Norway's two most important export markets (Sweden and Great Britain) - there is still no basis for asserting that an upturn has begun. The growth forecasts for 1976 vary substantially. The OECD estimates a production growth of 2 per cent from 1975 to 1976 for Western Europe as a whole and 4 per cent for all member countries combined, but with sizable margins of uncertainty in both directions. National estimates for growth for 1976 are generally somewhat higher than the estimates from the OECD.

Based on an impending turnaround in the economic situation in Western Europe, even if it is weak, it may be expected that foreign demand for Norwegian goods will increase substantially. The decline in Norwegian merchandise exports in 1975 was to a large extent related to cyclically-determined reductions abroad in the stocks of raw materials which play a major role in Norwegian exports. Sooner or later this reduction will have to be replaced by expansion. Experience shows that Norwegian merchandise exports rise sharply at the beginning of an economic recovery and that an upturn in foreign demand for Norwegian goods can appear both abruptly and sharply as soon as the economic climate abroad improves. It is difficult to say, however, when this will occur. In the case of shipping, the chances that the overall picture will change to any extent in the near future are extremely limited.

Statistics on planned investments in mining (excluding oil), manufacturing industry and power supply shows that domestic investment demand from these industries remains high. Oil investments will increase sharply and housing investments will also be higher than last year. Even with a decline in ship investments, it may therefore be expected that investment demand focused on Norwegian production will expand in 1976. Private and public demand will also provide an impetus to growth, stimulated by the forthcoming coordinated income settlements and an expansionary budget policy.

Against this background, it should be possible to assume that activities will remain at a high level in 1976 in those parts of industry which primarily produce for the domestic market and which are not much affected by competition from abroad. The economic situation abroad and the substantial rise in the domestic cost level make the prospects for industries exposed to competition more uncertain. The recession in shipping will probably continue. The best guess for the economic situation in the period ahead is that a recovery is imminent in Western Europe and will be a fact before the end of the first half of the year. If this occurs, Norway will in 1976 record a generally normal growth in total output excluding oil production, without noticeably more serious employment problems than the country is experiencing at this time. If, contrary to expectations, the upturn is delayed, the cyclical problems in the Norwegian economy may gradually assume a different dimension than hitherto.