



ECONOMIC SURVEY OF NORWAY 1977  
("ØKONOMISK UTSYN 1977")

ENGLISH SUMMARY  
(TRANSLATION OF THE CONCLUDING CHAPTER: "SLUTTORD")

## THE ECONOMIC SITUATION

In Western Europe, the growth in total production was weak in 1977. Industrial production - which had expanded in the second half of 1975 and in 1976 - started to taper off in the beginning of 1977, long before full capacity utilisation had been reached. Investment demand was sluggish and the stimulatory fiscal measures introduced in certain countries were far from sufficient to reverse the trend. The number of unemployed climbed to 7 million in the autumn of 1977 for Western Europe as a whole. The rise in consumer prices was about as strong as in the preceding year (10.9 per cent in the 12-month period to November 1977), although somewhat lower than in 1974 and 1975. The external payments situation in Western Europe varied sharply from one country to another in 1977, with current account surpluses for three of the four major industrial countries - particularly West Germany - and deficits for France and most of the smaller economies.

The economic trend in the United States in 1977 differed from that of Western Europe. Industrial production passed a trough in 1975, as in Western Europe, but later showed a virtually continuous rise, with perhaps a somewhat slower rate of growth being recorded since the summer of 1977. Unemployment in 1977 remained below seven million, i.e. somewhat lower than in the preceding two years. The rate of price increase was, by U.S. standards, relatively high (6-7 per cent).

According to OECD estimates, the total gross domestic product in Western Europe rose by only 2 per cent from 1976 to 1977. The growth for the OECD area as a whole was 3½ per cent, compared with 5.2 per cent in the preceding year. The output growth varied considerably from one country to another in 1977. Among the larger OECD countries, the growth was highest in Japan (6 per cent) and the United States (4 ¾ per cent). In France, West Germany and Italy, real GDP expanded by 2-3 per cent, while the United Kingdom showed a growth of only ¼ per cent. Our neighbouring countries, Denmark, Finland and Sweden, all registered a fall in total production, with Sweden experiencing the sharpest decline (-2½ per cent) according to OECD estimates.

Norway experienced both expansionary and contractionary forces in the economy in 1977. Some strong contractionary impulses were imparted from abroad, while domestic demand was stimulated by counter-cyclical measures. The overall development in 1977 resulted in a record deficit on current account. On the other hand, the level of activity in Norway remained higher than in most other countries in Western Europe. Shipping and some important Norwegian export industries, however, experienced a difficult year. Most vulnerable, perhaps, were the pulp and paper industry and the iron, steel and ferro-alloy industries. The sharp rise in costs in Norway in recent years was one of the factors contributing to the increasingly difficult situation for Norwegian industries exposed to competition. Rising costs created problems not only for our export industries, but also for some companies producing goods for the domestic market in the face of keen competition from abroad.

Based on provisional figures, gross domestic product at constant prices advanced by 3.9 per cent from 1976 to 1977. This represented a considerably lower growth than in the preceding year (5.8 per cent according to revised figures) and somewhat lower than the average for the post-war period (4.7 per cent). When shipping and oil activities are excluded, the growth was 3.6 per cent in 1977, compared with 4.5 per cent a year earlier.

There were sizeable variations in the growth rate from one industry to another in 1977. The gross product in agriculture expanded by as much as 18 per cent, while forestry recorded a decline of 12 per cent and fishing a fall of 3-3.5 per cent. The gross product in manufacturing industry in 1977 remained unchanged from the preceding year and was still 1 per cent below the peak year 1974. In the building and construction sector, including oil drilling, gross product

increased by 9 per cent in 1977, following only a slight rise in the preceding year. The gross product in wholesale and retail trade rose by 4.2 per cent in 1977 (6.1 per cent in 1976), while the shipping sector registered a growth of only 1.6 per cent (4.9 per cent in the preceding year). The gross product in other service industries combined expanded by 4.2 per cent from 1976 to 1977.

At the beginning of 1977 foreign demand had already been showing signs of tapering off for some time, and the export curve for traditional goods (i.e. merchandise excluding ships, oil platforms and crude oil) edged downwards. The prices of many important export goods fell sharply in the course of 1977: the export prices of mechanical and wood pulp, ferro-alloys, nickel, copper and zinc in November 1977 were 10-20 per cent below the level a year earlier. The volume of exports showed little change in the first part of the year, but the decline was again a fact towards the end of 1977. For the shipping sector, 1977 - like 1975 and 1976 - was a weak year. Over one-fourth of the Norwegian tanker fleet was laid up at the end of 1977, as one year earlier, while the number of laid-up dry cargo ships was rising and corresponded to 13 per cent of the fleet at end-1977.

The level of domestic demand - stimulated by an active counter-cyclical policy - was markedly higher in 1977 than in 1976, with pressure tendencies in some industries and in several parts of the country. Consumer demand rose sharply in 1977, as in the preceding two years, although a certain slowdown in the rate of growth could be detected towards the end of the year. Investment demand, with ships representing an important exception, was clearly higher in 1977 than in 1976. Much of the growth stemmed from investments in the production of crude oil and natural gas, but other industries as well, notably the electricity, gas and water supply sector, showed a marked expansion in investments. Manufacturing investments showed a somewhat heterogeneous pattern, with a pronounced rise for the petrochemical industry (Rafnes) and some consumer goods industries and a decline for shipyards and the iron, steel and ferro-alloy industries. All total, however, manufacturing fixed investment were considerably higher in 1977 than in 1976.

In spite of the relatively sharp growth in domestic demand in 1977, industrial production showed a weak trend. A moderate rise in production, which had prevailed through most of 1976, tapered off in the winter of 1976/1977, and in the spring of 1977 the seasonally adjusted index of production showed a pronounced fall for industry as a whole. Through the second half of the year, output showed little change. The sluggish trend in overall industrial production must to a large extent be ascribed to reduced competitiveness as compared with other countries, with a resulting loss of market shares, particularly on the export market. The production of export goods declined throughout 1977, while stocks of export goods increased substantially. The production of capital goods also showed a clear downward trend through 1977. The decline related not only to ships; the production of other capital goods also fell in spite of the considerable rise in demand. The same tendency involving a loss of market shares on the domestic market was in evidence for the production of many consumer goods.

Even though total industrial output did not show a growth in 1977, it appears that many manufacturing companies must have experienced a favourable year: preliminary - and indeed very uncertain estimates - show a steep rise in total entrepreneurial income both for sheltered manufacturing industry and consumer goods industries exposed to foreign competition. This suggests that the sharp growth in consumer demand resulted not only in increased production and profits in sheltered industries, but that it also enabled certain branches of the consumer goods industry competing on the domestic market to raise prices more than foreign competitors and still maintain production and turnover. In 1977, there were still some companies in the capital goods industry producing on the basis of contracts concluded at favourable prices in earlier years.

The number of companies and persons affected by production cutbacks was generally higher in 1977 than in 1976. The sectors most affected by such cutbacks included the paper and pulp industry, the iron, steel and ferro-alloy industries as well as parts of the engineering industry. Nonetheless, seasonally adjusted unemployment figures showed a decline through 1977, and at the end of the year the unemployment figure was clearly lower than a year earlier. At the same time, the figure for reported vacancies was substantially higher through most of 1977 than in 1976, indicating that the growth in the demand for labour must have been considerable in other parts of the economy. Towards the end of the year, however, there were signs that the labour market was becoming somewhat less tight, and the Central Bureau of Statistics' Business Tendency Survey for manufacturing and mining at end-1977 suggested that the pessimism in industry had spread rapidly during the autumn months; the change in confidence was particularly pronounced for the domestic market industry. A vast majority of the industrial enterprises considered their order books too small relative to the prevailing level of production. The number of companies specifying full capacity utilisation at the end of 1977 was lowest recorded since these surveys were introduced in 1973.

#### ECONOMIC POLICY

When the National Budget for 1977 was submitted in the autumn of 1976, the international economic forecasts were relatively optimistic. In the Norwegian economy, the level of activity was rising, unemployment was low and domestic demand was showing a relatively sharp expansion. Shipping and some sectors of manufacturing industry, however, were marked by the weak economic situation abroad. Domestic prices and costs continued to rise at a high rate, and Norway's foreign debt was increasing sharply as a result of record current account deficits.

In this situation the authorities drew up a policy for 1977 that remained expansionary, but which was intended to provide a weaker impetus to growth than in the preceding two years and curb the rise in prices and costs. The fiscal budget proposal thus entailed a more restrained growth in central government expenditure on goods and services than in the preceding year, while the tax and subsidy programme aimed at slowing the rate of growth in the real disposable income of wage-earners. In the course of the year, economic policy moved in a more expansionary direction, partly in connection with the income settlement, and partly because the international recession proved to be more prolonged than the authorities had originally assumed. The special support measures to sustain employment in hard-hit sectors, notably the shipbuilding industry, were expanded during the year. A general increase of the income level in the agricultural sector, in accordance with previous Storting resolutions, was also part of the economic policy programme for 1977.

As in the preceding year, the income settlement in the spring of 1977 was implemented on a co-ordinated basis, where the authorities agreed to adjust employers' social security contributions and reduce personal income taxes. At the same time, there was a downward adjustment in the exchange rate for the Norwegian krone. The main purpose was to avoid large nominal pay increases which might further reduce Norway's external competitive position. At the same time, however, the measures involved a stimulation of domestic demand, with the danger of a further deterioration in the current account and continued high wage drift.

It is now estimated that the central government's appropriations account for the year as a whole will balance with a deficit prior to loan transactions of about Nkr 5,500 million. The 1976 accounts showed a deficit of about Nkr 2,300 million.

The social security budget proposal for 1977 entailed an increase in social security benefits with effect from 1 January to ensure that the real value of the minimum pension would rise at a higher rate than the real disposable income of wage-earners, but did not otherwise include any major reforms. Members' premiums to the National Insurance Scheme were based on the same rates prevailing in 1976, while the employers' social security contributions were adjusted with effect from 1 May 1977 as part of the co-ordinated income settlement (cf. the section on Prices and Wages). At the same time, the rate for the central government contribution for 1977 was increased to 2.6 per cent. The revenue surplus of the social security budget for the year as a whole is estimated at Nkr 1,315 million. The revenue surplus for 1977 for the social security sector combined, including accrued interest of the National Insurance Fund (Nkr 835 million) and a surplus or deficit in other public insurance schemes, is estimated at about Nkr 2,200 million, or some Nkr 100 million less than in 1976.

The surplus for other central government accounts, which includes central government pension funds, tax collectors' balances and a number of other funds, is estimated at some Nkr 1,100 million in 1977, compared with Nkr 3,200 million in 1976. About Nkr 1,300 million of this surplus relates to taxes and fees which accrue in the year of income but which have not yet been transferred to public funds (compared with about Nkr 3,400 million in 1976), while other public sector accounts show a deficit of about Nkr 200 million.

It is estimated at year-end 1977 that the deficit prior to loan transactions for the central government appropriations account, the social security sector and other central government accounts (including tax collectors' balances) combined will amount to some Nkr 2,200 million in 1977. When petroleum taxes - which do not have the same effect on the level of domestic activity as other taxes - are excluded, the deficit prior to loan transactions amounted to as much as Nkr 7,300 million in 1977, or 3.8 per cent of gross domestic product. In 1976, there was a deficit of Nkr 1,400 million (0.8 per cent of GDP), while a surplus of Nkr 3,700 million (2.5 per cent of GDP) was recorded in 1975. Thus, in two years the budget balance showed a deterioration of as much as Nkr 11,000 million. Even though there are considerable problems of interpretation inherent in such summary measures, this shows how expansionary the change in the authorities' overall budget policy has been in the last two years.

The year 1977 was characterized by a strong demand for loans from public and private credit institutions. The authorities' desire for a considerable increase in State bank lending made it necessary to pursue a tight liquidity policy towards the private banks. In the months to end-October, the primary reserve requirements for banks in the southern part of Norway were thus raised on four occasions, from 4.5 per cent to 9 per cent for commercial banks and from 3.5 to 7 per cent for savings banks. The rate for the commercial banks was reduced to 7 per cent with effect from 1 December. As part of a credit tightening programme, the ratio for the banks' maximum obligatory holdings of bearer bonds (the investment obligation) was also increased with effect from 21 January 1977 for banks in the southern part of Norway. Another factor contributing to the tight liquidity situation in 1977 was the banks' sizeable purchases of foreign exchange in the Bank of Norway to finance the large import surplus.

The system of norms for interest rates and commissions - which has been in force throughout the post-war period - was abolished on 2 December 1977. The background for this change was primarily the desire to increase the yield on savings and restrain the growth in credit-financed consumer demand, although the desire to improve the banks' profitability in order to stimulate a growth in equity capital was also a contributing factor. In general, both lending and deposit rates may now be established without the interference of the authorities. This will probably lead to an increase of from one to two per cent for most interest rates.

The exchange rate for the Norwegian krone was adjusted downwards in the course of 1977. With effect from 4 April, the Swedish krona was devalued by 5 per cent and the Danish and Norwegian krone by 3 per cent against other currencies in "the European Currency snake". On 29 August, Sweden devalued its currency by an additional 10 per cent and withdrew from "the snake". Norway and Denmark devalued simultaneously by 5 per cent against the Deutschemark, the Dutch guilder and the Belgian franc. This exchange rate adjustment resulted in an immediate depreciation of 2.6 per cent in effective terms for the Norwegian krone (computed as a weighted average of each country's currency rate using Norway's exports and imports with that country as weights). All total, changes in the exchange rate through the year entailed that in effective terms the Norwegian krone depreciated by about 5 per cent during 1977.

## PRODUCTION AND DEMAND

For three consecutive years, private and public consumption in Norway have increased considerably more sharply than the real economic basis for the rise in consumption: while private and public consumption rose by 19 per cent from 1974 to 1977, the growth in net domestic product was only 13 per cent. At the same time, the terms of trade deteriorated substantially - by as much as 12 per cent - and net interest expenditure abroad rose considerably. The rise in real disposable income for Norway was therefore only 5 per cent. This development had to result in record current account deficits, totalling Nkr 60,000 million for the period 1975-1977.

Domestic demand components provided the most important expansionary stimulus to the Norwegian economy in 1977. This may primarily be ascribed to the considerable increase in private disposable income which allowed for a steep growth in private consumption, but public consumption and investments in fixed capital also contributed significantly to this growth. On the other hand, the fall-off in exports of important traditional goods had pronounced contractionary effects. A preliminary estimate suggests that about two percentage points of a total output growth of some 4 per cent can directly and indirectly be traced back to factors which influenced private consumer demand through changes in private disposable income. Somewhat more than one percentage point can be attributed to the increase in public consumption. About one percentage point stems from gross fixed capital formation, while exports have contributed about one-half a percentage point. On the other hand, shifts in consumer and investment demand from Norwegian-produced goods to imported goods have reduced the growth by a little less than one percentage point.

Total exports of goods and services amounted to Nkr 75,900 million in 1977, an increase of 8.2 per cent from 1976 to 1977 compared with a rise of 12.8 per cent in the preceding year. The growth in volume terms was 3.9 per cent, as against 9.4 per cent one year earlier. Exports of crude oil and natural gas expanded in volume terms by 11.1 per cent. The growth was far lower than expected, primarily as a result of reduced oil production following the blow-out on the Bravo platform in April and the delayed start of gas deliveries to Emden. The value of exports of traditional goods (merchandise excluding ships, oil platforms, crude oil and natural gas and investments in oil and gas fields that are divided between Norway and Great Britain) rose moderately in the first few months of the year, changed very little during the summer and showed a clear decline in the autumn months. Exports of traditional goods declined in volume terms by 5.4 per cent in 1977, while an increase of 11.9 per cent was recorded in the preceding year. The decline in volume in 1977 related to many goods and was particularly steep for iron, steel, ferroalloys and nickel. On the other hand, fish and fish products along with manufactures of base metals showed a rise in export volume. Exports of oil platforms, etc. were somewhat higher in

1977 than in the preceding year, both in value and volume terms. Exports of new ships showed a sharp rise; the figures must partly be viewed against the background of the extraordinary financing measures introduced by the authorities to support exports of new ships to developing countries. As in the preceding four years, exports of second-hand ships were unusually high in 1977. Exports, measured in volume, were higher than in some previous years, but prices fell further from the low level of 1976. Preliminary estimates suggest that gross freight earnings in the shipping sector amounted to Nkr 17,600 million in 1977, or about the same as in the preceding year. Gross earnings from both oil and gas pipeline transport and from oil drilling increased sharply in volume from 1976 to 1977.

Gross fixed capital formation amounted to Nkr 68,300 million in 1977. Gross investments increased in volume by 1.2 per cent, compared with 9.5 per cent in the preceding year. As in previous years, there were sizeable variations from one industry to another. Gross investments in the shipping sector were reduced by some 70 per cent in 1977. This sizeable decline in volume is primarily due to a sharp rise in the sales of second-hand ships, which conceptually are considered negative gross investments. However, since the prices of new ships increased, investments in shipping only declined by 17 per cent in value terms. Total gross investments in oil activities rose in volume by 11.7 per cent, as against 32.9 per cent in the preceding year. A large part of the investments in shipping and oil activities relates to imports, entailing that even major variations in these investments only have a limited impact on Norwegian production. When shipping and oil activities are excluded, investments expanded in volume by 7.0 per cent. Housing investments were reduced in volume by 2.5 per cent, while public fixed capital formation increased by 5.9 per cent from the preceding year. Manufacturing investments rose by 15.7 per cent in 1977, boosted in particular by the expansion of the petrochemical plants at Rafnes.

Based on preliminary and uncertain figures, investments in stocks were low in 1977, following three years of high investments. Investments in stocks also include goods in progress, and it was particularly the decline in ships and oil platforms in progress that lowered the overall figure in 1977. Stocks of other commodity groups combined showed a considerable growth, and the stocks of many goods are now very high. There was a sizeable increase in stocks of export goods, particularly metals and feedstuffs through 1977. On the other hand, stocks of wood products, pulp and paper showed a decline. Total stocks of imported goods showed little change. Nonetheless, stocks of passenger cars rose substantially. Total stocks held by manufacturers and wholesalers were somewhat higher in the autumn of 1977 than the peak level recorded two years earlier.

Private consumption amounted to altogether Nkr 106,700 million in 1977. Measured at constant prices, consumption rose by 4.8 per cent from 1976 to 1977, compared with 6.3 per cent in the preceding year. The slower rate of growth can be ascribed to accounting procedures; due to the method of calculation in the national accounts, a reduction in the National Insurance Scheme's rate of reimbursements to health institutions in 1977, viewed independently, resulted in lower private consumption and a corresponding increase in public consumption. The privately-financed share of private consumption showed a growth in volume terms of 6.4 per cent, or about the same as in the preceding year. This was a somewhat higher growth than anticipated by the preliminary figures for changes in income. As in previous years, the rate of growth for different categories of consumer goods varied considerably. The increase in volume was greatest for the group transport, postal and telephone services (9.4 per cent). Higher purchases of passenger cars boosted the growth in consumption for this group. The categories recreation and education and furniture and household equipment showed a sharp increase. The lowest growth was recorded by the categories beverages and tobacco (2.2 per cent) and food (2.9 per cent).

Public consumption amounted to Nkr 35,500 million in 1977, according to preliminary and uncertain estimates. Volume expanded by 10.4 per cent, compared with 7.0 per cent in the preceding year. As mentioned above, a major share of the growth in 1977 stemmed from changes in the method of computation. When local government health care is excluded, the growth was 5.6 per cent in 1977, as against 7.2 per cent in the preceding year. The increase was somewhat higher for local government consumption than for central government civilian consumption. Military consumption rose only modestly in 1977.

Total imports of goods and services amounted to Nkr 96,100 million in 1977, representing an increase of 11 per cent, compared with 20 per cent in the preceding year. The rise in volume terms was 3 per cent, as against 12 per cent in 1976. Imports of ships and oil platforms, etc. fell in value by about 7 per cent from 1976 to 1977, following a rise of as much as 39 per cent the preceding year. Shipping expenditure abroad (operating expenditure, expenditure for repairs and investment outlays) increased in value by about 11 per cent in both 1976 and 1977. Imports of other goods and services rose by about 13 per cent in 1977, compared with 19 per cent the preceding year. The rise in 1977 was particularly steep for cars, clothing and footwear, and tourism.

## PRICES AND WAGES

Both the Norwegian and the international rate of inflation remains at a high level. Prices of consumer goods for the OECD area as a whole rose by about 8 per cent from 1976 to 1977. In Norway, prices of consumer goods increased by 9.1 per cent from 1976 to 1977, according to the official consumer price index, the same rise as in the preceding year. The record price rise recorded in Norway and abroad in 1974 and 1975 showed a noticeable deceleration in 1976, but has not slowed further since that time.

As in the preceding year, Norway experienced considerable inflationary stimuli in 1977, in the form of higher prices for imports. In contrast to the preceding year, these impulses were accentuated in 1977 by the depreciation of the Norwegian krone. The rise in prices of imported goods is reflected, *inter alia*, in the consumer price index by sector of delivery, where the sub-index for imported consumer goods increased by 11.0 per cent. A particularly strong price rise was registered for imported consumer goods without Norwegian competition (12.8 per cent).

Domestic factors also contributed significantly to the rise in consumer prices in Norway in 1977. The sub-index for services, excluding rent, thus increased by as much as 12.9 per cent, while the prices of fish products rose by 11.3 per cent. The sub-index for other Norwegian-produced consumer goods (primarily manufactured goods) showed a slower rise (9.0 per cent) and agricultural goods increased by only 3.3 per cent.

The national accounts price index for goods and services for domestic use provides an overall indication of the price rise in Norway; this showed a rise of 9.7 per cent from 1976 to 1977, compared with 9.5 per cent the preceding year. The rise in prices was sharpest for total gross investments when investments in stocks are included (11.7 per cent). When investments in stocks are excluded, the rise in prices for gross investments was 11.2 per cent. The national accounts price indices for both public and private consumption showed a rise of 8.7 per cent from 1976 to 1977.

There were few wage settlements in 1977. Most wage agreements were revised in 1976 and covered a two-year period. The 1976 agreements contained, however, special provisions for adjustments for the second year of the agreement tied to an evaluation of the general economic trend. Against this background, wage adjustments - in the same manner as in 1976 - were implemented on

a co-ordinated basis, with measures provided by the government authorities. The result of the "mini wage settlement" between the Norwegian Federation of Trade Union and the Norwegian Employers' Confederation was a general pay increase amounting to 66 øre an hour for all adult workers with effect from 1 April 1977. The agreement also called for a supplement varying from 6 to 65 øre an hour (17 øre an hour on the average) to low-paid workers. Al total, the settlement resulted in an average pay increase of 2.9 per cent. The settlement for central and local government employees entailed a pay increase of 7.7 per cent, of which 4.4 per cent was considered compensation for a lower wage drift in the public sector than in private industry. The authorities agreed to reduce personal taxes by up to 1 per cent of income in 1977. The rates for the employers' contributions to the National Insurance Scheme were increased by 0.7 percentage points in zone 1 and reduced by 0.5 per cent in zone 2 and zone 3.

Wage drift in 1977 was about the same as in the preceding two years. Average wage drift from the third quarter of 1976 to the third quarter of 1977 is estimated at about 6 per cent. Wage and salary payments per man-year for all industries combined rose by 10.1 per cent from 1976 to 1977. The companies' total wage bill per man-year, which also includes employers' social security contributions, increased by 10.2 per cent from 1976 to 1977, according to preliminary national accounts figures. Wage costs showed a somewhat slower rise from 1976 to 1977 than in the last few years: wage costs per man-year increased by 12.7 per cent from 1975 to 1976 while the increase from 1974 to 1975 was as high as 18.3 per cent.

It is difficult to assess the importance of the co-ordinated income settlements for the last two years. It may be stated that the rate of growth in wage costs has slowed in relation to the peak year 1975, but historically the rate of growth is still high. The authorities' economic contribution to the income settlements appears to have been of only modest importance to the growth in wages. Viewed against the background of the tight labour market and the international rise in prices - and not least the expectations that were created concerning a growth in real disposable income - the sharp rise in wage costs during the last two years has not been surprising. The relatively sharp increase in entrepreneurial income in certain sheltered and import-competing industries must also be assumed to have been of considerable importance.

#### INCOMES AND INCOME DISTRIBUTION

The national accounts income figures are to a large extent based on indirect calculations with considerable margins of error. A factor income classified by wage and salary costs and entrepreneurial income (income from production capital and from own labour) is calculated for each industry. There is particular uncertainty attached to the estimates for entrepreneurial income and its distribution by industry, particularly in years with sizeable price changes.

Total nominal incomes, measured by factor income, rose by 12.1 per cent in 1977, while the growth in 1975 and 1976 was 15.3 per cent and 13.6 per cent respectively. Wage costs (wage and salaries and employers' social security contributions, etc.) increased by 12.3 per cent, compared with 15.3 per cent in the preceding year, and total entrepreneurial income rose by 11.3 per cent, while the growth from 1975 to 1976 was only 7.7 per cent.

The total wage bill rose by Nkr 12,000 million in 1977, with Nkr 10,000 million representing an increase in wage and salary payments and Nkr 2,000 million the rise in employers' social security contributions. This corresponds to a rise of 12.2 and 12.9 per cent respectively from 1976 to 1977. Both wages and employers' social security contributions, calculated as a percentage of factor income, showed a slight rise from 1976 to 1977. Altogether, wage and salary payments amounted to 79.4 per cent of factor income in 1977.

The provisional and uncertain estimates for the trend in entrepreneurial income from 1976 to 1977 show considerable variations from one industry to another. The growth in the agricultural sector has been particularly sharp the last two years, increasing by almost 27 per cent in 1976 and an additional 30 per cent (Nkr 1,400 million) in 1977. Entrepreneurial income in the forestry and fishing sectors showed a slight decline from 1976 to 1977.

Entrepreneurial income in manufacturing industry combined increased by 17.3 per cent last year, while there was a decline of 2.8 per cent from 1975 to 1976. There were, however, considerable variations in the development of entrepreneurial income for different manufacturing groups. Entrepreneurial income in manufacturing industries competing abroad declined by some 6 per cent in 1977, coming on top of a sharp reduction in the preceding two years. According to preliminary national accounts figures, entrepreneurial income in this part of manufacturing industry was only about Nkr 1,000 million in 1977, compared with about Nkr 3,000 million in 1974. Sheltered manufacturing industry and manufacturing industries competing on the domestic market have in nominal terms registered increasing entrepreneurial income since 1974, which was generally a favourable year for these industries. In 1977, sheltered manufacturing industry recorded a growth of about 30 per cent (Nkr 700 million) in entrepreneurial income, as against 7.5 per cent the preceding year and nearly 23 per cent in 1975. Manufacturing industries competing on the domestic market registered a growth in entrepreneurial income of about 16 per cent (Nkr 500 million) in 1977, about the same as in the preceding year although lower than the close to 30 per cent rise recorded in 1975. There were considerable variations in the development within this category. In the consumer goods industry competing on the domestic market, which experienced a relatively unfavourable year in 1975, entrepreneurial income doubled from 1975 to 1977; this must be viewed against the background of the higher level of consumer spending. 1975 was a very good year for the capital goods industry competing on the domestic market, and entrepreneurial income increased very little in the period to 1977.

In the shipping sector, entrepreneurial income was negative in both 1976 and 1977, Nkr -2,100 million and Nkr -3,600 million respectively. Entrepreneurial income for the production and pipeline transport of crude oil and natural gas rose considerably less last year than in the preceding year, primarily as a result of the problems which arose on the Ekofisk field. The growth rates were 10.6 and 63.0 per cent respectively.

Entrepreneurial income in sheltered industries, excluding agriculture and sheltered manufacturing industry, expanded by 13.1 per cent last year, while the increase in 1976 was 4.9 per cent. In this group, entrepreneurial income in hotel and restaurant activities, banking and insurance, and services have shown a sharp increase.

When evaluating the figures for entrepreneurial income in 1977, it is important to note that experience shows it is often necessary to undertake major revisions of the first rough estimates.

The preliminary estimates indicate that entrepreneurial income, measured as a percentage of factor income, in sheltered manufacturing industry increased sharply in relation to the preceding year, i.e. from 24.1 to 27.4 per cent. This was a continuation of a trend which, albeit not with the same strength, has been taking place since 1973, and which deviates from the experience of previous years. A similar tendency for certain other sheltered industries and for manufacturing industry competing on the domestic market has also been in evidence. This may suggest that higher profit margins, made possible among other things by the expansionary economic policy, have contributed noticeably to the price rise in recent years, and thus indirectly to the increase in costs for industries competing abroad.

Total public and private disposable income (disposable income for Norway) rose by some Nkr 15,000 million from 1976 to 1977, according to preliminary figures. The rise in nominal

amounts was 10.9 per cent, while the increase in real terms (after deflating by the price index for the domestic use of goods and services) was 0.9 per cent, compared with a 2.6 per cent rise from 1975 to 1976. Viewed independently, the growth in the volume of net domestic product contributed 3.7 percentage points to the overall increase in real income, while an increase in the deficit on the balance of interest and unilateral transfers and a deterioration in the terms of trade, etc. reduced the growth by 1.0 and 1.8 percentage points respectively.

Private disposable income (i.e. private income from labour and capital plus transfers from the public sector and abroad minus social security premiums and direct taxes) increased by about Nkr 14,000 million, or by 14.9 per cent from 1976 to 1977. (In these figures and those that follow, social security expenditure for health care has been excluded because National Insurance Scheme refunds to health institutions were reduced considerably in 1977). This was a sharper increase than in private gross incomes i.e. income before direct taxes have been deducted and transfers have been added, which altogether rose by 11.9 per cent. This may partly be ascribed to direct taxes which rose at a far slower rate than gross income, and partly the fact that the growth in transfers was higher than the growth in gross income. Direct taxes measured as a percentage of pre-tax income thus showed a decline from 1976 to 1977. 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 4.3 per cent from 1976 to 1977.

Only summary and comparatively uncertain information is available to show how changes in private disposable income last year were distributed among different social groups. For the category wage and salary earners, social security recipients and pensioners taken as a whole, provisional estimates show a rise of 15 per cent in nominal disposable income from 1976 to 1977. This group's income is primarily used for consumption, and when deflated by the price index for private consumption in the national accounts, this corresponds to an increase of 5.8 per cent in real disposable income (purchasing power in terms of goods and services for consumption). Preliminary estimates indicate that there was a rise of 14.4 per cent in nominal disposable income for all other income earners combined, i.e. self-employed persons (including farmers), joint-stock companies, etc. When evaluating this figure, it must be taken into account that a major share of this income is used for the purchase of capital goods which, when investments in stocks are included, showed a stronger price rise in 1977 than consumer goods (by 11.7 per cent).

Public sector transfers accounted for a larger share of private disposable income in 1977 than in the preceding year. Even when it is taken into account that 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 inactive was higher in 1977 than in the preceding year. The increase in National Insurance Scheme expenditure for old-age and disability pensions was particularly high. This trend has been in evidence for a number of years.

The development in real disposable income for main categories of private consumers may conceal sizeable variations within the various groups. Calculations of the changes in real disposable income from 1976 to 1977 for selected types of households with wage incomes in both years corresponding to the average for industrial workers show a growth per household of about 3.5 per cent. According to statistics compiled by the Norwegian Employers' Confederation, the growth for wage-earner households with incomes in both years corresponding to the average for salaried employees was about 3 per cent. Real disposable income for households with the National Insurance Scheme's minimum pension as the only source of income both years increased by some 7 per cent in

1977 for married couples and about 6 per cent for single people, while the growth in real disposable income last year was considerably lower than this for pensioners receiving higher pensions from the National Insurance Scheme.

#### THE BALANCE OF PAYMENTS

The deficit on current account in the balance of payments amounted to Nkr 26,300 million in 1977, according to preliminary figures, i.e. some Nkr 5,700 million higher than in 1976 and the highest deficit Norway has ever recorded. The deficit corresponded to nearly 14 per cent of gross domestic product. The record deficits of 1975, 1976 and 1977 were directly related to oil activities and the authorities' choice of economic policy to counter the effects of the international recession. The economic policy measures primarily aimed at safeguarding employment by stimulating domestic demand, but also entailed that the volume of imports would necessarily increase sharply. The effect on the current account was further amplified by the fact that import prices rose by 7.8 per cent from 1976 to 1977, while export prices increased by only 4.1 per cent.

The balance of goods and services showed an import surplus of Nkr 20,200 million in 1977, or Nkr 3,700 million more than in 1976. The value of exports increased by 8.2 per cent while the value of imports rose by 11.0 per cent. Net imports of goods, excluding ships and oil platforms, expanded by Nkr 5,000 million from 1976 to 1977. Exports of crude oil and natural gas increased by Nkr 1,400 million and totalled some Nkr 8,000 million in 1977. Net imports of ships and oil platforms declined by altogether Nkr 2,600 million. About half of this represented a decline in net imports of ships for the merchant fleet (imports of new and second-hand ships minus exports of second-hand ships). Net exports of services decreased by Nkr 1,300 million. Net earnings in the shipping and oil drilling sectors were reduced by Nkr 500 million, while net imports related to tourism increased by Nkr 800 million.

The deficit on the balance of interest and unilateral transfers increased by Nkr 2,000 million and amounted to as much as Nkr 6,100 million in 1977. The rise may primarily be attributed to increased net interest expenditure abroad, although net transfers abroad also showed a rise. The increase in net interest expenditure is related to the sharp increase in Norway's foreign debt that has taken place during the last 3-4 years. According to preliminary estimates, the net debt amounted to Nkr 80,000 million at the end of 1977, compared with only Nkr 20,000 million at the end of 1974. The financing of deficits in 1977 and preceding years has not created major problems. Norway's total net gold and foreign exchange reserves therefore showed only relatively small changes in 1977 and amounted to close to Nkr 9,700 million at the end of October.

For the first time since 1972, the volume of exports increased faster than the volume of imports in 1977 (3.9 and 3.0 per cent respectively). The fact that the import surplus on the balance of goods and services nonetheless showed a sharp increase was related to the deterioration in the total terms of trade in 1977, for the fourth consecutive year. The deterioration was 3.4 per cent in 1977, as against 3.7 per cent the preceding year.

The sharp increase in the deficit on Norway's balance of trade in recent years is also related to the loss of market shares for Norwegian products both at home and abroad. On the export market, this is indicated by the fact that total imports by Norway's most important trading partners have risen more rapidly than Norwegian exports to these countries. While the market shares, measured in value, were relatively stable or rising slightly for important export goods

in the period 1973-1975, these declined sharply in 1976. That year, Norwegian manufacturers of pulp and paper, ores, metals and machinery, taken as a whole, lost market shares in foreign markets equivalent to roughly 5 per cent of exports of these products. The most recent figures available suggest that this tendency has later been amplified; the loss of market shares for these products from the first half of 1976 to the first half of 1977 is estimated at 10-12 per cent of exports.

Manufacturing industry competing on the domestic market has also lost considerable market shares in recent years. For processed manufactured goods, the share of total domestic demand covered by the production of Norwegian companies has generally been falling since 1972. This share, measured in 1970 prices, was about 57 per cent in 1977, following a decline of about 5 percentage points since 1972. On the other hand, Norwegian producers of raw materials and relatively unprocessed goods have experienced relatively stable or slightly rising shares on the domestic market in recent years.

Prices of products competing on the domestic market have shown a sharper rise than for corresponding foreign products. This price development explains to a large extent the loss of market shares. The profit margins for products competing on the domestic market appear to be maintained at a higher level than the competitive situation should imply and definitely higher than for export goods as a whole. This suggests that companies exposed to competition which sell on the domestic market often have greater possibilities for pursuing an independent price policy than companies selling abroad.

#### PROSPECTS

At the beginning of 1978, the United States is experiencing a relatively satisfactory growth in production. The growth will in all probability continue in 1978; most American forecasts envisage an increase of between 4 and 5 per cent in gross domestic product for the year as a whole. The economic outlook for Western Europe is considerably less favourable. Output growth is weak, and in view of the policy most countries have been forced to pursue, based on inflation and foreign exchange considerations, there is no improvement in sight this year. According to the OECD's forecasts, gross domestic product in Western Europe will only expand by 2½ per cent from 1977 to 1978. This means that unemployment will rise and the growth in European trade will be modest.

Norwegian export industries will be confronted with only weakly expanding export markets in 1978; according to OECD forecasts, Norway's export market for manufactured goods will increase by 3.5 per cent. It may not automatically be assumed that Norway's traditional merchandise exports will rise at the same rate because we must expect to lose additional market shares as a result of our high cost level. One reservation must be made for possible effects of changes in international foreign exchange rates. As it appears today, it is realistic to assume that foreign demand will provide little impetus to growth in 1978.

In Norway, statistics on planned investments show that after several years of expansion, an increase in investment demand from mining, manufacturing and oil production can no longer be expected. Investments in ships will continue to decline. It is unlikely that production for stocks will be maintained at the same level in 1978 as last year. Even though a certain growth in housing investments is anticipated, it appears that the growth impetus in the period ahead will only be derived from private consumer demand and public expenditure on goods and services. However, the outcome of the spring income settlements, the type and scope of the central

government's contribution in this connection and the pace of the foreshadowed reduction in selective support to industry represent factors of importance. The parties on the labour market seem to be prepared for a settlement involving small or no improvement in real incomes. The authorities have announced that a tight economic policy will be necessary.

In these circumstances, it is unlikely that the demand trend in 1978 will allow for any major increase in production in traditional industries, and unemployment will probably rise. Barring any unforeseen obstacles, however, the production of oil and natural gas will increase considerably, entailing that domestic product - the traditional measure of output growth - will again show a substantial rise in 1978.

