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INTERNATIONAL MONETARY FUND

NORWAY

Recent Economic Developments

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Approved by the European Department

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Norway: Basic DataArea: 323,890 square kilometersPopulation: (mid-1981) 4.1 millionGDP in 1981: Nkr 327 billion; per capita SDR 11,800

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> <u>1/</u>
<u>Demand and supply</u>					
(volume change in per cent)					
Private consumption	-1.6	3.2	2.2	1.3	1.1
Public consumption	5.3	3.5	4.7	4.9	3.0
Gross fixed investment	-11.2	-5.0	-0.7	16.5	-1.1
Stockbuilding <u>2/</u>	-2.2	2.8	2.6	-4.9	1.4
Total domestic demand	-5.6	3.7	4.6	1.0	2.4
(Excluding oil and shipping)	-1.6	4.8	5.6	-3.0	2.8
Exports of goods and services	8.4	2.6	2.2	1.0	-1.8
Imports of goods and services	-13.5	-0.7	3.6	1.9	6.0
GDP	4.5	5.1	3.9	0.7	-1.1
GDP excluding oil and shipping	2.0	4.3	2.2	1.0	1.7
<u>Selected economic data</u>					
Annual percentage change in:					
Consumer prices	8.2	4.8	10.9	13.6	10-11 <u>3/</u>
GDP deflator	6.4	6.6	14.3	14.6	9.3
Manufacturing sector					
Output	-1.8	2.1	1.3	-1.3	0.8 <u>4/</u>
Output per man-year	--	3.8	2.4	0.6	1.4 <u>4/</u>
Unit labor costs	8.1	0.2	8.2	10.0	
Broad money (change during year)	11.4	13.6	11.8	11.6	9.9
Oil and gas production (million tons o.e.)	31.9	40.3	50.5	49.1	
Unemployment rate (in per cent)	1.8	2.0	1.7	2.0	
<u>Public finance (Nkr billions) <u>5/</u></u>					
Central government financial balance	-8.1	-5.4	3.5	8.2	10.1
Loan transactions	8.1	8.9	8.6	6.5	6.6
Central government net financing requirement	16.2	14.3	5.0	-1.7	-3.5
Financial balances (in per cent of GDP)					
Central Government	-3.8	-2.3	1.2	2.5	2.8
(Excluding oil taxes) <u>6/</u>	(-6.3)	(-5.9)	(-6.6)	(-7.2)	(-6.6)
Public sector	-1.7	-0.6	4.0	3.1	2.8
(Excluding oil taxes) <u>6/</u>	(-5.2)	(-5.5)	(-5.8)	(-6.6)	(-5.8)

1/ Official forecast of December 1981 unless otherwise stated.2/ Change in stockbuilding as per cent of previous year's GDP.3/ Unofficial forecast.4/ Manufacturing and traditional mining.5/ 1981 and 1982 figures are October 1981 estimates.6/ In per cent of GDP excluding oil and shipping sectors.

Norway: Basic Data (Cont'd.)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982 1/</u>
<u>Credit budget (Nkr billions) 2/</u>					
Total credit supply to private and municipal sectors	26.4	26.5	32.3	34.5	47.7
Net capital from abroad	3.4	1.7	1.6	3.0	11.8
Domestic credit	23.0	24.8	30.7	31.5	35.9
Commercial and savings banks	(5.8)	(8.4)	(8.5)	(9.0)	(9.6)
Bond market	(2.1)	(1.6)	(5.3)	(9.0)	(9.0)
Other	(15.1)	(14.8)	(16.9)	(13.5)	(17.3)
<u>Balance of payments (Nkr billions)</u>					
Exports, f.o.b.	57.9	70.0	92.9	105.7	106.3
Imports, c.i.f.	62.0	70.4	84.5	90.4	101.3
Trade balance	-4.1	-0.5	8.4	15.3	5.0
Net services and transfers	-6.9	-4.8	-2.9	-3.2	-2.9
Current balance	-11.0	-5.3	5.5	12.1	2.1
(In SDR billions)	(-1.7)	(-0.8)	(0.9)	(1.8)	...
(In per cent of GDP)	(-5.2)	(-2.2)	(1.9)	(3.7)	(0.6)
Public sector long-term capital	14.8	8.5	-3.4	-6.8	3/-10.2 3/
Private sector long-term capital	2.1	3.1	-1.0	1.3	3/ 5.7 3/
Short-term capital, including errors and omissions	4.6	0.2	7.1	...	
Valuation changes and SDR allocations	-4.7	-0.2	2.8	...	
Change in net official reserves (increase -)	-5.8	-6.3	-10.5	...	
Gross official reserves, end-period					
In SDR billions	2.2	3.2	4.8	5.4	
In weeks of imports	13	16	20	21	
<u>Competitiveness indicators</u> (annual percentage change)					
Relative unit labor costs	-5.6	-5.4	-0.2	0.4	4/
Relative export unit values	-9.9	3.6	4.6	-2.4	4/
Volume of traditional exports	8.2	8.6	--	--	4.0
Traditional export markets 5/	5.9	10.6	-0.5	0.5	4.6
Terms of trade (excluding ships)	-0.1	6.2	15.9	10.1	
Net external debt (Nkr billions, end of period)	99.0	103.6	93.3	81.1	
(In per cent of GDP)	(46.5)	(43.4)	(32.9)	(24.8)	
<u>Exchange rate</u>					
Nkr per SDR: period average	6.56	6.54	6.43	6.77	
Nkr per SDR: end-period	6.54	6.49	6.61	6.76	
MERM effective rate					
Average change (in per cent)	-5.8	0.2	2.3	-3.4	
Change during the period	-6.6	3.1	-3.4	0.5	

1/ Official forecast of December 1981 unless otherwise stated.

2/ Data for 1981 reflect forecasts of December 1981.

3/ Estimates of October 1981.

4/ First three quarters of 1981, change from 1980 average.

5/ Nonoil market growth estimated by Fund staff.

I. Demand, Supply, and Prices

1. Aggregate demand 1/

In 1980, Norway's domestic demand rose at a rate of about 5 per cent (Table 1), much higher than that of other industrial countries as a group (0.4 per cent). The rapid expansion mainly reflected a large inventory buildup and a recovery of nonoil industrial fixed investment, though from a low level. In 1981, estimated domestic demand grew only very little (as in other industrial countries) mainly because of a negative swing in inventory accumulation and despite sharply higher investment in the oil and shipping sectors. As the real foreign balance deteriorated and domestic demand in mainland Norway (which excludes the oil and shipping sectors) declined by about 3 per cent, the growth in real GDP in mainland Norway slowed down to a rate of some 1 per cent (Chart 1).

In 1982, total domestic demand is expected to increase by over 2 per cent mainly under the impact of a positive swing in inventory accumulation and despite a decline in nonoil industrial fixed investment. Nonetheless, real GDP is expected to fall by 1 per cent in the face of a deterioration in the real foreign balance. For mainland Norway domestic demand is estimated to grow at a slightly faster rate than total domestic demand (nearly 3 per cent) and more than the predicted growth in real GDP for this sector (about 2 per cent).

a. Private consumption

The average growth in private consumption, which in 1975-77 had been 6 per cent per annum, declined to a per annum rate of about 1 per cent in 1978-80. The sluggish expansion reflected a slower growth in real income (partly as a result of higher indirect taxes). In 1980, private consumption rose by about 2 per cent, reducing its share in GDP below 50 per cent. Consumption of goods, which accounts for two thirds of total private consumption, shows a fluctuating pattern owing partly to swings in auto sales. In 1980, consumption of goods grew by only 0.5 per cent. The consumption of consumer durables increased by 3 per cent (with a 6 per cent increase in the volume of sales of cars and other personal transport vehicles). The consumption of other consumer goods stagnated. Consumption of services increased by 5 per cent in 1980, continuing its fast and steady rate of growth.

In 1981, private consumption grew by only about 1 per cent, less than the growth in real personal disposable income. The personal savings ratio increased; this shift being associated with credit restraints designed to dampen private consumption, a relatively

1/ Growth rates indicate changes in volume unless otherwise indicated.

faster income growth for self-employed (having a higher propensity to save than employees), and uncertainties regarding future income. The reduction in the marginal income tax rate may also have stimulated personal savings although real after tax interest incomes were held back by a faster rise in prices than in 1980. Consumption of goods remained almost unchanged. Alcohol and tobacco consumption fell by 8.7 per cent, owing to a sharp rise in excise taxes. Despite the restrictions on consumer credit, purchases of personal transport vehicles, mostly a credit-financed nondurable, increased by 11 per cent. Private consumption of services increased by about 2 per cent. Recreational services increased by 6 per cent.

In 1982, private consumption is forecast to grow by 1 per cent. This estimate assumes a slight increase in real personal disposable income, reflecting largely changes in employment. A slight decrease in the personal savings ratio is forecast.

b. Inventory cycle

Following a decline in stocks in each of the three years 1977-79, there was a large rebuilding of stocks of NKr 4 billion in 1980, 1/ the positive swing from 1979 imparting an expansionary effect equivalent to nearly 3 per cent on the GDP. According to the quarterly sample survey of stocks in manufacturing and wholesale trade, exceptionally strong stockbuilding occurred in all categories in 1980, but especially in manufacturing where the volume increase was 18 per cent, and goods produced for exports which rose by 30.0 per cent in volume (Table 3 and Chart 2). The recovery in the latter category came after two consecutive years of sharp declines. There was also a considerable increase in 1980 in the stocks of imported goods in manufacturing and wholesale trade.

In 1981, there was an estimated decrease in total stocks of about NKr 5.2 billion. 1/ The swing from the accumulation in 1980 represented a negative contribution to the 1981 GDP equivalent to 5 percentage points. This was due partly to fewer oil platforms under construction (after the delivery of the Statfjord B platform in 1981) and a sharp reduction in inventory buildup of imported goods. In addition, investment in inventories of other Norwegian products declined.

In 1982, stocks are expected to increase by NKr 1 billion, 1/ with the swing from 1981 producing an expansionary effect equal to over 1 per cent of GDP. The recovery will affect mainly Norwegian goods, while the volume of inventory buildup of imported goods will hardly change from 1981.

c. Private fixed investment

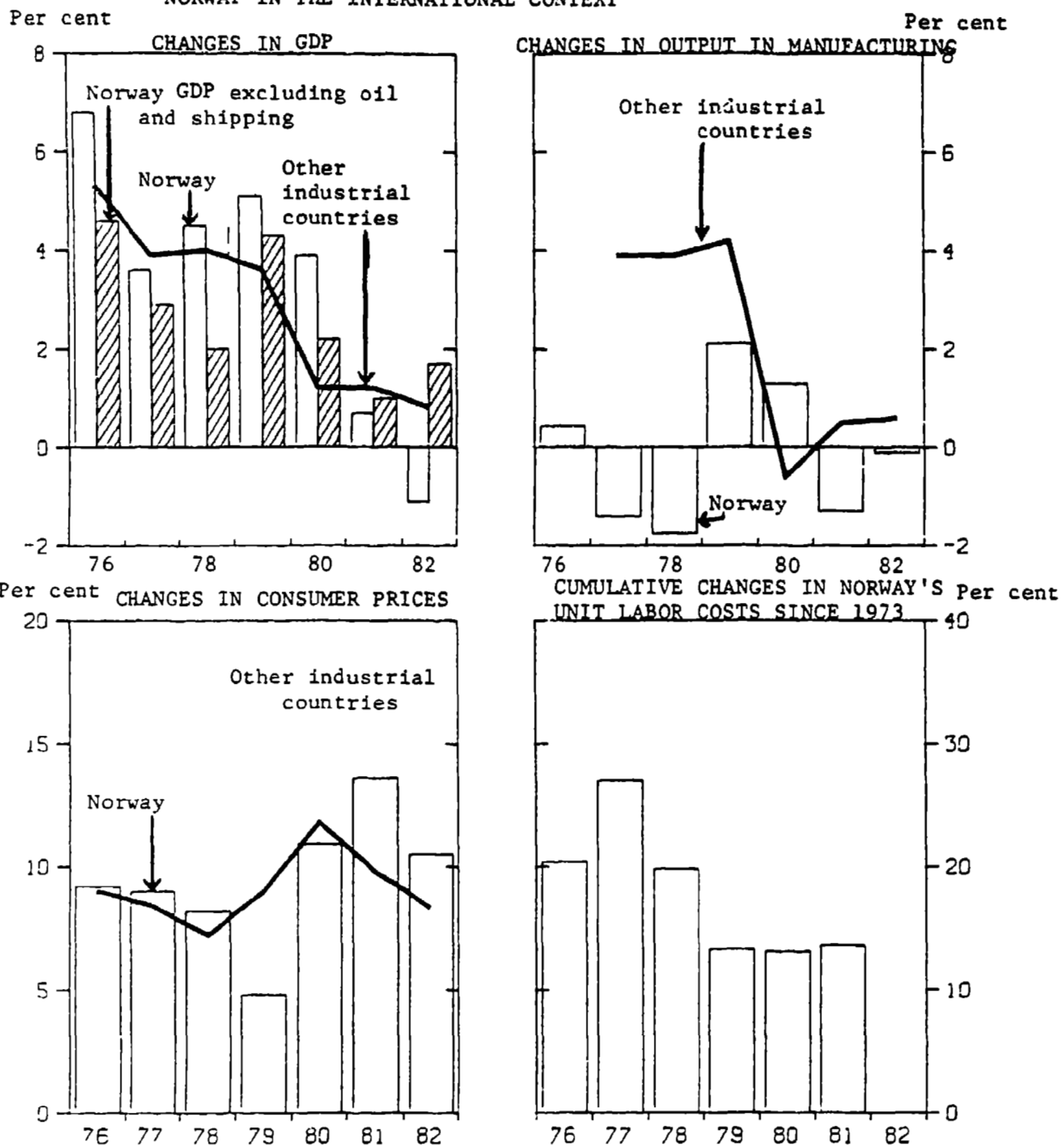
Gross fixed investment, after falling sharply in 1978 and 1979 with the completion of an important phase in offshore oil development,

1/ In 1975 prices.

CHART 1

NORWAY

NORWAY IN THE INTERNATIONAL CONTEXT



Sources. Ministry of Finance, National Budget; Central Bureau of Statistics, Monthly Bulletin of Statistics; and IMF, Data Fund.

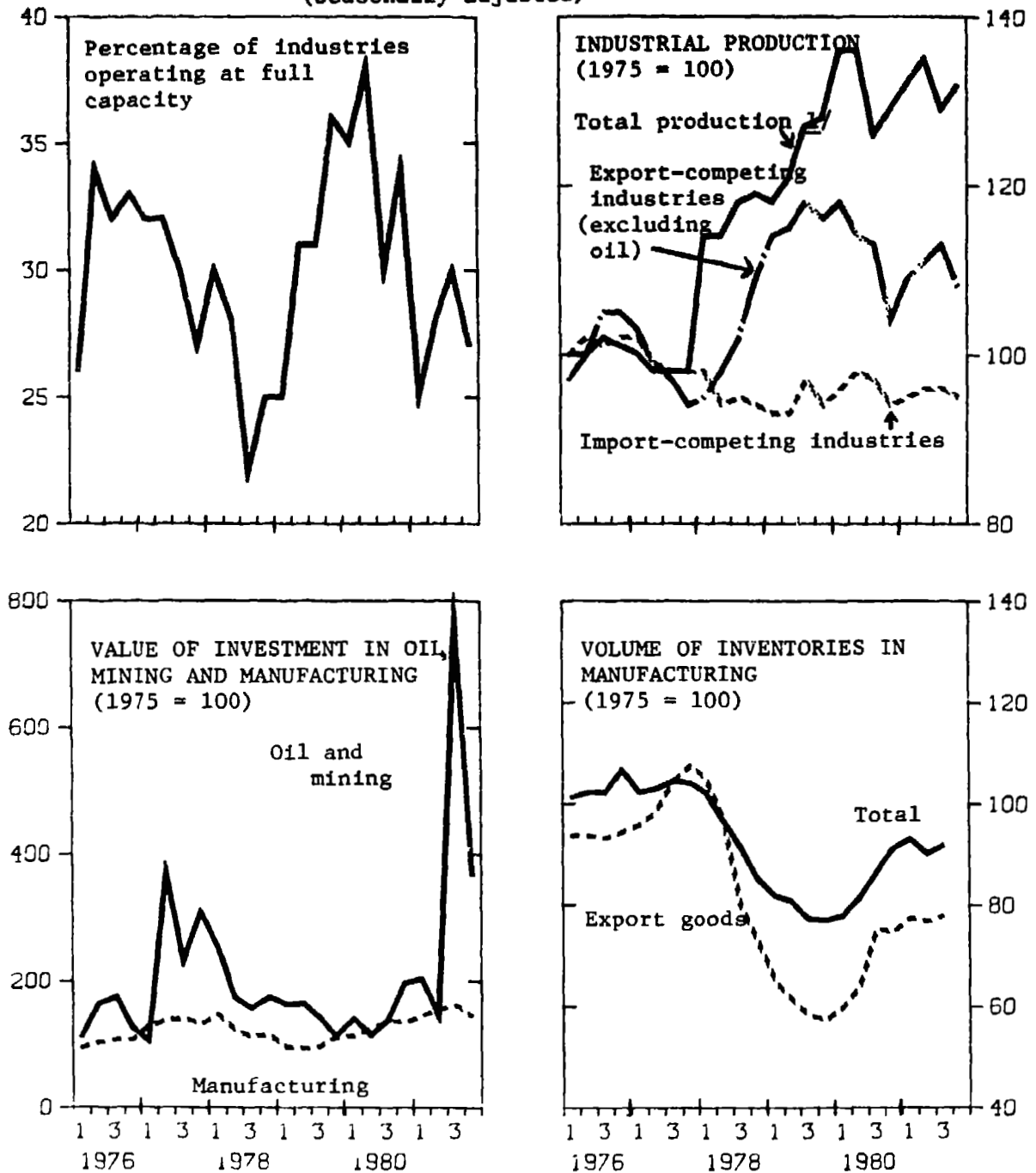
1/ Excluding oil.

2/ Relative unit labor costs in manufacturing, adjusted for effective exchange rate changes.

CHART 2

NORWAY

INDICATORS OF INDUSTRIAL ACTIVITY
(Seasonally adjusted)



Sources: Central Bureau of Statistics, Konjunkturtendensene, and Statistisk Månedshäfte; IMF, Data Fund; and staff estimates.

1/ Including oil.

declined by about 1 per cent in 1980. There was an increase in investment (though from a low level) in a few traditional export industries whose profit position improved in 1979-80. The contribution of fixed investment to GDP growth was negligible in 1980 compared with the effect of inventory shifts, but due to the recording of oil platforms under inventories in 1980 and under investment (upon their completion) in 1981, the oil sector investment in fact boosted demand and activity in both years. The value of investment in shipping ^{1/} declined by 22 per cent due to a reduction in the deliveries of new ships and despite a large drop in sales of used ships abroad. ^{2/} In 1980, the size of the merchant fleet, measured in gross tonnage, continued its downward trend for the fourth consecutive year, though at a more moderate rate than previously. However, laid-up tonnage ceased to fall and new tonnage contracted at foreign shipyards rose for the second consecutive year. Fixed investment in the oil sector fell further by about 19 per cent, mainly because of the postponement of some planned investment in the Ekofisk field until 1981. Investment in housing remained unchanged (compared to a large average growth rate in the 1970s) despite the fall in housing starts from 40,000 units in 1979 to about 36,000 units in 1980.

In 1981, gross fixed investment increased by about 17 per cent, with the oil, manufacturing, and shipping sectors accounting for most of the increase. Investment in the oil sector increased by 157 per cent due to the delivery of the Statfjord B platform, and increased investment in the Ekofisk field (Chart 2). Investment in the shipping sector increased by 49 per cent as a result of a sharp increase in deliveries of new ships from Norwegian and foreign yards and an unchanged volume of sales of used ships. Investment in mining and manufacturing, after rising by 7.2 per cent in 1980, increased by 11.9 per cent in 1981 (Chart 3). Investment increased considerably in the export sector (especially in the nonferrous metal industry), and in the import-competing engineering sector. By contrast investment in the woodprocessing industry fell after the completion of the new plant at Nye Tofte. Investment in consumption-oriented industries decreased, especially in the import-competing clothing and textile industries. Investment in the agricultural sector, after rising by 13 per cent in 1980, increased by another 7 per cent in 1981. Investment in the power sector increased by 6 per cent following near stagnation in 1979-80. Housing starts amounted to 36,000 units, about the same level as in 1980. Investment in housing is estimated to have increased by 1 per cent.

^{1/} Purchases of ships less sales of used ships at current prices.

^{2/} In constant prices there was a rise in shipping investment but this was due to differential movements between the deflators for new ships and those for used ships; the estimates at constant prices are therefore difficult to appraise.

In 1982, gross fixed investment is expected to fall by 1 per cent. Following the delivery of the Statfjord B oil platform in 1981, investment in the oil and gas sector is projected to decrease by 11 per cent. Investment in the traditional mining and manufacturing industry is predicted to fall also by 10 per cent, following the completion of some large projects. Investment in the shipping sector is forecast to increase by 18 per cent. Investment in housing is expected to increase by 3 per cent. Housing starts are estimated to remain about unchanged.

d. Public sector demand

The volume of general government demand (excluding public enterprises) continued to rise by 4 per cent in 1980. The slower rate of growth registered since 1979 constitutes a significant departure from the pattern of large annual increases in most years in the postwar period (Table 4). The ratio of total general government demand to GDP, in current prices, fell to 23 per cent (28 per cent including public enterprises) in 1980. Public consumption grew by 5 per cent, a somewhat faster rate than in the preceding year and more than real GDP. As in 1979, the growth in local government consumption was higher than held desirable by the Central Government. The growth in central government consumption increased to about 6 per cent. Fixed investment expenditures of the general government increased by 2.5 per cent, after falling by 7.4 per cent in the previous year. Investment of the Central Government showed an upturn, increasing by 6 per cent in 1980, but investment by the local governments increased by only 1 per cent.

In 1981 the growth in the volume of general government final demand slowed to 2.5 per cent. Public consumption increased at the same rate as in 1980 and again much faster than real GDP. The growth in central government consumption accelerated further to about 8 per cent due to military expenditure. The rate of increase in consumption of the local governments decelerated to about 2 per cent, the lowest rate in many years. General government fixed investment declined by 9 per cent, with the local authorities accounting for the total decline.

In 1982 general government final demand is forecast to increase by almost 2 per cent, with the consumption and investment components following the diverging trend observed since 1979. Public consumption is forecast to increase by 3 per cent while general government fixed investment is predicted to fall by 6 per cent.

e. External balance

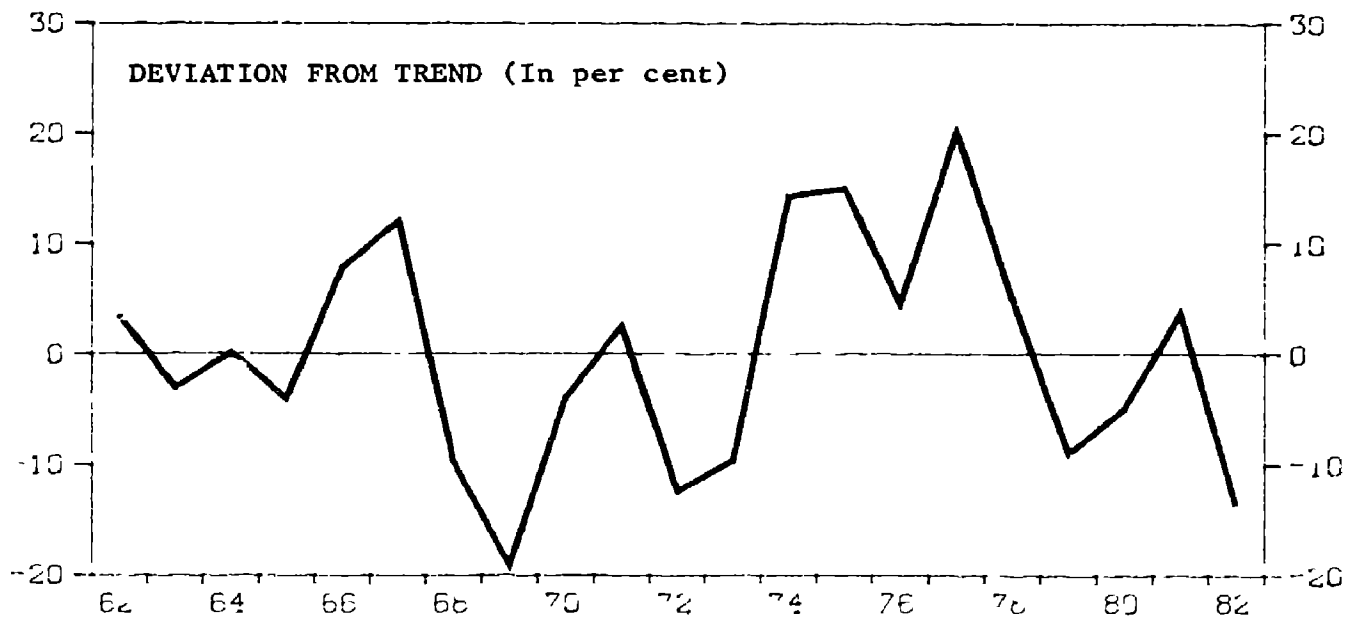
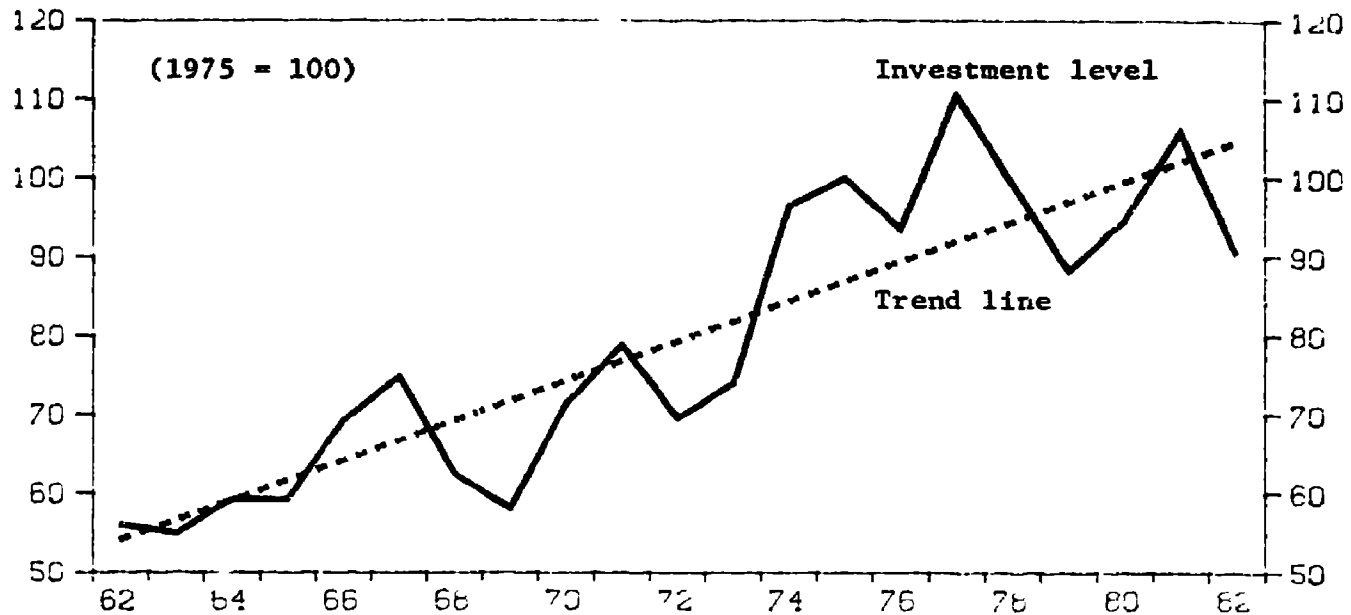
The real external balance on goods and services account deteriorated slightly in 1980, imparting a negative impact on GDP of 0.5 percentage point compared to its positive contributions to GDP of 1 1/2 percentage

CHART 5

NORWAY

GROSS FIXED INVESTMENT IN INDUSTRY

(1975 = 100)



Source: Central Bureau of Statistics, National Accounts; data provided by the Norwegian authorities; and staff estimates.

points in 1979 and 10 1/2 percentage points in 1978 (Table 2). The volume of exports of goods and services grew slowly (2 per cent) in 1980 (Table 1), with a drop in exports of used ships and oil platforms, little change in traditional merchandise exports, and rapid growth in oil and gas exports. On the other hand, the volume of imports of goods and services showed an increase of 4 per cent, mainly because of an increase of 9 per cent in merchandise imports and despite a decline in imports of oil equipment and ships.

In 1981, the real foreign balance remained almost unchanged. The volume of exports of goods and services increased by 1 per cent as exports of oil and natural gas and new ships and platforms declined; other merchandise exports and exports of used ships and platforms increased. The volume of imports of goods and services increased by 2 per cent, due partly to a sharp upturn of imports of ships.

For 1982, a deterioration of the real foreign balance is expected to exert a negative effect on GDP of over 3 percentage points. The volume of exports of goods and services is expected to decline by 2 per cent, with oil and natural gas exports continuing to fall and traditional merchandise exports continuing to grow slowly. The volume of imports of goods and services is expected to increase by 6 per cent, with the growth of imports of ships and oil platforms accounting for one fourth of the increase. Merchandise imports are forecast to show a modest recovery.

2. Production and employment

In 1980 the growth of real GDP was 3.9 per cent, about 1 percentage point less than in the 1970s. Excluding the oil and shipping sectors, economic growth was only 2.2 per cent or 1 1/2 percentage points less than in the 1970s. Production in the traditional exposed sector (excluding the oil sector) levelled out. Production in the traditional export sector grew by 2 per cent, while production in the import-competing sector declined somewhat as a reflection of continued poor productivity performance and structural problems in some branches, particularly shipbuilding (Table 5). The growth of output in the sheltered sector, which accounts for two thirds of aggregate output, slowed down to 2 1/2 per cent reflecting partly slower increases in private consumption and civilian public consumption. Overall employment continued to increase in 1980 (Table 9). The demand for labor, which had been strong in 1979 and during the first half of 1980, eased during the second half of 1980. The number of registered unemployed began to grow in that period, but the unemployment rate ^{1/} stayed low at 1.7 per cent for 1980 as a whole, while the percentage of persons in the labor force covered by labor market measures continued to edge up slightly to 0.8 per cent. The overall growth in labor productivity slowed to 2 per cent, as the productivity growth of both the traditional exposed sector and the sheltered sector became very weak (Table 10).

^{1/} According to labor market surveys.

In 1981 the real growth of GDP almost ceased, as production in the oil sector fell, and the growth of production excluding the shipping and oil sectors slowed down to 1 per cent. The growth of output in the sheltered sector was less than 1 1/2 per cent, while output in the traditional exposed sector fell slightly. Within the latter sector, the export-competing sector stayed stagnant in the year-on-year level, but export production started to grow again in the latter part of 1981. Within the import-competing sector output of investment goods gained from the increased investment activity in the North Sea oil sector, while production of consumer goods grew only slowly as a result of the weak growth in private consumption. The growth in employment decelerated, and the average unemployment rate rose to 2.0 per cent. Employment continued to grow in the sheltered sector, albeit at a clearly slower pace than in preceding years, while it declined in the exposed sector. During the first nine months of the year 0.8 per cent of the labor force was affected by labor market measures. Productivity growth continued to show weak development in the exposed and sheltered sectors and to decline in the oil sector.

For 1982 real GDP is forecast to fall with a reduction in the value added of the oil and gas sector. ^{1/} An upturn in foreign demand in the second half is expected to stimulate to a modest extent traditional export production and shipping, while only a small increase is forecast to take place in import-competing production. The rate of growth of real GDP excluding the oil and shipping sectors is estimated to increase marginally to less than 2 per cent. Overall productivity is forecast to fall because of a decline in oil output and small productivity gains in sectors other than oil and shipping. Total employment is estimated to increase somewhat, and because of regional and occupational rigidities, some tightening in the labor market is likely to occur in the course of 1982.

a. Industrial production

Value added at constant prices in mining and manufacturing (excluding oil and power) increased by 1 per cent in 1980, but fell by more than 1 per cent in 1981 (Table 5 and Chart 2). Total industrial production stayed below the 1974 level. Production in export industry and in industry sheltered from international competition exceeded in 1981 the 1974 level, while production in import-competing industry was lower than in 1974. The poor performance of the latter was due partly to competitiveness problems but partly it can be explained by the decline in demand for products of certain branches,

^{1/} For forecasting purposes a 15 per cent downward adjustment in the value of production and exports of the oil sector has been made in 1982. This adjustment is made because of uncertainties related to production, price, and exchange rate developments. In practice this adjustment is reflected in the volume projections.

particularly shipbuilding. On the other hand, the shipyards and engineering generally reoriented themselves and were able to benefit from the increased demand for oil rigs and other equipment by the offshore oil and gas sector. Production of investment goods increased by 2 per cent in 1980 and by 1 per cent in 1981 after declines in the two preceding years (Table 6), reflecting increased investment activity in manufacturing. Production of consumption goods increased by less than 1 per cent in both years due to weak growth of demand and losses in home market shares. Output of export goods, after increasing by less than 1 per cent in 1980, fell at about the same rate in 1981. The monthly index for industrial production (seasonally adjusted) showed an increase until end-summer 1980, declined in the remainder of the year and picked up again during the first nine months of 1981. Forecasts for 1982 point to a small increase (1 per cent) in the production volume in mining and manufacturing. Export production is expected to grow, while production in import-competing industry and the sheltered industry is expected to stagnate.

Production in traditional mining decreased by 2 per cent in 1981 after a decline of the same order in 1980 (Table 6). Production of coal recovered strongly from 1980, but production of metal ore declined. This reflected the decline in output of iron and steel and ferro-alloys (9 per cent), which in turn was influenced partly by declining exports, and partly by reducing stocks. Nonferrous metal production declined somewhat, after a 2 per cent growth in 1980, as export growth was facilitated by reducing stocks.

Output in the engineering industry (accounting for 27 per cent of mining and manufacturing production), after declining for many years, increased by 3 per cent in 1980 and 1 per cent in 1981, in response to the growth in exports of machinery as well as in industrial investment. Output of transport equipment stagnated in 1981 after a 1 per cent decline in 1980. The ship-building industry, which has experienced a prolonged period of underutilization of capacity (because of worldwide overcapacity and competition from countries with lower wage and raw material costs), is shifting toward more specialized ships requiring high technology (e.g., like liquified natural gas and specialized dry cargo carriers) and equipment needed in oil drilling and production activities on the North Sea continental shelf.

Output in most other branches of manufacturing declined in 1981 after small changes in 1980. Output of pulp and paper increased and that of chemicals and woodprocessing products declined. Output of textiles, clothing, and shoes declined by 5 1/2 per cent after a brief period of slow growth (1 per cent) in 1980. Food processing stayed at the 1980 level and printing and publishing fell by 1 per cent. Production of hydroenergy increased by 10 per cent in 1981 after a decline by 6 per cent in 1980.

b. The oil and gas sector

Real value added by the oil and gas sectors increased by 23 per cent in 1980 (Table 5). The sector's contribution to the real growth of GDP was 2 percentage points in 1980. Oil and gas production increased to 50.5 million tons of oil equivalent (t.o.e.) in 1980, up from 40.4 million tons in 1979 (Table 7). Of this, crude oil production was 24.4 million tons.

In 1981 a 1 1/2 per cent reduction occurred in the real value added by the oil and gas sector, reflecting a slight unexpected decline in output of oil and gas to 49.1 million tons of oil equivalent. The decline of production in the important Ekofisk area was steeper (about 24 per cent) than earlier expected. This decline was not fully offset by increased production in the Statfjord, Murchison, and Frigg fields. The real value added of the oil and gas sector is predicted to decline by 12 per cent in 1982.

The proven recoverable reserves in fields now in operation or covered by production decisions are about 1.1 billion t.o.e., according to official April 1981 estimates. Of this, about 0.2 billion t.o.e. had been produced by end-1981. Proven recoverable reserves, on which production decisions have not yet been made, are estimated at 1.3 billion t.o.e. In addition, it is estimated that in areas south of the 62nd parallel there are additional recoverable reserves of 2.3 billion tons. The combined amount of proven recoverable reserves corresponds to about 1 per cent of recoverable world reserves. Together with reserves north of the 62nd parallel, about which there are so far no quantitative estimates, it is believed that production can continue on a significant scale until the mid-21st century or later. A level of annual production of 90 million t.o.e., originally expected to be reached by 1990, was set in 1974 to illustrate a modest potential rate of annual production. This level was still held as suitable in the long-term program published in the spring of 1981, when it was projected that annual production might reach 75-80 million t.o.e. by the mid-1990s. A government-appointed committee will help formulate a strategy for oil and gas development, including the rate of production.

The Norwegian policies concerning development of oil and gas activities on the continental shelf aim at maintaining control over the pace of exploration; the regions where exploration takes place; the companies which are given rights to explore and/or produce; and the terms and conditions for firms during exploration and exploitation. The stateowned Statoil can obtain a participation share of up to 80 per cent in production, and together with Norwegian companies Saga Petroleum (private) and Norsk Hydro (partly state-owned), domestic firms can have a share of up to 90 per cent. ^{1/} At the same time,

^{1/} Production licences to block 34/10 were given totally to these Norwegian firms, the share of Statoil being set at 85 per cent.

cooperation with foreign companies is seen as an important factor, especially from a technological point of view. The Government will secure full control over the development of new production fields and will also present a unified plan for prospecting along the whole continental shelf, including a gradual increase in exploration activities in the north.

c. Energy policy

In terms of both current utilization and future potential, Norway's natural endowment of energy resources is exceptionally plentiful; on a per capita basis it is among the highest in the world. Among industrial countries only Canada can be compared with the energy advantage possessed by Norway. The most important energy sources are hydroelectric power, and since the early 1970s, rapidly increasing amounts of crude oil and natural gas from the North sea continental shelf. In 1979 the total amount of energy delivered to domestic final consumers, defined as the thermal content of energy, was equivalent to about 15 million t.o.e., 1/ of which 49 per cent was based on petroleum products, 43 per cent on electricity (hydroelectric power) and 8 per cent on other sources (mainly coal and wood). The manufacturing industry, including mining, accounted for 41 per cent of the total consumption, transportation for 19 per cent, and other users for the remaining 40 per cent. During the 1970s the share of hydroelectric power of the total supply increased, while the shares of petroleum products and other sources declined. On the demand side, the share of manufacturing industry declined, while the relative shares of transportation and other uses increased.

The average annual growth rate of electricity production (almost all hydro) delivered to final consumers was 4.4 per cent in 1970-79, while the corresponding growth rate for the total energy use was 2.8 per cent. The manufacturing industry, including mining, still used more than half (53 per cent) of all electricity in 1979, although its share has been declining. 2/ Of this, the energy-intensive industries (industrial chemicals, iron and steel, ferro-alloys, primary aluminum, and other nonferrous metals) and paper and paper products took up four fifths. 3/

Exports and imports of electricity have been small. Net exports of electricity were 5 per cent of total electricity production in 1979. The cooperation takes place mainly with Denmark and Sweden. In March 1981 a bilateral agreement between Sweden and Norway was signed, providing an option for annual deliveries of up to 2 Twh 4/

1/ Net of consumption by energy-producing industries, consumption for nonenergy uses, and losses in distribution and transport.

2/ For instance in 1974, i.s share was near 60 per cent.

3/ The share of energy-intensive manufacturing and manufacturing of paper and paper products was 18 per cent of Norway's total energy consumption in 1979.

4/ 1 Twh (terrawatt-hour) = 1 billion kilowatt-hours.

electricity (over a 10-year period) from Sweden to Norway and 2 million tons Norwegian oil to Sweden, with market prices applying in both cases. The oil delivery agreement runs for 20 years. The present technical facilities make it possible to export up to 11 Twh annually to Sweden or import 7 Twh from there, while in Denmark the facilities allow a 4 Twh export or import. By comparison, the total electricity production in Norway was 89 Twh in 1979.

The consumption of petroleum products grew at a slower rate than the total energy consumption or by 1.7 per cent annually in the period 1970-79. There are four oil refineries in Norway with a total capacity of 12.5 million tons annually, or about 45 per cent more than domestic consumption. In spite of domestic production and exports of crude oil and petroleum products, both crude and petroleum products are imported for technical and commercial reasons. The increasing use of North Sea oil in refineries has led to a declining trend in crude oil imports in recent years. Norway has been a net oil exporter since 1976. ^{1/}

The energy policies call for further increases in both oil, gas, and hydropower production. (For oil production, see Section 2. b. above.) Of the estimated total hydropower potential of 172 Twh during an average year, about 90 Twh have already been harnessed and 12 Twh are under construction. The Government considers a mean annual hydropower production of 125 Twh as reasonable illustration of a moderate level compatible with environmental considerations. This level is expected to be reached by the end of this century.

Prices of oil and oil products are kept in line with world market prices. This principle covers also all agreements concerning energy-related cooperation with other industrial countries. Similarly, it covers also the pricing of that part of Norwegian oil and gas which is used as input in Norwegian refineries or other industries.

In principle a policy has been adopted of pricing electricity for general consumption so as to cover the long-term marginal costs of new hydropower-generating capacity and distribution network. The real price of electricity has been raised by an estimated 3.1 per cent per annum from 1979 to 1982 and it will be increased by the same annual rate in order to achieve this aim by 1985. The Government has not raised the real price of electricity of firms with long-term contracts for electricity supply concluded prior to 1976 and has not imposed special taxes on industrial firms having their own hydroelectric power resources. The Government does not expect new energy-intensive industries to be built, but the existing ones will be allowed to modernize and increase their productivity.

Energy conservation is encouraged primarily through the price mechanism. In spite of the abundance of energy resources in Norway

^{1/} In value terms. In terms of physical quantities, Norway became a net exporter in 1975.

investment in energy saving is considered economically justified as long as the costs involved are smaller than costs of the construction of additional hydropower capacity or, in the case of oil, alternative income from additional exports.

d. The shipping sector

Value added in the shipping sector increased somewhat in 1980 and 1981. Norwegian shipping is highly dependent on the development of world trade, because of its size (5.2 per cent of world tonnage) ^{1/} and because of the large share of its tonnage (about 90 per cent) employed in trade between foreign ports. The freight rates for dry cargo ships continued to rise in 1980, but turned downward in 1981. The freight rates for large tankers remained very low in both years. However, in 1981 shipping benefited from the strengthening of the U.S. dollar, because contracts are mostly denominated in U.S. dollars. A higher growth rate for shipping is forecast for 1982 in line with the assumed revival of world trade.

The total tonnage of the merchant fleet declined by 2 per cent in 1980 and increased by 3 per cent in 1981 (Table 8). At the end of 1981 the total merchant fleet was 21.7 million gross registered tons, of which more than 60 per cent were tankers. The laid-up Norwegian tonnage remained low (3 per cent of the fleet) at end-1980 but increased to more than 12 per cent by end-1981. Most laid-up ships were tankers idled by a decline in world oil trade. In addition, there was unused capacity in the form of reduced speeds, reducing the size of the active fleet. With the improved financial prospects for shipping, orders for new ships from Norwegian and foreign yards rose in 1981, reversing the downward trend of investment in shipping in previous years. As many of the new ships to be delivered in the next few years are small expensive vessels, the size of the merchant fleet is not likely to expand substantially.

Since 1975 by the Norwegian Guarantee Institute for Ships and Drilling Vessels has provided guarantees for new loans to Norwegian shipowners, to cover interest on existing loans, to finance the purchase of ships, or to pay cancellation fees on contracts for new ships. The ceiling on total guarantees is Nkr 4 billion. In 1980 Nkr 0.8 billion was paid as guarantees. The Government intends to phase out the activities of the Institute, but the timing has not yet been fixed.

e. Other production

The growth in nonindustrial output ^{2/} decelerated to 3 per cent in 1980 and further to 1 per cent in 1981. Services excluding

^{1/} At end-June 1980.

^{2/} Sectors other than industry, oil, gas, and shipping.

shipping, which accounted for about half of GDP in 1980, grew by 3 per cent in 1980 and by 1 per cent in 1981. The deceleration mainly took place in private services and reflected a slower growth in private consumption. Value added in construction increased by 3 per cent in 1980 and 1 1/2 per cent in 1981. The combined output in agriculture, forestry and fishing, which accounted for 4.5 per cent of GDP in 1980, grew by 4 per cent in 1980 and 5 per cent in 1981 (Table 5). Forecasts for 1982 are for limited growth of total services output because of small growth in private consumption and efforts to curb the increase in public consumption. Construction activity is expected to grow by less than 1 per cent, while output in agriculture, forestry and fishing is forecast to decline somewhat. As a result, the growth rate of total nonindustrial output is estimated to stay low.

f. Labor market and productivity

The tightening of the labor market continued in the first half of 1980. The labor market tightness indicator ^{1/} remained high in the first half of 1980, but declined in the second half of 1980 and the first half of 1981. The rate of registered unemployment (which is about 0.6 percentage point less than the unemployment rate according to the labor market survey) was 1.1 per cent of the labor force in 1980 as a whole, but rose to 1.5 per cent in 1981 (Table 9 and Chart 4). The labor force rose by 1.9 per cent in 1980 and 1.3 per cent in 1981. The number of women seeking work increased by more than 3 and 2 per cent, respectively. Due to an increase in part-time jobs, the number of employed persons rose faster (2.2 per cent in 1980 and 1 per cent in 1981) than employment measured in man-years. The latter rose by 1.7 per cent in 1980 and by 0.4 per cent in 1981. Employment in terms of man-years in mining and manufacturing continued to decline in both years while employment in the private and public service sectors increased. No change was registered for the shipping and oil sectors in 1981, after some growth in 1980. The number of persons covered by labor market measures continued to rise slightly, and was 0.8 per cent of the labor force in 1980 and in the first nine months of 1981.

In 1982 employment is forecast to increase somewhat faster than in 1981; a little less than 1 per cent in terms of man-years and a little more than 1 per cent in terms of number of persons. Because a moderate upturn is forecast in industrial production, the decline in employment in this sector is expected to bottom out in 1982, and--because some increase in demand for highly qualified labor is envisaged in the course of 1982--some tightening in the labor market might appear some time during the year. The average registered unemployment rate in 1982 is forecast to stay at 1.5 per cent.

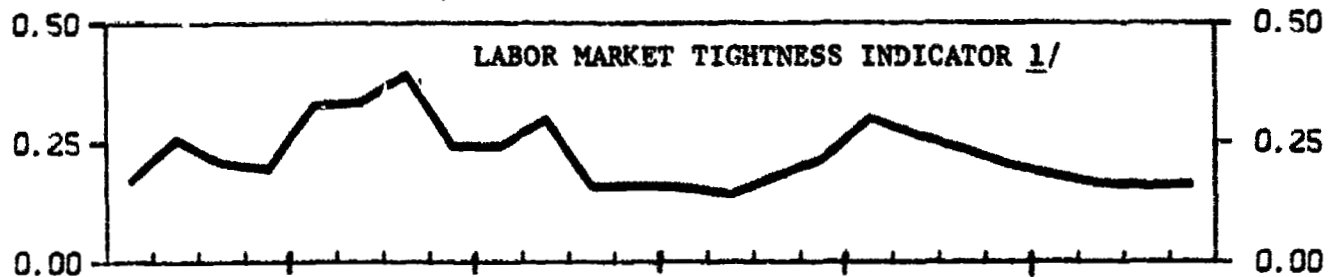
^{1/} The ratio of vacancies to unemployed.

CHART 4

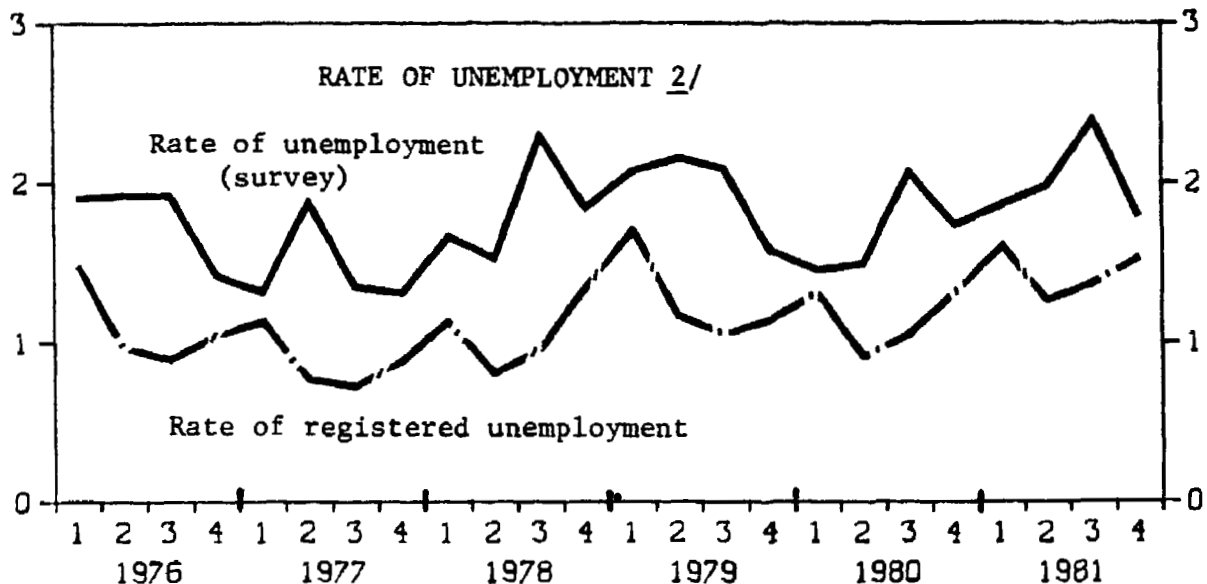
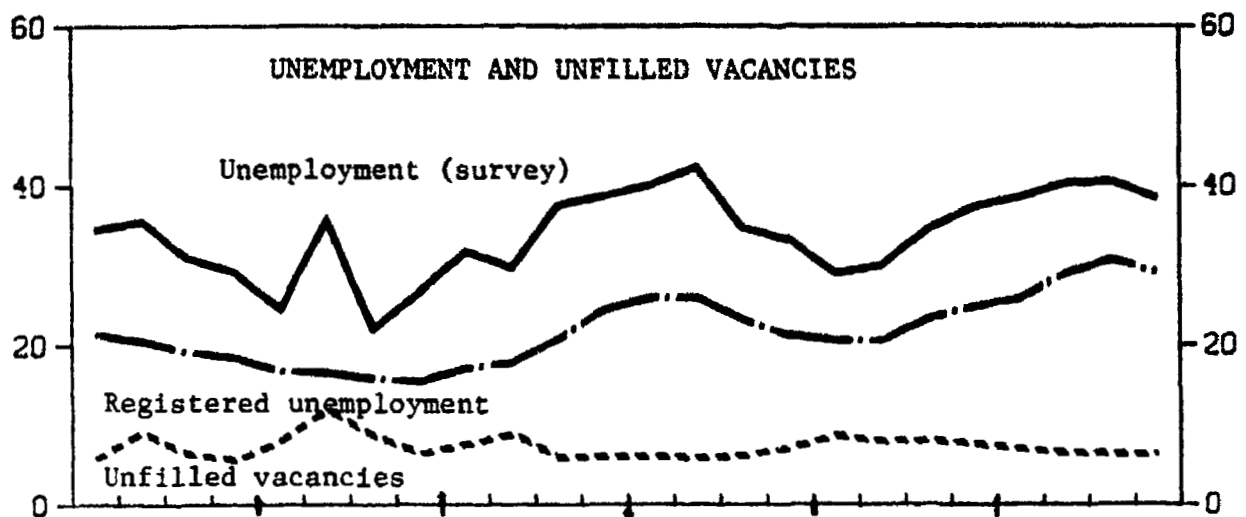
NORWAY

LABOR MARKET INDICATORS
(Seasonally adjusted)

Per cent



Thousands



Sources: Central Bureau of Statistics, Statistisk Ukehefte;
IMF, Data Fund; and Norges Bank, Economic Bulletin.

1/ Ratio of vacancies to registered unemployed.

2/ Unadjusted data.

Overall productivity, measured as GDP per man-year, increased by 2 per cent in 1980, declining in construction, power, shipping, and in the oil sector (Table 10). In 1981 overall productivity almost stagnated. In mining and manufacturing productivity growth decelerated in both years, to only 1/2 per cent in 1981. Productivity growth in the exposed sector increased marginally in 1981, while productivity gains in the sheltered sector remained low, 1/2 per cent in both years. Forecast for 1982 shows a negative overall productivity change because of a further considerable decline in the oil sector. ^{1/} Small gains are forecast for other branches of production. The forecast productivity growth for the exposed sector will remain low.

3. Industrial and labor market policies

Industrial and labor market policies were greatly expanded in 1976-77 with the primary objective of maintaining employment. The support measures helped attain their objective but the effects on labor productivity, mobility, and structural adjustment appear to have been adverse. Since 1977, emphasis was shifted to measures aimed at improving competitiveness and short-term financial support was to be withdrawn gradually.

In fact, industrial support in nominal terms as defined in Table 11, has fluctuated in 1977-80 on a relatively high level. For 1981, NKr 3.0 billion (1.1 per cent of GDP) was budgeted. However, the steep nominal increase in 1981 did not make up for the fall in real terms since 1977. In 1982, total assistance to industry is projected to fall sharply to NKr 2.2 billion. The new Government has advocated a gradual withdrawal of financial support to ailing firms. About 70 per cent of the support is spent for loans and grants, with capital participations accounting for the rest. Branches which in recent years have benefited most from official industrial support include shipbuilding, textile, and iron and steel. Of the total amount of support extended in 1977-81, about 30 per cent was granted to shipbuilding which shifted from large tankers toward construction and furnishing of drilling and production platforms and of ships required for the oil and gas operations in the North Sea. The branch is estimated to have a stimulating effect on technology in engineering generally.

In 1980-81, a series of measures has been taken to encourage entrepreneurial investment. Investment tax rates have been reduced in 1981. Amortization rules for tax purposes have been liberalized and additional provisions have been made for tax-free investment reserves, set aside from profits. The valuation (for property tax purposes) of shares not quoted at the stock exchange has been made more favorable to the investor and the taxation of ownership transfer for succession in medium and small firms has been eased. The monetary authorities have asked banks to give more scope and higher priority to the financing of

^{1/} See footnote 1 on p. 6.

industrial investment which has also benefited from the liberalization of the bond market in October 1980 (see Section III. below). In the first half of 1982, a productivity campaign has been launched with a view to improving competitiveness. The Government also plans to alter or remove administrative regulations hampering competition particularly in the sheltered sector) and productivity growth.

The support policies for agriculture and fisheries arise from regional employment considerations and considerations of securing a stable food supply. The arrangements are multipronged and it is difficult to net out the cost to the public sector. There are also costs in the form of poor labor mobility and high food prices. The main form of support is not direct subsidization but a system of tariffs, trade regulations, price controls linked to incomes policy, and special credit facilities, which taken together amount to a fairly comprehensive protection against import competition.

Apart from the support policies described above, the full employment objective is pursued also by active labor market policies. Since large-scale unemployment problems have not been encountered in the post-war period, labor market measures have been developed to facilitate entry and vocational mobility of the labor supply. The arrangements are flexible and, should open unemployment increase, labor market facilities such as vocational training for young persons, retraining in response to structural and regional shifts in the demand for labor, and official contributions to the financing of unemployment insurance benefits would be expanded according to need.

Although the labor market as a whole has remained wellbalanced, regional imbalances have persisted over the years, with some regions in northern Norway having structural unemployment and some centers in southern Norway experiencing particularly tight labor market conditions. It is hoped that the oil activities will give a substantial impulse to the economic development of northern Norway in the long run. Recently, there have been more marked differences also in the level of economic activity across different industries and branches. Some sectors have been characterized by reduced work weeks and temporary layoffs simultaneously with shortages of highly qualified personnel, especially engineers and technicians. Persons employed under official labor market facilities accounted for 0.9 per cent of the labor force in the first half of 1981 (Table 12). The number of persons involved averaged about 15,300 in 1980 and 12,300 in the first half of 1981, with 49 per cent enrolled in retraining programs, 27 per cent in vocational training for young persons, and 20 per cent employed in public works programs.

The official labor market policy for the period ahead continues to emphasize mobility and facilitation of entry of young persons and others not previously employed. Retraining of unemployed workers will receive additional resources; the apprentice code will be modernized and expanded and internships for training purposes will be supported within the private

sector. In addition, an action plan for northern Norway was introduced in 1981 to assist the fishing sector and the associated industries to retain their significant employment role in that region.

4. Income, costs, and prices

a. Factor income and personal disposable income

Total factor income rose by nearly 21 per cent in 1980 (Table 13). The high growth rate reflected the rises in both volume and price of oil and gas production, which more than doubled the factor income in the oil sector. Excluding the oil sector, the rise in total factor income was 12 per cent. Personal income rose by more than 12 per cent. Wages increased at a somewhat slower rate. The share of wages in total factor income declined to 58 per cent or by more than 4 percentage points from the previous year. Hourly wage costs in manufacturing increased by 10 per cent (Table 14). Entrepreneurial income grew strongly due to higher revenues of the oil sector. The operating surplus in the exposed sector (excluding the oil sector) declined, with the export sector showing a steep decline, while the import-competing sector improved its result. In the export sector, the shipping sector reduced its operating deficit, while the operating surplus in export-oriented manufacturing declined. In the import-competing sector the improvement was concentrated in the investment goods industry. The profit margin of the sheltered sector grew little.

In 1981 the rate of increase in total factor income is estimated to have declined mainly because the oil sector gave a smaller contribution to the growth of profits than had been experienced during the three preceding years. The rate of growth in wages stayed at 12 per cent, but as other earned income as well as current transfers increased rapidly, personal income rose by 14 per cent. The growth of entrepreneurial income decelerated. For the export-oriented sector, 1981 was still a very weak year in terms of profitability. On the contrary, the import-competing sector as well as the sheltered sector showed sharp improvements in their operating surpluses, because remaining price regulations were removed from the beginning of 1981. The price freeze from August 1981 to the end of the year temporarily barred price mark-ups by those sectors.

Nominal personal disposable income rose by 11 1/2 per cent in 1980, a somewhat slower rate of increase than that of personal income because direct taxes increased by 15 per cent. The growth of transfer incomes was 12 per cent. Real disposable personal income, however, increased only little, again with a somewhat stronger than average growth for low wage earners and pensioners. Real disposable income of single wage earners and for salaried employees showed a continued decline.

In 1981 the growth of nominal personal disposable income accelerated to 16 1/2 per cent, because direct taxes increased only

by 6 1/2 per cent (implying a sizable real reduction in the direct tax burden) and current transfer receipts by households increased by 15 1/2 per cent. The increase in wages and salaries was about the same in 1981 as in 1980, while that in other earned income accelerated to 21 per cent. This shift of income distribution toward groups with higher propensity to save, coupled with cautious consumer attitudes arising from the slackening of economic activity, led to only a small increase in real private consumption in 1981. The personal savings ratio, which had fallen in 1980, rose somewhat in 1981. Also, in real terms, personal disposable income increased more rapidly than in 1980, despite an acceleration in consumer prices.

b. Incomes policy

The search for an official policy role in the area of incomes determination as a supplement of demand management commenced in the early 1960s with the creation of an institutional framework for discussion of incomes policy issues. Since 1967, a technical committee has regularly provided statistical reports on the recent development of incomes, wages, prices, competitiveness, etc., and an appraisal of the outlook especially for prices and incomes.

As cost and price pressures intensified also in Norway in the 1970s, the Government became a participant in various price compensation settlements: in order to promote moderate wage settlements, the Government undertook to provide certain subsidies, increase others, and to try to restrain price increases under so-called tripartite settlements.

After the end of the price-income freeze at the end of 1979 the Government announced that it was prepared to participate in the wage negotiations in early 1980. Temporary regulations, approved for the first quarter of the year, provided for strict price control and prohibited interim wage increases in that period. In April 1980 the main wage agreement was concluded by the central organizations of employers and trade unions. It was accompanied by fiscal concessions as the Government's contribution toward a moderate wage settlement, and an agricultural income settlement was approved by the Parliament shortly thereafter. The fiscal concessions consisted mainly of reductions in income taxes and increases in child allowances at a total budgetary cost of Nkr 1.4 billion or 0.5 per cent of GDP. The settlement provided for higher increases for low wage groups and an understanding that wage drift would be limited to 3 per cent. The average wage increase was to be held at slightly over 9 per cent for all wage and salary earners in 1980 compared to 1979. The agreement assumed that the average rise in consumer prices in 1980 would be 9.5 per cent.

The wage negotiations in the spring of 1981 were complicated from the outset. Wage drift in the course of 1980 had exceeded the agreed limit as a consequence of the pent-up pressures during the period of the price-income freeze and of the tight labor market.

At the beginning of 1981 the Government reduced income tax rates and increased indirect taxes. The negotiations between the main labor market partners did not result in an agreement, and mediation also failed. At the Government's initiative a compulsory settlement was decided by the State Wage Council in June 1981. The settlement was broadly in line with the agreements reached earlier for state and local employees, except that the latter agreements provided for extra compensation for slower income increases than in the private sector during the preceding contract period. Average wage increases were to be limited to 9.65 per cent from 1980 to 1981. The agreement (effective retroactively from April 1, 1981) provided for a general increase of NKr 0.74 in hourly wage rates, and additional increases of NKr 0.75 per hour for workers in firms, whose wages were less than 85 per cent of the average wage in industry and NKr 0.25 for those whose wages were between 85 and 90 per cent of the average. From October 1, 1981 a supplementary increase was paid for those persons and groups which had not reached the 85 per cent target, in accordance with the 1980 wage agreement. One half of the cost of this measure was financed by the employer and the other half by all wage and salary earners. Further, a ceiling was set for wage drift for the period April 1, 1981 to March 31, 1982. The agreement also included a semiautomatic index clause. This clause provided for the possibility of opening new wage negotiations if the consumer price index exceeded 126.5 by mid-September 1981 (1979=100).

In August 1981, the Government decided to freeze prices until the end of 1981 and to cut income taxes for the last quarter of 1981 in exchange for the labor market organizations' agreement not to activate wage negotiations on the basis of the index clause.

The outlook for wage negotiations for the period beginning April 1, 1982 is particularly uncertain. The Government, has announced that it intends to leave the negotiations to the labor market participants. The Government hopes that income tax reductions effective from the beginning of 1982 would help to achieve a moderate outcome in negotiations.

c. Wages and profits

Hourly wage costs in manufacturing increased by 10.0 per cent in 1980 (Table 14 and Chart 5). Industrial unit labor costs increased by 7 1/2 per cent in 1980, as the increase in output per man-hour slowed to 2.2 per cent. Relative unit labor costs in manufacturing (adjusted for effective exchange rate changes), which had declined by more than 5 per cent in each of the two preceding years, declined by 0.2 per cent in 1980. In 1981 the increase in wage rates in manufacturing was as high as in 1980. Unit labor costs in Norway are estimated to have risen by 10 per cent, implying a slight rise in relative unit labor costs.

The total operating surplus of the enterprise sector increased by 44 per cent in 1980. Profits of the oil sector more than doubled and accounted for almost half of the profits of the enterprise sector in 1980. The manufacturing industry suffered an 18 per cent decline in its operating surplus. The operating surplus in the import-competing sector increased, while profits in the export-oriented sector declined. The shipping sector improved its result, but it still had operating losses. In 1981 the growth rate of the operating surplus of the enterprise sector slowed down from the two preceding years, because the growth in the operating surplus of the oil sector decelerated and the deficit of the shipping sector grew.

d. Prices

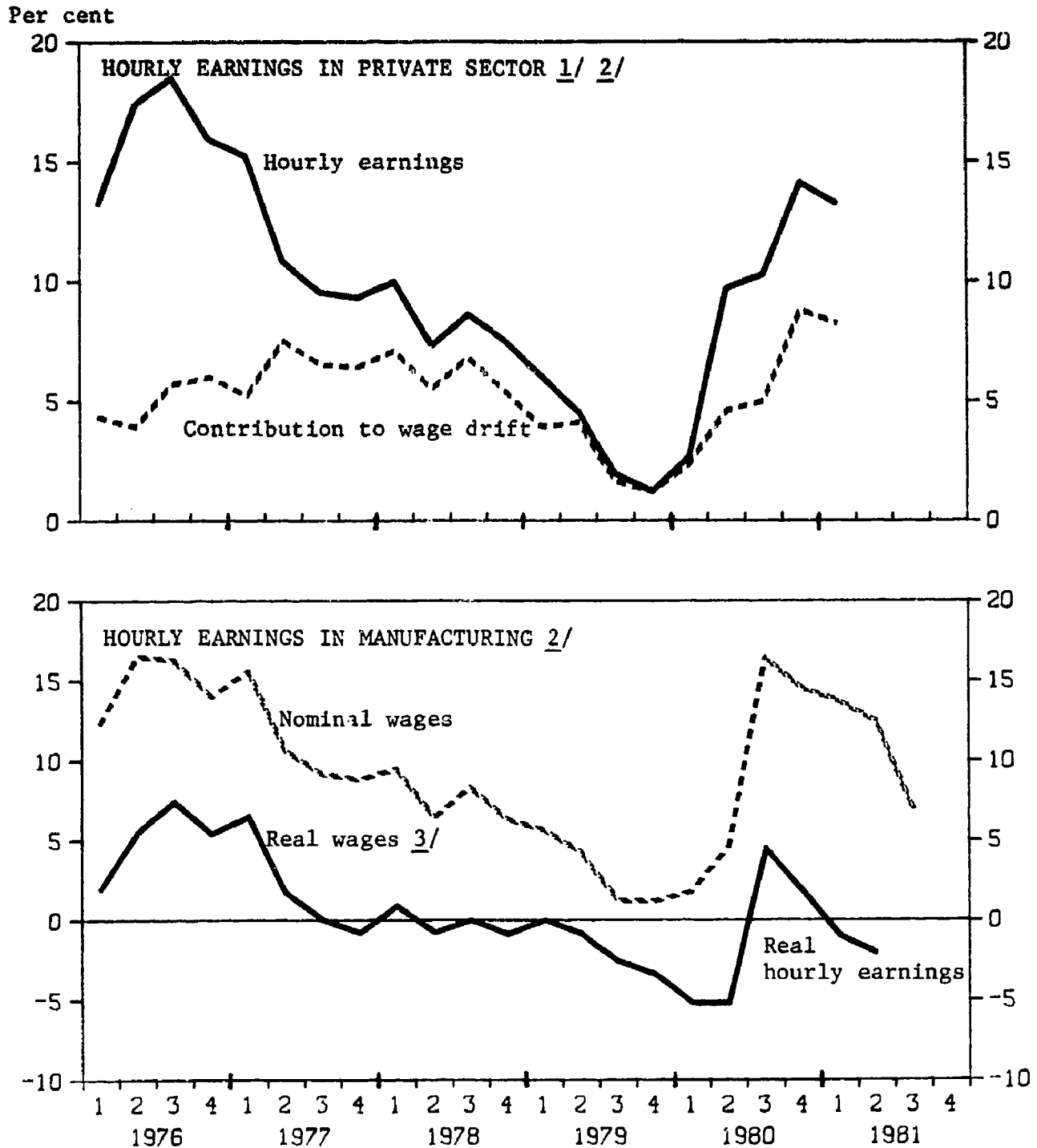
The rise in consumer prices began to accelerate after the end of the price-income freeze at the end of 1979. The average increase in consumer prices was 10.9 per cent in 1980 (Table 14 and Chart 1) slightly below the average for OECD countries. In the latter half of the year, however, the rate of increase in consumer prices in Norway exceeded that in the OECD area. Prices of imported consumer goods rose by 8 per cent in 1980, while prices of domestically produced consumer goods rose faster than consumer prices on average. In 1981 the average rate of increase in consumer prices accelerated to 13.6 per cent, of which a couple of percentage points was due to the increase in indirect taxes and the reduction in subsidies. This was above the average increase for the OECD area (10 1/2 per cent). The factors behind the acceleration of inflation in 1981 were domestic, as the rate of increase of imported consumer goods decelerated to 7.4 per cent. A price freeze was in force from August 1981 until the end of 1981. In 1982 price developments will crucially depend on domestic cost developments in addition to the overhang from 1981 and the effects of the lift of the temporary price freeze in the beginning of 1982.

The rise in wholesale prices accelerated to 14.9 per cent in 1980, but slowed down to 11.3 per cent in 1981. This development was led by 37.7 and 20.1 per cent increases in fuel prices, respectively, reflecting the rise in oil prices. Prices of raw materials also rose rapidly in 1980, but eased somewhat in 1981. The GDP deflator rose by 15.2 per cent in 1980, reflecting the sharply higher oil export prices. The estimated 15.1 per cent rise of the GDP deflator in 1981 mainly reflected domestic price developments.

CHART 5

NORWAY

WAGE DEVELOPMENTS
(Percentage change from corresponding period of previous year)



Sources: Ministry of Finance, National Budget; and Central Bureau of Statistics, Statistisk Månedshäfte.

1/ Wages in private sector firms belonging to the Norwegian Employers' Confederation.

2/ Adult men.

3/ Deflated by the consumer price index.

II. Public Finance 1/

1. Fiscal policy stance

The stance of fiscal policy was intended to be less expansionary in 1980 than in 1979 because the need to contain domestic demand pressures had increased with the lifting of the price freeze at the beginning of 1980, when economic slack was relatively low. In the event, the expansionary impact of fiscal policy, which may be measured by the public sector balance adjusted to exclude oil taxes and expressed as a percentage of GDP excluding the oil and shipping sectors ("mainland GDP"), remained large, increasing marginally between the two years. 2/ 3/ Although the increase in the volume of public nonmilitary consumption was the lowest in more than 25 years (3.5 per cent) and the volume of public investment changed little in 1980, fiscal policy failed to become less expansionary because of tax concessions to moderate wage increases, the continued commitment to full employment, and the improvement of social benefits. On the expenditure side, there was a rapid increase in transfer and interest payments. Pensioners obtained a real increase in incomes, and the growth in subsidies was resumed at a rapid rate in 1980 largely because of higher payments to the agricultural sector. There was considerable expansion of outlays on labor market policy for the second consecutive year (Table 12), but outlays on industrial policy (including lending) were curtailed somewhat in 1980 (Table 11).

1/ The National Budget is presented on a calendar year basis normally in the preceding September-October. Following previous practice, the outgoing Labor Government presented budget proposals in October 1981, and in November the incoming Conservative Government submitted revised budget proposals. Except where noted otherwise, the forecasts for 1981 and 1982 are based on the National Budget presented in October 1981.

2/ The direct impact of fiscal policy on the demand for domestic output could be assessed on the basis of the concept of the domestic budget balance, which is preferable to that of the conventional total budget balance as a summary indicator. It excludes revenue from abroad and outlays abroad (including government imports, payment of interest on foreign debt, and transfers abroad), since they have virtually no direct impact on domestic production. However, since estimates of the domestic budget deficit are not available, the deficit excluding oil sector tax revenue is taken as a first approximation of the domestic impact of the deficit. The share of oil output and income accruing to domestic oil companies is still small. Moreover, changes in taxation of these companies probably have small effects on domestic demand.

3/ This adjusted financial balance in relation to GDP is shown in Table 15 and Chart 6. It deteriorated each year in the period 1973-78 by 1-3 percentage points, from a surplus of about 4 per cent in 1973 to a deficit of 5.2 per cent in 1978.

Despite the tax concessions associated with the 1980 income settlements, nonoil tax revenue accelerated for both direct and indirect taxes as social security contribution rates were raised for employers and wage earners, and indirect taxes on energy were raised. The growth in nonoil tax revenue relative to mainland GDP was matched by the growth in transfers to the private sector, so that the net tax burden of mainland Norway remained unchanged in 1980 at 25.3 per cent after having fallen each year from 1973 to 1979 (Table 15 and Chart 6).

The stance of fiscal policy became somewhat more expansionary in 1981; the adjusted public sector deficit is estimated to have risen to the equivalent of 6.6 per cent of mainland GDP, compared with 5.8 per cent in 1980. The revenue loss from income tax cuts for the fourth quarter (which were decided in conjunction with the August-December 1981 price freeze in order to obviate new wage negotiations) and other shortfalls of nonoil tax revenue were offset by higher than expected nontax revenue. Most of the weakening of the budget was associated with the changes in taxation which were introduced in early 1981 as part of a major tax reform (see Appendix). These had the effect of shifting taxation of the household sector from direct taxes to indirect taxes as well as reducing the overall tax burden. Income taxation was lowered through a reduction of marginal tax rates, a widening of tax brackets, increases in the basic deduction for local income taxes, increased tax deductions for families with children, and higher limits on saving with tax advantages. The shift toward greater indirect taxation was achieved through substantial increases in excise taxes and reductions in compensation for the value-added tax on food and in other consumer subsidies. The tax reform explained largely the drop in the net tax burden on mainland Norway to 23.7 per cent of mainland GDP. Outlays on both labor market and industrial policy are estimated to have risen substantially in nominal and real terms. The real growth of nonmilitary consumption slowed down further and public investment fell in volume terms.

Fiscal policy is expected to be less expansionary in 1982 than the year before. The outgoing Government presented 1982 budget proposals in October 1981, indicating a forecast decline in the adjusted public sector deficit to the equivalent of 5.8 per cent of mainland GDP, a drop of almost 1 percentage point from 1981. As in the preceding three years, changes in the fiscal stimulus can be traced mainly to the central government accounts; the financial balances of the social security and local government sectors in relation to GDP tend to change little.

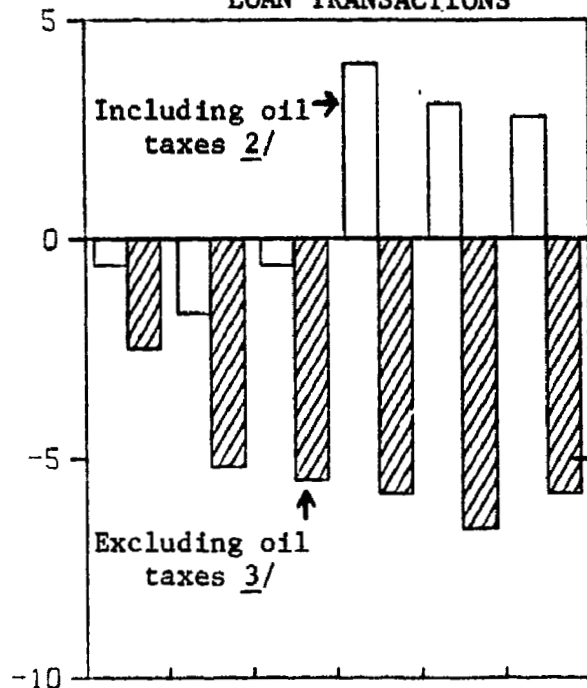
The new Government has acknowledged the need to tighten fiscal policy but at the same time has made tax reduction a cornerstone of its policy program, based on the premise that lower income taxation will stimulate incentives to work, hence will also foster labor productivity and economic growth over the medium term. The Government has stated that income taxes would be reduced during the period 1979-86 by a total of NKr 7 billion in constant 1979 prices.

CHART 6

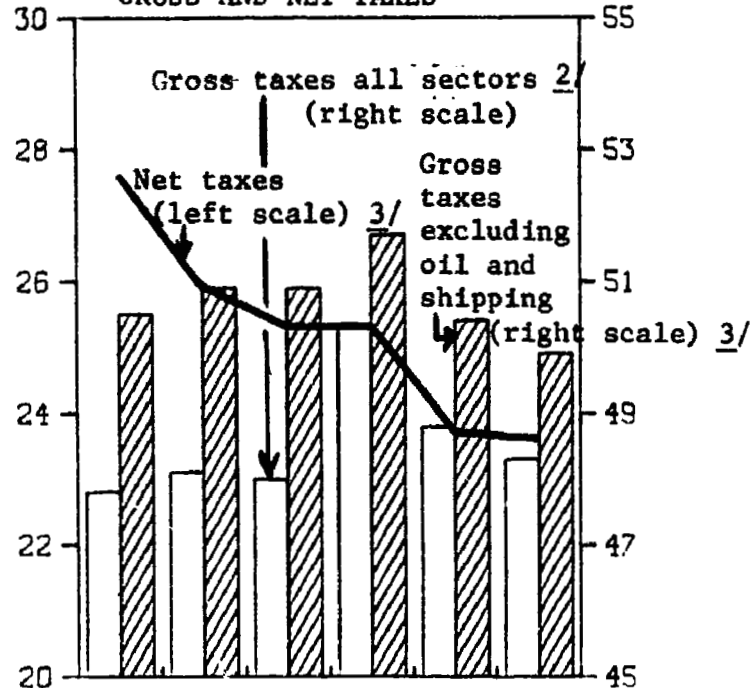
NORWAY

FISCAL INDICATORS 1/

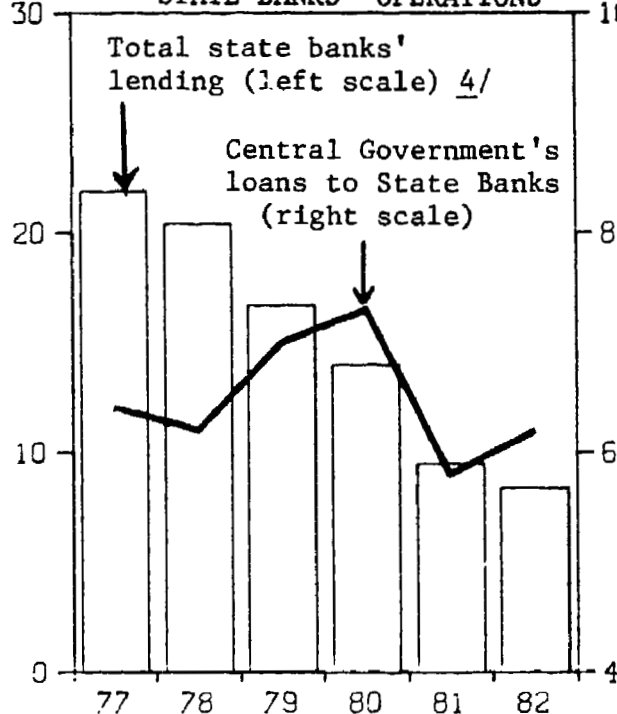
Per cent PUBLIC SECTOR BALANCE BEFORE
LOAN TRANSACTIONS



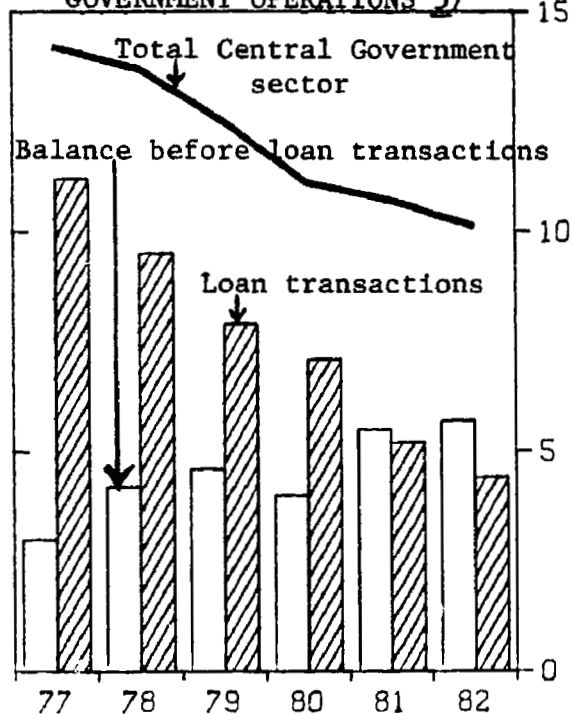
GROSS AND NET TAXES



Per cent STATE BANKS' OPERATIONS Billions of Nkr



MONETARY EFFECTS OF CENTRAL GOVERNMENT OPERATIONS 5/ Per cent



Source: Ministry of Finance, National Budget.

1/ Data for 1981 and 1982 are official Norwegian estimates and forecasts of October 1981.

2/ In per cent of GDP.

3/ In per cent of GDP, excluding oil and shipping.

4/ Yearly percentage change.

5/ Percentage contribution to the growth of broad money.

In the limited time before final parliamentary approval in December 1981 of the budget for 1982, the Government proposed revisions to the budget proposal which reduced expenditure and revenue estimates but did not substantially alter the stance of fiscal policy envisaged for 1982. On a cash basis, nonoil revenue cuts were nearly matched by expenditure cuts, although reductions in accrued revenue estimates consistent with Table 15 would be somewhat greater. Total nonoil tax revenue net of transfers was forecast in the National Budget to decline slightly to 23.6 per cent of mainland GDP but with the stronger tax reductions in the new Government's budget the net tax burden may fall to roughly 23 per cent.

The government budget approved in December included expenditure cuts for all major areas except defense, on which spending is to be increased more than indicated in the National Budget. The main expenditure cuts are to be made in transfers to the private sector, particularly consumer subsidies and health benefits. The outgoing Government proposed some adjustment of income tax brackets and deductions in 1982 to compensate for inflation and an end to the temporary income tax reduction which took effect in October 1981. The approved budget as amended by the new Government went further in adjusting personal income taxation fully for expected inflation in 1982, and the temporary income tax cut was continued in 1982 (Chart 7). Also included in the approved budget were increased limits on saving with tax advantage, a limit on the combined incidence of personal income and wealth taxes, a reduction of capital gains taxation on shares, and an adjustment of the wealth tax brackets for inflation. Previous decisions to reduce taxation of the business sector were carried forward.

2. Consolidated public sector

The adjusted public sector deficit used to assess the stance of fiscal policy, ^{1/} rose by NKr 1.9 billion in 1980 to NKr 13.2 billion, equivalent to 5.8 per cent of mainland GDP (Table 15). However, the public sector financial balance including oil taxes improved by NKr 12.6 billion from 1979 to 1980, shifting into a surplus of NKr 11.3 billion equivalent to 4 per cent of GDP. The positive swing is the result of a NKr 14.6 billion increase in central government revenue from the oil sector. This was associated with large increases in output and prices of oil and gas as well as higher tax rates which led to a 147 per cent increase in accrued oil taxes. Changes in the balances of the social security and local government sectors were minor by comparison. Public sector revenue increased by 25 per cent to NKr 149 billion in 1980 (14 per cent excluding oil taxes), and nonoil tax revenue reached a peak of 51.7 per cent of GDP excluding oil and shipping. The more rapid growth of indirect taxes in 1980 than in 1979 was associated with higher inflation and increases in indirect taxes on energy products. Public expenditure increased by 14 per cent to NKr 138 billion in 1980, equivalent to 49 per cent

^{1/} Excluding oil taxes (cf. footnote 2 on p.19).

of GDP. Notwithstanding increases in military consumption which was boosted by deliveries of imported aircraft in 1980, the growth of expenditure on goods and services was moderate and remained in line with the growth of GDP. Subsidies, which accounted for 13 per cent of public expenditure in 1980, accelerated partly to meet the agricultural income settlement.

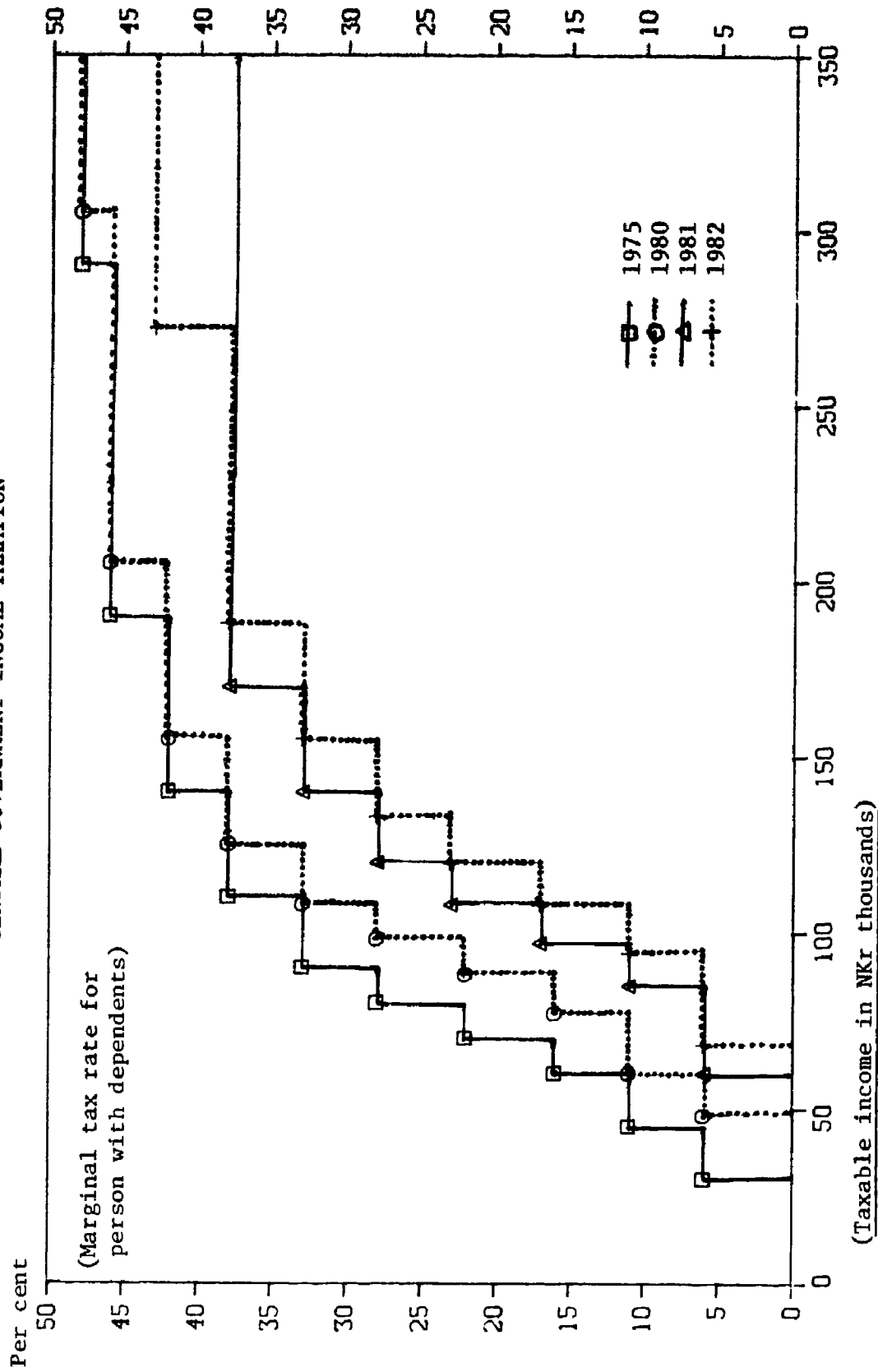
The public sector financial deficit (excluding oil taxes) increased to an estimated Nkr 17.2 billion in 1981, equivalent to 6.6 per cent of mainland GDP. The financial surplus of the public sector including oil taxes declined slightly to the equivalent of 3.1 per cent of GDP in 1981. The growth of public sector revenue slowed down to an estimated 12.5 per cent in 1981. The growth in oil tax revenue slowed down markedly and the trend of rising nonoil tax revenue in relation to mainland GDP was broken in 1981 as this ratio dropped by an estimated 1.3 percentage points to 50.4 per cent. The slow growth of personal direct tax revenue and the acceleration of indirect tax revenue reflect the tax reform of 1981. Public expenditure increased by 14.4 per cent in 1981, about the same as in 1980 and as the growth in nominal GDP of mainland Norway. The growth of consumption in nominal terms was slightly faster than in 1980, while restraint of public investment, particularly at the local government level, led to a decline in net investment expenditure. Increases in pensions in real terms led to some acceleration in transfers to households. The agricultural income agreement contributed less to the growth of subsidies in 1981 than the year before since roughly half of the cost of the agreement was met by higher food prices. Interest payments on public debt began to decelerate in 1981 as the financial surpluses in 1980-81 permitted a reduction in the stock of debt.

The public sector deficit excluding oil taxes was forecast in the 1982 National Budget to decline slightly to Nkr 16.8 billion, equivalent to 5.8 per cent of forecast mainland GDP. Amendments to the budget following the change of government are estimated to have little effect on this financial balance, although revenue and expenditure are both expected to be lower than in the National Budget presented in October. The overall public sector financial surplus was forecast in the National Budget to decline slightly to 2.8 per cent of GDP, largely due to an estimated decline in oil tax revenue. But a downward revision of forecast oil taxes in the approved budget implies some further reduction. The growth of public sector revenue excluding oil taxes is expected to be some 1-2 percentage points less than the forecast (12 per cent) in the National Budget, primarily because of the additional reductions in personal income taxation. The growth of public sector expenditure in 1982, based on the approved budget, is expected to be somewhat lower than the 10.4 per cent forecast in the National Budget. Based on the National Budget forecast, the growth of public sector expenditure in each of the three years 1980-82 would be approximately equal to the rate of inflation as measured by the GDP deflator. Changes in expenditure estimates incorporated in the approved budget indicate a more rapid increase

CHART 7

NORWAY

CENTRAL GOVERNMENT INCOME TAXATION



Sources: Ministry of Finance, National Budget, various years, and Revised Budget Proposal 1982.

in transfers and a more pronounced slowdown in the growth of expenditure on goods and services than forecast in the National Budget. This slowdown comprises a lower growth in the volume of consumption as well as volume declines in investment at both the central and local government levels.

3. Central Government

The central government financial deficit, excluding oil taxes, rose to NKr 15.1 billion in 1980, equivalent to 6.6 per cent of GDP (Table 16). The overall central government financial balance shifted into a surplus of NKr 3.5 billion (1.2 per cent of GDP), a swing of almost NKr 9 billion. The Central Government's net financing requirement also declined by NKr 9 billion in 1980, to NKr 5.0 billion (1.8 per cent of GDP). A small drop in net lending by the Central Government comprised a modest increase in loans to state banks and a decrease in other net lending, mainly to industry. Central government revenue increased by 36 per cent in 1980 (on a cash basis), or by some 17 per cent if oil taxes are excluded. The sharp rise in oil sector tax revenue brought its share of central government revenue to almost 24 per cent. The growth of direct tax revenue excluding oil company taxes was rapid despite the income tax concessions in the spring of 1980 because of some acceleration of nominal incomes following the end of the price-incomes freeze. Less restraint of consumer spending and higher taxes on energy products boosted the growth of indirect tax receipts excluding oil revenue. Expenditure increased by 19 per cent in 1980. The rapid growth in transfers stemmed from a large increase in transfers to the social security sector, increased support to farmers and fishermen, and an increase in transportation subsidies. Industrial policy support changed little in nominal terms.

The central government financial deficit, excluding oil taxes, increased in 1981 to NKr 18.7 billion, equivalent to 7.2 per cent of mainland GDP. The overall central government financial surplus increased to NKr 8.2 billion, equivalent to 2.5 per cent of GDP. Aided by a decline in net lending to both state banks and the private sector, the Central Government's net financing requirement turned negative in 1981, equivalent to 0.5 per cent of GDP. Revenue increased by an estimated 21 per cent in 1981, or by 11 per cent if oil taxes are excluded. The continued rapid growth of oil taxes paid in 1981 (about 44 per cent) represents a carry-over effect of some increase in oil taxes which accrued in 1980 (Table 15) but were paid in 1981. The shift from direct to indirect taxation apart from the oil sector is reflected in Table 16. The growth of direct tax receipts flattened out because of the 1981 tax reform and the added income tax cut in the final quarter of the year. The share of direct (nonoil) taxes in nonoil tax revenue fell from 22 per cent in 1980 to an estimated 20 per cent in 1981, notwithstanding some negative effect on indirect tax receipts of the reduction in investment tax in 1981. Expenditure increased by an estimated 15.5 per cent in 1981. Total expenditure on

goods and services grew by about the same percentage, or roughly in line with nominal GDP, although investment excluding public enterprises declined in volume terms.

The central government financial deficit, excluding oil taxes, was forecast in the 1982 National Budget to fall in relation to mainland GDP by one-half percentage point to 6.6 per cent. The voted budget implies little change in this forecast, but a NKr 1.3 billion reduction in the oil revenue estimate in the voted budget suggests that the overall financial surplus in relation to GDP should be nearly the same in 1982 as in 1981. Net lending to traditional borrowers is expected to remain about unchanged, but the Government's decision to exercise more direct control over Statoil's financial operations will entail net lending by the Central Government to Statoil of NKr 3.8 billion (not reflected in Table 16) in 1982. Central government revenue in 1982 is expected to increase about 2 percentage points less than the forecast (10.6 per cent) in the National Budget mainly because of the revised oil revenue estimate and the further personal income tax cuts included in the voted budget. Direct tax receipts in Table 16 will not reflect the company income tax cuts until 1983. The reduction of the investment tax will have a full-year effect on indirect taxes in 1982. Expenditure is expected to increase by roughly 9 per cent in 1982, somewhat less than forecast in the National Budget, comprising a decrease in interest payments, a decline in the value of net investment, and a slowdown in the growth of total transfers.

4. Local government

The Central Government influences local government fiscal operations through its control over maximum rates of local tax on income and the volume of transfers to local authorities, as well as through its delegation of responsibility to provide public services. It also regulates most sources of credit supply to local authorities. However, the local authorities are able to vary their level of economic activity at least in the short run through deficit financing by credit not subject to the control of the central authorities. In practice, year-to-year fluctuations in the financial balance of the local government sector as a percentage of GDP have been small.

The financial deficit of the local authorities was NKr 3.9 billion in 1980, equivalent to 1.4 per cent of GDP (Table 18). Revenue increased by 15 per cent. The growth of income taxes, which are proportional, was limited to 8 per cent partly because of the increase in tax allowances. The 25 per cent rise in transfers from other segments of the public sector was related to increases in local government pensions. Expenditure increased by 17 per cent. Consumption, which accounts for more than two thirds of total expenditure, rose by 14.5 per cent.

The financial deficit of the local authorities declined slightly in 1981 to NKr 3.4 billion, equivalent to 1.1 per cent of GDP. Revenue increased by an estimated 15 per cent as the growth of taxable income was higher than expected initially and the growth in transfers from other parts of the public sector slowed down. Local tax rates were not changed in 1981. The growth of expenditure in 1981, which is estimated to have slowed down to 12.5 per cent, was kept below that of revenue because of a sharp drop in gross investment in volume terms and a slowdown in the volume growth of consumption (Table 4).

The financial deficit of the local authorities is forecast to remain nearly unchanged in 1982. Revenue is forecast to increase by 13 per cent in 1982, about the same as forecast in the National Budget. The forecast incorporates the increase in allowances against local income taxes. Expenditure is forecast to increase by some 12 per cent in 1982, about the same as in the National Budget and consistent with a forecast 3.5 per cent growth of local government consumption and a smaller volume decline in gross investment than in 1981. The approved central government budget for 1982 implies little change in the forecasts for local authorities.

5. Social security

The financial surplus of the social security sector rose in 1980 to the equivalent of 0.6 per cent of GDP (Table 19). Revenue increased by 19 per cent. Much of the growth was attributable to increases in transfers from the Central Government. The contribution rates were raised for members, and the regional boundaries were redefined in 1980 so that certain enterprises' contributions would be at a lower rate. Expenditure increased by about 16 per cent. The most rapidly growing element was the support to families with children, as these allowances rose by as much as 99 per cent for families with one child and a smaller percentage for families with more children.

The financial surplus of the social security sector rose slightly in 1981 to the equivalent of 0.8 per cent of GDP. Revenue increased by an estimated 17 per cent. The rate of contributions by the Central Government was raised, the revenue effect of which was partly offset by the reduction of employer contribution rates in northern Norway. Expenditure increased by an estimated 16 per cent. The pension base was adjusted three times in 1981, most recently in October in conjunction with the price freeze, and minimum pensions rose in real terms.

The financial surplus of the social security sector in 1982 was forecast in the National Budget at NKr 1.9 billion, somewhat less than in 1981, and was not substantially affected by the changes incorporated in the voted budget. The growth of revenue in 1982 is expected to be less than the 10.5 per cent forecast in the National Budget because

of changes in the approved budget and a greater than expected increase in revenue in 1981. Member contribution rates were increased in 1982 and the contribution rate from the Central Government decreased. Expenditure is forecast to increase by about 10 per cent. With effect from 1982, pensions are to be adjusted in May, rather than in January as in previous years. Funds to finance the adjustment in May 1982 are provided in a central government expenditure reserve.

III. Money and Credit

1. Introduction

Monetary and credit policy in the period under review (1980-82) has been aimed at restraining the growth in domestic demand to support the general policy objectives of controlling inflation and preserving the gains in international competitiveness that were realized in 1978-79. However, the impact of central government transactions 1/ on the growth of the money supply remained greatly expansionary in 1980-81 (accounting for about 60 per cent of the addition to domestic liquidity) and imposed no small burden on the conduct of monetary policy. Consequently, a restrictive credit policy for the private and municipal sectors was required in order to keep the growth of monetary and credit aggregates within acceptable limits. As in previous years, the credit budget provides estimates of foreign borrowing requirements and establishes targets for domestic credit supplied by the banks and other financial institutions as well as the capital market to the private and municipal sectors (Table 21). 2/ The targets for the various components of the domestic credit supply reflect partly the objectives of providing adequate finance for business and housing investment and restraining private consumption and local government activity. Monetary policy instruments were used most frequently during this period for the purpose of controlling lending by the commercial and savings banks.

Since 1980, the monetary authorities have also taken steps to improve the efficiency of the credit market. The Commission appointed to draw up guidelines for interest rate policy reported in January 1980 3/ and in September 1980 the Government changed the determination of bank lending

1/ Including net lending. Oil tax payments, which have no immediate impact on domestic liquidity, are excluded from the calculation of the budget balance, and likewise their foreign currency equivalent is excluded (Table 20).

2/ Domestic lending by private finance companies and insurance companies other than life insurance is subject to direct control, as is bank "special quota" lending, comprising government-guaranteed loans for environmental and energy-saving purposes and, since 1981, housing loans on special terms. Quotas on state bank lending commitments control this source of credit with a lag of a year or more. Direct control of bond issues applied until October 1980; since then issues by the private sector are determined largely by market conditions, while issue control remains in effect inter alia for the municipal and housing sectors. Also, long-term external capital flows to the private and municipal sectors except for the oil and shipping sectors are subject to direct control. Other private bank lending is controlled with the help of credit policy instruments and ceilings imposed on banks with excessive borrowing from Norges Bank.

3/ Its findings are summarized in SM/80/191 (8/5/80), pp. 25-26.

rates so as to give somewhat greater weight to market forces, but the administered system described in Section III.7 below stops short of the Commission's recommendations of establishing market determined interest rates. Also, some of the Commission's proposals for the bond market were implemented with modifications in October 1980, when the control of private bond issues was liberalized. However, control over housing, municipal, and certain other bond issues remains in effect.

In formulating credit policy there was some shift away from the emphasis on detailed domestic credit targets for banks. The liberalization of bond issue control for most private issues in October 1980 gave the banks greater freedom to channel credit to the public through private bond purchases, so that it became appropriate, when establishing detailed credit budget targets for banks, to consider bank lending together with bank credit via purchases of nongovernment bonds. Also, the authorities envisage a greater role for interest rate policy in influencing the supply of, and demand for, domestic credit, a development which would also de-emphasize the importance of the credit budget for policy purposes. A further step toward orienting monetary policy to broad monetary aggregates rather than specifically at various credit budget targets was taken in late 1981 when Norges Bank chose the domestic liquidity supply to the public (i.e., domestic credit expansion of the monetary sector; see Table 20) as a strategic control aggregate for 1982. This was set at a target range of NKr 35-39 billion, the midpoint of which corresponds to 18.6 per cent of the end-1981 money supply. The Bank envisages the use of open-market operations to meet this target. The feasibility of open-market operations, which were recommended by the Commission on interest rate policy, has been enhanced by a 2 percentage point increase in government bond rates during 1981 and a further 1 percentage point increase in January 1982, narrowing the differences between yields on government bonds and private bonds.

2. Policy developments in 1980 and 1981

Monetary policy was less expansionary in 1980 than in 1979, but the intended tightening was not achieved because the credit supply via the bond market, and to a lesser extent bank lending, were greater than envisaged in the 1980 credit budget. The expansion of credit over the bond market surged in response to the relaxation of private bond issue control in October 1980. There was a considerable pent-up demand for private bond credit, while the bond-investment obligation (covering both government and private bonds) for banks and other financial institutions ^{1/} ensured enough demand for bonds that private bond rates remained below bank lending rates in late 1980. Net domestic issues of private and municipal bonds more than tripled to NKr 7.3 billion in 1980, compared with NKr 3.6 billion forecast in the 1981 National Budget.

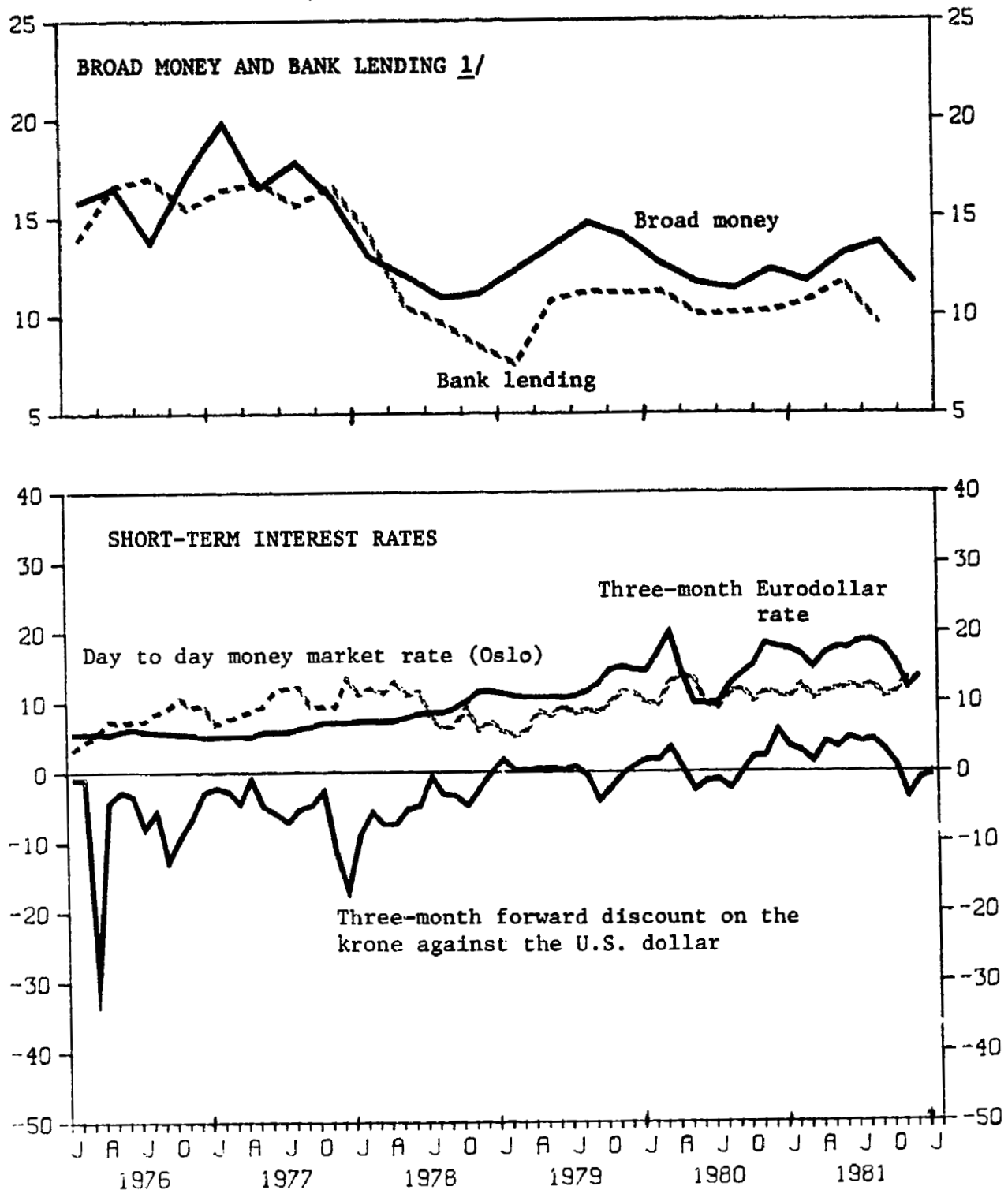
^{1/} Summarized in Table 22 for commercial and savings banks. Until January 1982 the marginal bond-investment obligations for life insurance companies and private pension funds were 60 per cent in southern Norway and 30 per cent in northern Norway. After that time they were reduced by one third.

CHART 8

NORWAY

BANK LENDING AND INTEREST RATES

(In per cent)



Sources: Norges Bank; and IMF, International Financial Statistics.

^{1/} Lending of commercial banks and savings banks to private nonbanks and municipalities, percentage changes over the preceding 12 months.

The expansion of the bond market also resulted in an increase in monetary growth because the yield on government bonds was not raised sufficiently to curb the banks' large purchases of relatively high yielding private bonds, thus adding to the liquidity of the nonbank public. Banks' net purchases of private and municipal bonds amounted to Nkr 4.7 billion in 1980, Nkr 2.6 billion more than was expected in the 1980 National Budget. The growth in the supply of broad money slowed down by almost 2 percentage points to 11.8 per cent during 1980, slightly higher than that of nominal GDP of mainland Norway (10.9 per cent), but above the growth in broad money originally forecast in the National Budget for 1980 (9.8 per cent). ^{1/} Bank lending also contributed to the greater than expected monetary growth in 1980. Commercial bank lending increased by 9 per cent, and savings bank lending by 11 per cent, compared with a 7 per cent increase indicated in the credit budget for each group of banks.

Several policy adjustments were made in 1980 to control bank lending. The main reliance was placed on changes in primary reserve requirements, and on the system of the banks' borrowing from Norges Bank, although sales of Norges Banks' money-market paper, short-term swaps of foreign currency for kroner between Norges Bank and the banks, and intervention in the forward foreign exchange market (see Sections IV. 1 and 7) also played a role during the course of the year.

At the beginning of 1980 commercial banks accounting for about 90 per cent of their aggregate lending were subject to a lending ceiling under Norges Bank's conditional "B-loan" facility (Table 22). By contrast, savings banks accounting for only 6 per cent of their aggregate lending at the beginning of the year had taken up conditional B-loans. The primary reserve requirements in southern Norway were therefore increased in January more sharply for savings banks, namely from 3 per cent to 10 per cent, than for commercial banks (from 3 per cent to 6 per cent). At the same time, Norges Bank offered to repurchase outstanding money-market paper held by the banks. Bank liquidity remained fairly tight in the first half of the year partly through restrictions on access to the automatic loan facility (A-loans; see Table 22), and deposit money bank lending was in line with credit budget targets. Primary reserve requirements were lowered in June 1980 for banks in southern Norway to 5 per cent for commercial banks and 8 per cent for savings banks because lending was below the guideline, which had been adjusted upward in the revised credit budget in order to finance more housing and business investment. In response to the bank's easier liquidity position which developed during the summer months, Norges Bank issued money-market paper yielding 11.5 per cent.

^{1/} Money supply growth refers to the change during the year, following Norwegian practice; however a comparison of GDP growth with the change in the average money supply would yield the same conclusions (Table 20).

In July 1980, the major part of bank lending was no longer restrained by the B-loan regulation, and bank lending rose sharply. As a result, primary reserve requirements in southern Norway were raised as of September 1980 to 13 per cent for commercial banks and to 10 per cent for savings banks. The effective squeeze on liquidity net of the concurrent repurchase of money-market paper by Norges Bank was the equivalent of 2 per cent of total assets for commercial banks on average and 1 per cent for savings banks. It became increasingly difficult to control bank lending in the latter months of the year, partly because relatively few savings banks were subject to B-loan constraints and primary reserve requirements for savings banks in southern Norway had reached the statutory maximum of 10 per cent. ^{1/} Also, some of the unplanned growth in bank lending originated in northern Norway, where primary reserve requirements are not in effect.

The required marginal bond-investment ratios of the commercial and savings banks in southern Norway were lowered as of November 1980 but the change did not have a major impact on most banks' actual investment obligations. As of late 1980, the average bond investment ratio had reached more than 29 per cent for commercial banks as a group and for savings banks as a group, so that the reduced marginal bond-investment ratio had about the same effect as the higher ratio which previously applied.

The National Budget for 1981 outlined continued restraint of domestic credit to the private and municipal sectors. Broad money was initially forecast to grow by 10.1 per cent and, though the actual rate of increase was somewhat higher (11.6 per cent), it still implies an increase in velocity with present estimates of nominal GDP (Table 20).

Although bank liquidity was kept fairly tight in early 1981, the percentage of banks that took up conditional B-loans was not large. In January-February 1981 half of each A-loan tranche was made available and in March-April the A-loan facility was fully restored. In April and May there were temporary reductions in primary reserve requirements. Foreign currency swaps in January and July and sales of Norges Bank's money-market paper, particularly in July and August, withdrew substantial amounts of domestic bank liquidity for limited periods. The various actions to affect liquidity were primarily designed to offset seasonal variations in bank liquidity resulting from the timing of public sector financial transactions.

The authorities were concerned that too much of a shift in bank lending from the business sector to households might provide an undue stimulus to private consumption, and an excessive private demand for bond loans could push up bond rates. Informal agreements between the Government and the banks to hold down the growth of bank credit for

^{1/} The statutory maximum for commercial banks is 15 per cent.

consumer purposes since 1978 were not effective since developments of consumer finance are not easy to monitor. In May 1981, supplementary reserve requirements were imposed to limit bank lending to the household and local government sectors. All bank advances to these sectors are regulated except overdrafts, construction loans and housing loans on special terms. The permissible increase over a 12-month period in regulated lending, which accounts for half of total bank lending, was set at 9 per cent. Banks exceeding the limit are required to deposit in an interest-free account with Norges Bank a supplementary reserve equivalent to the excess lending. Supplementary reserve deposits resulting from the first monthly control at the end of September 1981 amounted to a relatively minor Nkr 0.25 billion.

The supplementary reserve requirements were effective in slowing the growth of regulated bank lending but in September the growth of unregulated bank credit began to accelerate instead. This prompted the authorities to raise primary reserve requirements in November from 8 per cent to 10 per cent for commercial and savings banks in southern Norway, again bringing this ratio to the statutory maximum for the savings banks. In September 1981 the measure of bank assets in the denominator of the primary reserve ratio and the bond-investment ratio was altered to exclude foreign currency deposits. This change was intended to enhance the Norwegian banks' ability to compete with foreign banks for foreign currency deposits.

Although government bond rates were raised by 2 percentage points during the first half of 1981 there was another rapid expansion of private bank credit to the private sector via the bond market in 1981 so that the 1981 credit budget figure for total credit supply to the private and municipal sector via the bond market was exceeded by Nkr 3 billion.

The 1982 credit budget presented in the fall of 1981 incorporates basically the same objectives as in 1980 and 1981, including a relatively tight credit policy for the private and municipal sectors. The new Government's revised budget proposals in late 1981 did not affect the broad outlines of credit policy for 1982. The growth of broad money during 1982 is forecast at about 10 per cent, below that of mainland GDP. Some acceleration in the growth of total credit to the private and municipal sectors is expected in 1982 largely because of a resumption of net foreign capital inflows to the oil and shipping sectors as well as Nkr 3.8 billion in central government financing of Statoil (Table 21). However, these financial flows are not expected to have a major impact on domestic demand.

The system of supplementary reserves is being continued in 1982 to help restrain the growth of consumer finance. In order to curtail the growth of credit to the private sector via the bond market, bond-investment obligations were lowered in January 1982 for banks in southern Norway from 30 per cent to 20 per cent, and from 15 per cent to 10 per cent for banks in northern Norway, and the interest rate on government bonds was raised by another 1 percentage point.

3. The credit budget

The total flow of credit to the private and municipal sectors in 1980 was NKr 32.3 billion (Table 21), nearly NKr 12 billion more than originally indicated in the credit budget for 1980, mainly because of an unanticipated capital inflow and the effects on domestic credit expansion of the liberalization of the bond market in the fourth quarter. Direct capital inflow from abroad to the private and municipal sectors was NKr 1.6 billion, about the same as in 1979. The increase in net capital outflow from the oil sector associated with repayment of foreign loans had no effect on the domestic credit market. The short-term (unregulated) capital inflow to the private and municipal sectors, NKr 5.5 billion, was twice the predicted net inflow. The domestic credit flow increased by almost NKr 6 billion to NKr 30.7 billion in 1980, rather than falling slightly as forecast in the original 1980 credit budget. In 1980 bank lending not subject to special quotas was more than NKr 2 billion above the original target of NKr 5.9 billion. The overshooting was greatest for savings banks, whose primary reserve ratio was at the statutory maximum during most of the year, and for banks in northern Norway. Loan demand was relatively strongest for the household sector. The slight decline in state bank lending reflected the policy pursued since 1978 of reducing gradually the relative importance of state banks in the domestic credit market. To this end their quotas on new lending commitments in 1980 and 1981 were kept at about the same level in nominal terms as in 1978-79 (Table 23). The increase in capital supply from the domestic bond market and bond-issuing loan associations, from NKr 1.6 billion in 1979 to NKr 5.3 billion in 1980, came mostly in the fourth quarter of 1980.

The total flow of credit to the private and municipal sectors in 1981 was estimated in October 1981 at NKr 34.5 billion, comprising a modest increase in direct capital inflow from abroad, to NKr 3.0 billion, and in net flows of domestic credit, to NKr 31.5 billion. Regulated capital inflow changed little, while an increase in investment reduced the net capital outflow from the oil sector and brought about a capital inflow to the shipping sector. Some of the changes in the composition of domestic credit flows that began in late 1980 continued in 1981, including further rapid growth of the bond market. State bank lending decreased by NKr 2.5 billion to an estimated NKr 8.4 billion in 1981, the lowest level since 1976. Approximately NKr 1 billion of the decrease is related to the shift of some housing finance from two of the state banks to private banks on terms which were more favorable than for ordinary housing loans but less favorable than for state bank housing loans (included under "special quota" in Table 21). The target for deposit money bank lending not governed by special quotas was NKr 7.9 billion, slightly less than actual lending in 1980, but preliminary data for 1981 indicate that the outturn was NKr 3 1/2 billion higher. The growth of bank lending not regulated by supplementary reserve requirements was unexpectedly rapid in the fall of 1981.

In the credit budget for 1982 the flow of credit to the private and municipal sectors is assumed to increase by over Nkr 13 billion to Nkr 47.7 billion in 1982. This increase can be ascribed to the increased borrowing needs of the oil and shipping sectors, which are expected to be covered by capital inflows and by advances of Nkr 3.8 billion from the Central Government to Statoil, the state-owned oil company. These flows are not expected to have much direct domestic impact. The domestic credit supply other than the loan to Statoil is forecast to increase marginally to Nkr 32.1 billion in 1982, as the authorities are expected to continue their policy of containing the growth of bank lending. Apart from some increase in housing loans on special terms (part of the "special quota") and in lending by life insurance companies, no major increases in the main categories of domestic credit supply are foreseen for 1982.

4. The money supply

The growth in the broad money supply in the course of 1980 (11.8 per cent) showed some deceleration from 1979, though less than expected. The financial transactions of the central government sector ^{1/} contributed 11 percentage points to the growth of money supply, of which a substantial part resulted from loan transactions, mainly lending via state banks and loans to industry. The transactions of the commercial and savings banks contributed 7.4 percentage points to the growth of money supply in 1980, one third of which arose from bank purchases of bonds, amounting to Nkr 4.7 billion. Banks' installment loans to households rose by no less than 20 per cent. The net withdrawal of liquidity due to foreign exchange transactions of the private nonoil sector was almost 7 per cent of broad money.

Broad money increased by 11.6 per cent in 1981. The central government sector was about as expansionary as in 1980. There was an increase in the expansionary monetary impact of the overall budget deficit, but decreases in the growth of state bank lending and of other central government lending reduced the contribution of the Government's loan transactions to money supply growth for the fifth consecutive year. Bank lending and banks' purchases of private bonds substantially exceeded revised credit budget targets, contributing to broad money growth 2 1/2 percentage points more than forecast. The net withdrawal of liquidity due to foreign exchange transactions of the private nonoil sector was greater than forecast.

The growth in the broad money supply is forecast at 9.9 per cent in 1982, 2.5 percentage points less than the forecast growth of nominal GDP for mainland Norway. For 1982 Norges Bank has chosen a target range of Nkr 35-39 billion for the liquidity supply to the public resulting from domestic sources. The midpoint of this range would correspond to an 18 1/2 percentage point contribution to the growth of broad

^{1/} Excluding oil taxes (cf. footnote 1 on p. 27).

money. The expansionary impact of central government financial transactions is expected to decline marginally in 1982. The Government's decision to provide Statoil all of its financing requirements is estimated to add nearly 2 percentage points to the contribution of central government loan transactions to money supply growth but this shift in financing from foreign borrowing has no net impact on the money supply. A small decline in the contribution to money supply growth from the balance before loan transactions of the central government sector is expected. Transactions of private banks are expected to contribute some 7 percentage points to the growth of domestic liquidity, slightly less than in 1981. Foreign exchange transactions of the private nonoil sector are expected to lead to another large net withdrawal of liquidity (9 per cent of 1981 broad money).

5. Bank liquidity

The development of commercial and savings banks' free primary reserves ^{1/} and the movement of the interbank call money rate give an indication of the tightness of bank liquidity. The development of bank liquidity is shown in Table 24 and selected measures to control it are summarized in Table 22. At the beginning of 1980 the banks showed a negative free primary reserve position. In the first few months of the year bank liquidity was tightened, partly through restricting access to A-loans. In March, Norges Bank offered money-market paper at a yield of 12.5 per cent, but sales were low. The cut in the primary reserve requirements in June in connection with large tax remittances due, coupled with a large supply of funds from the government sector in May-June, led to an easing of bank liquidity in the summer months, also reflected in a fall of interest rates in the money market. This led to issues of Norges Bank's money-market paper in June and July. In August money-market rates rose again. In September 1980, primary reserve ratios were raised and access to Norges Bank's A-loans was restricted in an effort to tighten liquidity and rein in bank lending. While banks' primary reserves increased by some Nkr 10 billion and borrowing from Norges Bank decreased little during 1980, required primary reserves rose by more than Nkr 12 billion, so that the negative free primary reserve position rose to Nkr 3.3 billion at the end of the year.

Bank liquidity was relatively tight at the beginning of 1981 and, following some easing in January, was tightened considerably in February through forward foreign exchange purchases by Norges Bank on a swap basis and a net withdrawal of liquidity through central government transactions. Bank liquidity remained fairly tight during the eight months to the end of October, at which time banks' free primary reserves were only slightly lower than at the end of 1980. In November 1981 bank liquidity was tightened due to an increase in primary reserve requirements undertaken to force banks to borrow under the B-loan facility with

^{1/} Actual primary reserves (cash holdings, ordinary deposits with Norges Bank and the Postal Giro, and holdings of Treasury bills) net of borrowing from Norges Bank, less required primary reserves.

its consequential restrictions on bank lending. However, banks sought to avoid B-loans. As a result, money-market rates were driven to exceptionally high levels. Norges Bank's efforts to ease the pressure on the exchange rate in November-December by initiating swap transactions with banks were not successful, as banks (seeking to avoid the B-loan regulations) declined to engage in swap transactions because of their strong preference for keeping their liquid assets in kroner. At the end of 1981, two-thirds of bank loans outstanding were subject to control either through the supplementary reserve provisions or B-loan regulations.

6. Central government finance and the bond market

The Central Government's overall net financing requirement, which was the equivalent of 6 per cent of GDP in 1979, fell sharply in 1980 and was estimated to have been negative in 1981 (Table 25). It is forecast to be negligible in 1982. Most of the reduction in the net borrowing requirement in 1980 was reflected in the shift from net foreign borrowing to net repayment of foreign debt in 1980 and 1981. Central government gross foreign borrowing ceased entirely in 1981. The net financing requirement from domestic sources, after declining in 1980 to NKr 7.5 billion and in 1981 to an estimated NKr 3.8 billion, is forecast to rise to NKr 7.8 billion in 1982, partly reflecting the Government's decision to assume Statoil's borrowing requirements, previously covered by borrowing abroad. For 1980 Norges Bank raised the limit stipulated for its holdings of Treasury bills purchased directly from the Government by NKr 8 billion to NKr 15 billion. However, the Government's need for central bank financing diminished, primarily because of larger than expected oil revenues. At the end of 1980 Norges Bank held no Treasury bills purchased directly from the Government.

The bond market was liberalized in October 1980, when control of the volume of bond issues was relaxed with certain exceptions. Issue control over local governments (including municipal enterprises) was retained to facilitate the conduct of overall fiscal policy, and it was retained for housing finance because the deductibility of interest payments for income tax purposes distorts the demand for housing finance relative to that of the business sector. Issue control also remains in effect for the financing of oil sector activities, ships and drilling rigs, and of undertakings involving state or municipal guarantees. Nongovernment bond rates are market-determined.

The increase in issues of bonds in response to the liberalization of the bond market was considerably greater than expected. Net domestic issues of private and municipal bonds rose from NKr 2.1 billion in 1979 to NKr 7.3 billion in 1980 (Table 25), compared with NKr 3.6 billion forecast in the 1981 National Budget. Banks and other credit institutions fulfilled their bond-investment obligations by shifting to purchases of private rather than government bonds because of the difference in yields. Net domestic issues of central government bonds (excluding state bank bonds and those taken up by Norges Bank) declined to NKr 2.5 billion in 1980, reducing their share of all net domestic issues from three fourths

in 1979 to less than one fourth in 1980. Almost all of the net domestic bond issues of NKr 10.7 billion were taken up by financial institutions. Commercial and savings banks accounted for the largest purchases, NKr 6.4 billion, because of their continued bond-investment obligations and the relatively high yield they could earn on private bond issues.

Net domestic bond issues are estimated to have remained nearly unchanged at about NKr 11 billion in 1981. Sales of government bonds are estimated to have fallen short of redemptions by NKr 1.1 billion in 1981. The private and municipal sectors accounted for more than 90 per cent of total net domestic issues. With the presentation of the 1982 National Budget in October 1981, the credit enterprises' authority to issue bonds was suspended for the remainder of 1981 because of the impact on domestic liquidity that their growth has had. An increase in issues of state bank bonds has resulted from a shift in the financing of the Municipal Bank's lending from foreign capital markets to the domestic bond market. Despite the liberalization of the bond market, the volume of net issues was determined to an important degree by the demand for bonds by financial institutions obligated to invest in bonds.

Net domestic bond issues in 1982, forecast to rise to NKr 11.5 billion, are again expected to be accounted for mostly by private and municipal bonds. A five-year government savings bond issue of NKr 1.0 billion at attractive terms in January 1982 met with excess demand, and was quickly sold. ^{1/} Sales of government bonds other than savings bonds are expected to almost balance redemptions. The forecast decline in commercial and savings banks' net purchases of domestic bonds does not take into account the January 1982 reductions in bond-investment obligations. Most of the forecast increase in bond purchases by the private nonfinancial sector for 1982 is related to the government savings bond issue in January.

7. Interest rates

The Government decided to change the determination of lending rates of banks and life insurance companies as of September 1980 so as to give greater weight to market forces but the change to an administered system with increased flexibility stopped short of the recommendations by the Commission on interest rate policy. The Government had begun to move away from a long-standing policy of low and stable interest rates in December 1977, but since bank lending rates were subject to the 1978-79 price freeze, increases in interest rates were limited. Under the new system, average interest rates are set by interest rate declarations from the Minister of Finance for each of two categories of bank loans, short-term loans and medium- and long-term loans. Each bank has greater freedom than before to determine its structure of interest rates, since it is free to set rates on individual loans as long as the limits on

^{1/} If held to maturity the savings bonds, which are indexed for inflation and earn tax-exempt bonuses at the end of the third, fourth, and fifth years, will yield a nontaxable real return of 2 per cent per annum.

average rates are observed. Short-term loans comprise bills, hire-purchase contracts, overdrafts, construction loans, and other bank loans for less than one year. Medium- and long-term loans comprise all other bank loans and all loans from life insurance companies. For short-term rates, the interest rate declarations are to reflect changes in the interest rate on Norges Bank's loans to banks. The interest rate level for medium- and long-term loans is to be linked to bond market interest rates. It is assumed that changes in the short-term interest rate level could be frequent if warranted by credit conditions and that changes in the medium- and long-term rate would be less frequent. The interest rate guidelines do not encompass bank loans subject to special quotas, such as housing loans on special terms, for which rates will continue to be stipulated directly by the Government.

Bank lending rates changed little in the first eight months of 1980 from their 1979 averages (12.3 per cent for short-term loans and 10.7 per cent for medium- and long-term loans). In September 1980, when the system of interest rate declarations was introduced, average short-term rates were raised by 0.5 percentage point and other rates by 1 point. In May 1981 short-term bank rates were raised 1 percentage point to 14 per cent along with a 1-point increase in other short-term rates, including an increase to 12.5 per cent in the rate Norges Bank charges to banks for conditional B-loans. The August-December 1981 price freeze applied to bank lending rates. In January 1982 a new interest rate declaration was issued, specifying the same allowable average interest rate for each bank (14.2 per cent for short-term loans, 12 per cent for other loans). ^{1/} These interest rates corresponded roughly to the average across banks, implying reductions in lending rates for some banks and increases for others. Bank deposit rates changed little during 1980 and 1981 and became increasingly negative in real terms.

Day-to-day interbank rates rose from 9.5-10 per cent in January-February 1980 to 13-14 per cent in the following two months (Table 26 and Chart 8). The interbank rate fell below 10 per cent in June and July when bank liquidity was relatively ample, and in the following 15 months to October 1981 fluctuations were smaller; the average interbank rate was in the range 10-12.5 per cent. In late November and early December, the interbank rate rose sharply, reflecting keen competition for liquid krone assets as banks sought to avoid becoming subject to Norges Bank's B-loan restrictions. The marginal rate on bank borrowing from Norges Bank fell from 12.7 per cent in the second quarter of 1980 to 11.8 per cent in the third quarter. Fluctuations in this rate during the last half of 1980 and throughout 1981 were mostly within the range 10.5-12.5 per cent, reflecting variations in the number of B-loans as well as the May 1981 increases of 0.5-1.0 percentage point in the rates on bank loans from Norges Bank, except for the first tranche of the automatic A-loans; the latter rate remained equal to the official discount rate, which has been 9 per cent since late 1979.

^{1/} Until that time declarations had specified allowable changes in each bank's average interest rates but these differed among banks because of differences in the composition of a bank's loans.

The yield on ten-year government bonds was 10 per cent during 1980 and was about 1 percentage point less than on private bonds in late 1980 when bond issue control was relaxed. In an effort to make government bonds relatively more attractive, interest rates on government bonds were raised by 2 percentage points in the first half of 1981, and an additional 1 percentage point in January 1982, raising the rate on ten-year bonds to 13 per cent, 1 per cent higher than the stipulated limit on average bank rate for medium- and long-term loans. The yield on five-year government bonds is normally 0.5 percentage point lower than on ten-year bonds. The yield on private bonds at the end of 1981 was 12.8-13.0 per cent.

IV. Balance of Payments

1. Introduction

Major shifts in the balance and composition of the current account of the balance of payments since the first oil crisis in 1973-74 have reflected both cyclical and structural influences, including the development of North Sea oil and gas resources and the long-run deterioration of competitiveness of several industrial branches, particularly shipbuilding. Sharp increases in the current account deficit were recorded in the period 1973-77, reaching a peak of 14 per cent of GDP in 1977. The deficits resulted from large-scale investments in the North Sea oil and gas sector with a high import content; a slower than anticipated expansion of oil and gas production; a decline of the traditional surplus of the shipping sector; and sluggish growth of traditional merchandise exports. ^{1/} Weak foreign demand and deteriorating competitiveness of the traditional sectors were associated with a loss of export and home market shares. Another important factor was the expansionary domestic demand policy which attempted to bridge the period of weak foreign demand. The current account showed decreasing deficits in 1978-79 with increasing oil and gas exports, reduced investment in the oil sector, a revival of export markets, and the adoption of policies from 1978 designed to improve the current external balance. The measures included an 8 per cent devaluation of the krone in February 1978, a tightening of monetary policy, and a price-income freeze from September 1978 through December 1979 which was particularly to the benefit of the export industry. The measures contributed to an improvement in the relative cost position but this was accompanied by only little change in export and home market shares of the traditional industries over the period 1978-79.

In 1980 and 1981 the improvement of the current position continued. In 1980 the current account shifted to a surplus of NKr 5.5 billion (SDR 0.9 billion or 2 per cent of GDP) (Table 27 and Chart 9), the first surplus since 1969. This shift resulted from a further improvement in the overall terms of trade by 10 per cent (Table 31) and occurred despite a further sharp widening of the deficit of mainland Norway (Table 32). The trade balance improved by nearly NKr 9 billion, reaching a surplus of more than NKr 8 billion in 1980. This represented four fifths of the improvement in the current account and was due largely to a 90 per cent rise in the value of oil and gas exports, the share of which rose to 45 per cent of total merchandise exports. The terms of trade for traditional merchandise improved by only 1 per cent. Traditional exports stayed at the previous year's level in volume terms, implying a slight increase in export market shares (0.5 per cent) despite an increase in relative export prices for the second consecutive year. The volume of traditional merchandise imports grew by 10 per cent, due partly to

^{1/} These are defined as total exports less crude oil, natural gas, ships, and oil platforms. Traditional merchandise imports are defined as total imports less ships and oil platforms.

increased investments in inventories of imported raw materials. This increase was faster than that of domestic demand, entailing some loss of domestic market shares by Norwegian industry. The deficit on invisibles declined somewhat to NKr 3 billion, as the surplus on account of the shipping sector grew due to improved freight rates for dry cargo vessels, while the deficit on transfer account remained virtually unchanged.

In 1981 the current account surplus rose to NKr 12.1 billion (SDR 1.8 billion or 3.7 per cent of GDP), reflecting a reduction of the current external deficit of mainland Norway for the first time in many years. This was solely due to an improvement in the overall terms of trade by some 5 per cent owing mainly to a further considerable increase in oil export prices and freight rates in krone terms. The trade surplus almost doubled to NKr 15 billion. On account of traditional merchandise trade there was a 6 per cent improvement in the terms of trade and a slight improvement in the real balance resulting from a small drop in the volume of imports and the unchanged volume of exports. On the other hand, the volume of oil and gas exports fell and the trade balance of the shipping sector deteriorated. The deficit on net services and transfers changed little.

In 1982 the current account surplus is forecast to decline to NKr 2 billion (SDR 0.3 billion or 0.6 per cent of GDP) under the impact of a declining trade surplus. This is expected to be due to a decline in the value of oil and gas exports and an upturn in traditional imports and imports of oil equipment. Traditional exports are expected to rise somewhat with the expected recovery of export market growth. The deficit on net services and transfers is expected to stay at about NKr 3 billion.

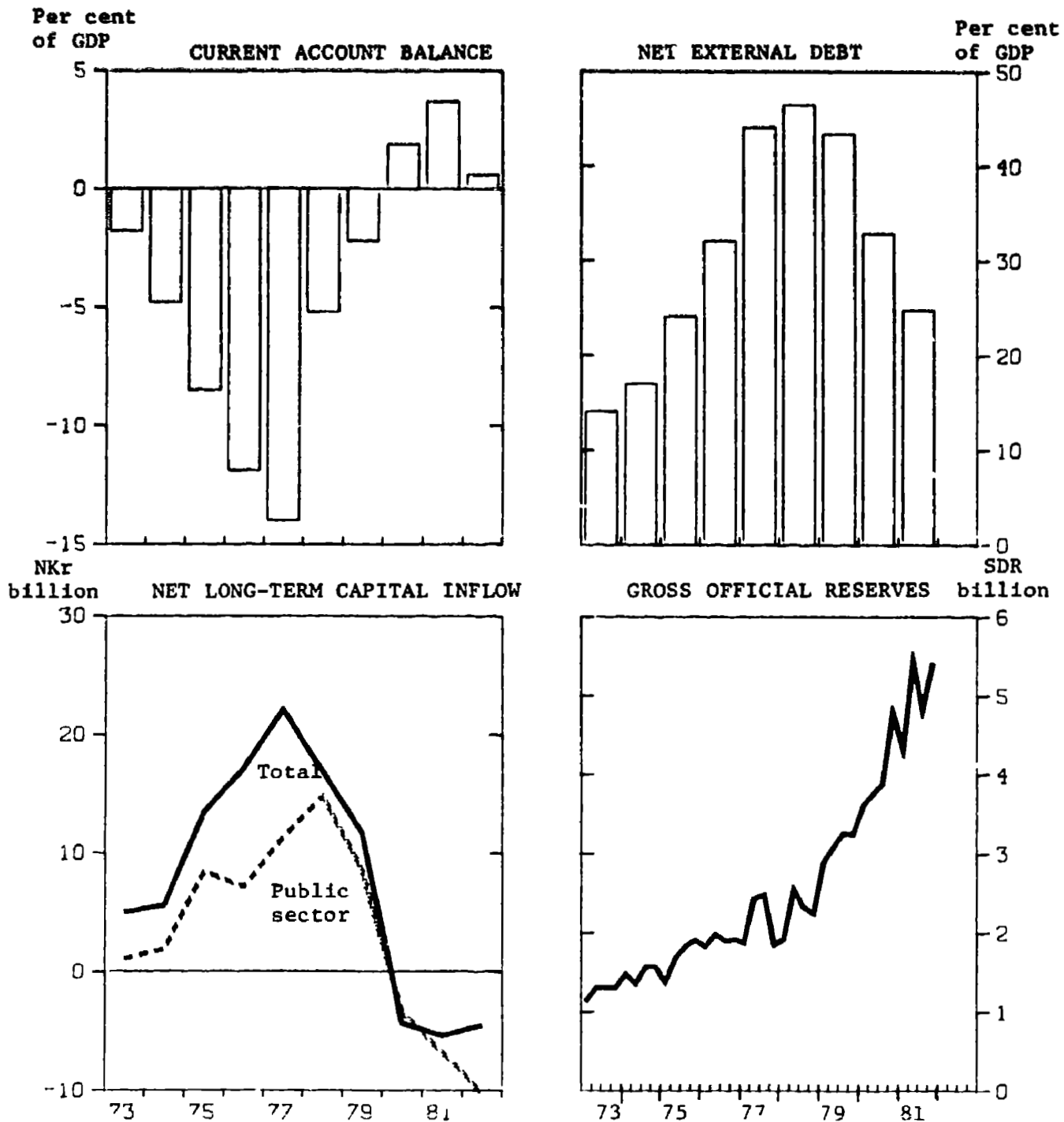
The current account deficits before 1980 were financed without difficulty through private and official borrowing abroad. The net external debt which reached a peak in nominal terms at the end of 1979 (SDR 16 billion or 44 per cent of GDP) (Table 33), fell in 1980 to NKr 93 billion (SDR 14 billion or 33 per cent of GDP) by the end of the year. The surplus on the current account in 1981 led to further reduction in the net external debt to 25 per cent of GDP at the end of 1981. Debt service payments on long-term loans amounted to 17.5 per cent of exports of goods and services in 1981. The Central Government has not raised any new loans abroad since early 1980 and, as a matter of policy, will not do so in the foreseeable future. ^{1/} In 1981 the net outflow of public sector long-term capital is estimated to have risen considerably to NKr 6.8 billion, far in excess of the net inflow of long-term capital for the private sector. Gross official reserves, which had expanded rapidly in 1980 (by SDR 1.5 billion), rose by SDR 0.7 billion in 1981, to SDR 5.4 billion, equivalent to 21 weeks' merchandise imports.

^{1/} From the beginning of 1982, the Central Government will extend all needed loans to Statoil, instead of foreign borrowing by the latter. If foreign finance is required, it will be raised by the Government.

CHART 9

NORWAY

EXTERNAL DATA



Source: Ministry of Finance, National Budget; Norges Bank, Annual Report, and IMF, International Financial Statistics.

Since the Norwegian krone was pegged to a basket of the currencies of 12 major trading partners in December 1978, only small fluctuations around the base level (100) for the effective value of the krone have been allowed. This policy takes into account both external policy considerations and the need to support domestic price and income policies. The emergence of current external surpluses, the domestic credit restraint and the periodic demand for kroner by oil companies to cover their tax obligations in krone terms have been the main factors affecting exchange market developments in 1980-81. The oil tax payments were due once a year until October 1980, after which the payments fall due twice a year (in April and October). In 1980, the supply of foreign exchange by the oil companies for the purpose of tax payments was spread throughout the year mainly through forward purchases by the oil companies of kroner against U.S. dollars which the Norwegian banks bought forward and hedged by raising short-term dollar loans abroad. The resulting inflow of foreign exchange broadly matched the demand for foreign exchange by the nonoil sector in the course of the year, and the Norges Bank intervened in the foreign exchange market only in periods when the supply of foreign exchange resulting from oil sector transactions exceeded the demand for foreign exchange in other sectors. During 1981 when there was a net outflow of short-term capital in view of high interest rates abroad, Norges Bank operated in the spot market only to some extent, while the main part of its intervention was in the form of currency swaps designed to regulate short-term bank liquidity. The peaks of dollar purchases occurred in April and October because of oil tax payments.

The MERM effective exchange rate appreciated on average by 2.3 per cent from 1979 to 1980, while in 1981 it depreciated by 3.4 per cent. The real effective exchange rate, ^{1/} after declining marginally in 1980, was 0.4 per cent above the 1980 average in the first nine months of 1981 and 13.7 per cent above the 1973 average.

2. Foreign trade

a. Exports of goods

The growth in the value of total merchandise exports accelerated to 34 per cent in 1980 (Table 28). The increase was due to a nearly 90 per cent increase in oil and gas exports, while the growth of traditional exports decelerated to 13 per cent in 1980. Exports of ships and oil platforms continued to decline (by 22 and 87 per cent, respectively).

The volume of merchandise exports excluding ships increased by 6 per cent in 1980, while the volume of traditional exports remained unchanged. The unit value of exports excluding ships increased by 30.3 per cent and that of traditional exports by 13 per cent. Despite

^{1/} Measured by changes in relative unit labor costs adjusted for effective exchange rate changes.

the large declines in relative unit labor costs in the two preceding years the gain in export market shares for traditional exports was small in 1980 due to an unfavorable commodity composition of exports and a deterioration in export price competitiveness.

In 1981 the growth in the value of merchandise exports slowed down to 12 per cent. The volume of exports excluding ships declined by 1.5 per cent and the rise in the export unit value declined to 14 per cent. The volume decline was caused mainly by a 6 per cent drop in the volume of oil and gas exports. The volume of traditional exports remained stagnant which meant a small loss of market shares. The export unit value for traditional exports rose by 10 per cent.

The rapid growth of the export volume of crude oil and natural gas in 1980 (24 and 21 per cent, respectively) was replaced by a decline in 1981. With price rises of more than 50 per cent (1980) and 20 per cent (1981) the combined share of these exports in total merchandise exports rose to 45 per cent in both years, approaching that of traditional exports. The volume of food exports declined by 5 per cent in 1980 and grew by 8 per cent in 1981, as a reflection of fluctuations in the fish catch. Raw material exports (excluding fuels) were stagnant in 1980 and grew by 1 per cent in 1981. Exports of manufactures, which accounted for 36 per cent of total merchandise exports in 1980, were unchanged in volume terms in both years. The export volume of iron and steel products declined by 9 per cent in 1980 and 2 per cent in 1981. The volume of nonferrous metal exports declined by 3 per cent in 1980 (aluminum by 6 per cent), but grew by 2 per cent in 1981. Exports of paper and paper products increased by 2 per cent in 1980, but fell by 6 per cent in 1981. The group of machinery and transport equipment recorded a volume growth of 6.5 and 5 per cent, respectively. In 1980 the growth was based on industrial machinery (20 per cent) and telecommunications equipment (30 per cent), while in 1981 exports of transportation equipment (excluding ships) expanded by 37 per cent, reflecting a resumption of exports of oil drilling equipment.

The value of exports to the EC area rose very rapidly in 1980 (48 per cent) as a result of increased oil and gas deliveries especially to the United Kingdom (where part of the North Sea oil is landed) ^{1/} and Germany, but slowed down to 11 1/2 per cent in 1981 (Table 30). The value of traditional exports to Germany rose considerably in both years (35 and 16 per cent, respectively), while traditional exports to the United Kingdom declined 16 per cent in 1980, but surged by 21 per cent in 1981. The share of EC countries in Norway's exports rose to 71 per cent in 1980. The value of exports to the EFTA area, which accounted for 13 per cent of Norwegian exports in 1980, rose by 12 1/2 and

^{1/} In 1980, approximately four fifths of crude oil exported to the United Kingdom were further re-exported to third (industrial) countries. Norway reported oil exports to the United Kingdom at US\$5.4 billion in 1980.

11 1/2 per cent, respectively, reflecting slow export growth to Sweden in both years. Export value to the United States rose by 42 per cent in 1981 (-1 per cent in 1980) when crude oil exports and exports of non-ferrous metals grew strongly.

In 1982 the value of merchandise exports is forecast to grow by only 1/2 per cent because of a further exported drop by 5 1/2 per cent in the volume of exports (attributable to a reduction in oil and gas exports) and a relatively slow growth in export prices, estimated at 6 per cent. Traditional exports are expected to grow by 4 per cent in volume (reflecting a recovery of market growth abroad) and by 6 per cent in price.

b. Imports of goods

The value of total merchandise imports rose by 21 per cent, and, excluding ships, by 26 per cent in 1980 (Table 29). The volume increase (excluding ships) was 11 per cent and import prices rose by 13 per cent. In 1981 the value of total merchandise imports rose only by 7 per cent and, excluding ships, by less than 4 per cent, comprising a rise in prices by 4 per cent and a decline in volume by 1/2 per cent.

Imports of manufactures increased in volume by more than 13 per cent in 1980 and 3 per cent in 1981. Raw materials except fuels increased by 8 per cent in volume in 1980, but in 1981 declining industrial production and adjustments of stocks brought about an 8 per cent decline. The volume of fuel imports, which had declined by 5 per cent in 1980, fell further by one fifth in 1981, reflecting largely replacements of imported crude by Norwegian crude delivered directly from the North Sea as an input into Norwegian oil refineries. Within manufactures, imports of iron and steel as well as aluminum products, which had increased by 28 and 35 per cent in volume in the context of the buildup of inventories in 1980, declined by 16 per cent (iron and steel) and 7 per cent (aluminum) in 1981. The volume of imports of machinery rose by 10 per cent in 1981 (18 per cent in 1980) because of increased industrial fixed investment. Imports of ships tripled in value terms in 1981 (though from a low level), as the shipping sector's prospects improved.

In 1981 the value of imports increased most sharply from Eastern Europe (25 per cent), the United States (22 per cent), and Germany (14 per cent), while imports from the United Kingdom fell by 1 per cent and from developing countries by 22 per cent. Partly these developments reversed the pattern from 1980, when imports from developing countries had more than doubled, grown by 28 per cent from the United Kingdom and fallen by 9 per cent from East European countries.

In 1982 the growth in the value of merchandise imports is estimated to accelerate to 14 per cent, with import prices rising by 6 per cent and the import volume by an estimated 7 per cent. A further large increase in imports of ships is expected to contribute to the recovery of the import volume.

c. Competitiveness

Norway lost market shares both abroad and at home in the period 1973-77 under the impact of worsening competitiveness as measured by an increase in relative unit labor costs in manufacturing (adjusted for effective exchange rate changes) by 27 per cent according to staff calculations (Table 31 and Chart 10). Part of the loss in competitiveness can be explained by the expansionary economic policies designed to bridge the period of weak foreign demand in the aftermath of the first oil crisis. Another factor explaining the loss of market shares for traditional exports in 1973-77 (19 per cent) was the shift in the commodity composition of foreign demand away from Norwegian exports. The cumulative loss of home market shares by Norwegian producers is estimated at 5 per cent during this period, during which the price of import substitutes relative to imports rose by 4 per cent according to Norwegian calculations.

The stabilization policies adopted in 1978-79 (including an 8 per cent devaluation of the krone, and a price-income freeze from September 1978 to the end of 1979) led to an improvement of cost competitiveness. Relative unit labor costs in manufacturing adjusted for effective exchange rate changes declined by some 11 per cent from 1977 to 1979. Relative export unit values for manufactures (adjusted for effective exchange rate changes) declined by some 7 per cent during the same period. However, market shares for traditional exports failed to respond to this improvement; further loss of some 1 1/2 percentage points was recorded in 1977-79, bringing the cumulative loss from 1973 to 20 per cent by 1979. Despite the reduction in prices of import substitutes relative to those of imports in 1978-79, home market shares changed little in the same period.

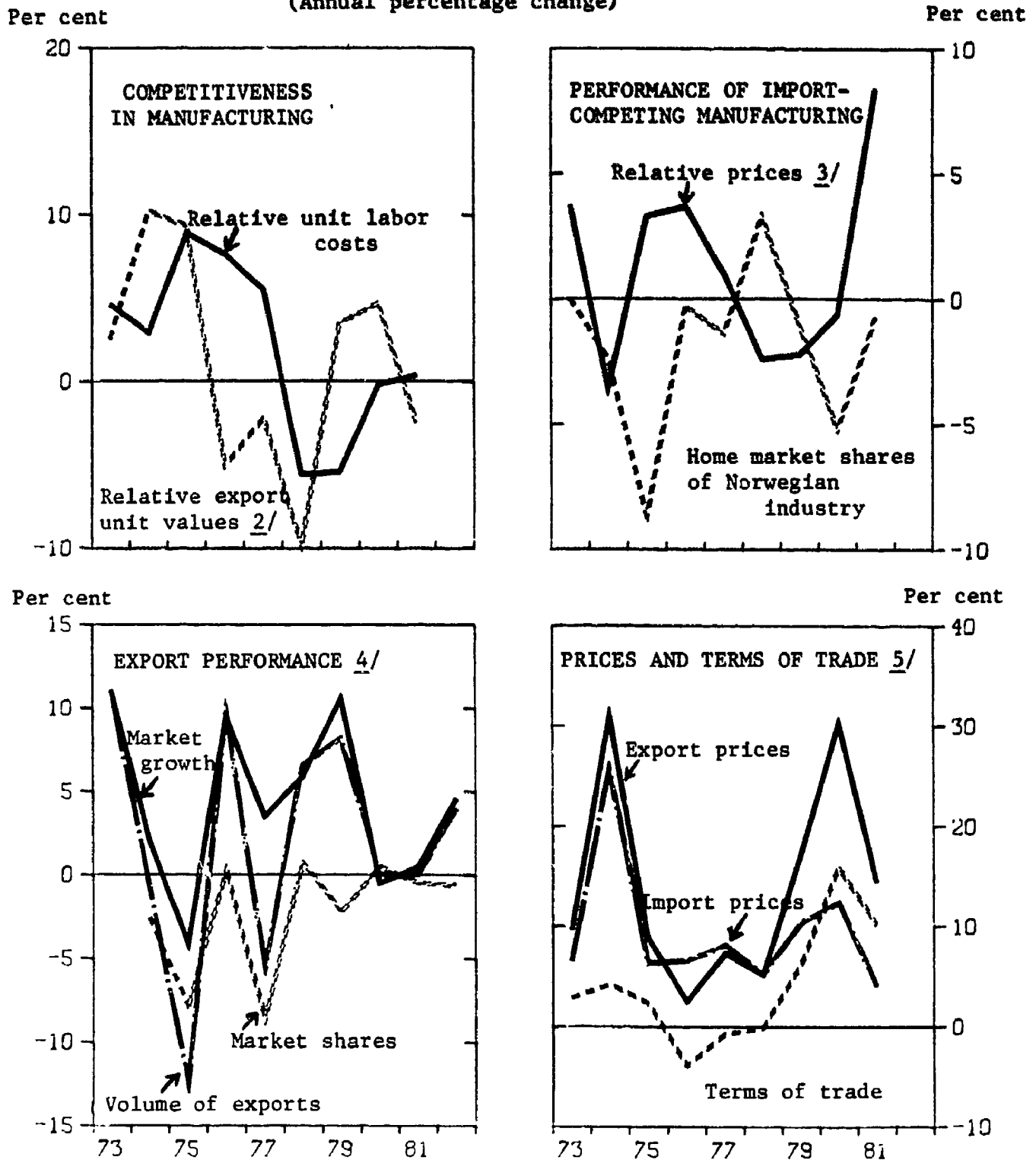
Although unit labor costs in industry accelerated significantly in 1980 (due to the catch-up effect after the end of the price-income freeze, the tight conditions in the labor market that contributed to considerable wage drift, and weak productivity developments), relative unit labor costs in manufacturing declined marginally. Despite the lagged effects of the improved cost competitiveness in 1978-79 there was only a small gain of shares in export markets. Further losses were recorded for home market shares in 1980 despite some improvement in the relative prices of import-competing production in 1978-80. In 1981 the rate of increase in unit labor costs in manufacturing accelerated, but with the effective depreciation of the krone (in MERM terms by 3.4 per cent) the rise in relative unit labor costs was small. The small gain in export market shares achieved in 1980 was lost. Also the import-competing industry lost market shares for the third consecutive year.

The lack of response of export and home market performance to improvements in cost competitiveness may, to some extent, have been related to shortages of skilled labor and more generally to the slow structural change in industry in response to changes in the structure of foreign demand for Norwegian products.

CHART 10

NORWAY

INTERNATIONAL COMPETITIVENESS AND PERFORMANCE 1/ (Annual percentage change)



Source: See Table 31 of the Recent Economic Developments for sources and more complete notes.

1/ Relative unit labor costs and relative prices in Norwegian manufacturing are adjusted for exchange rate changes.

2/ First three quarters 1981.

3/ Relative to import unit values.

4/ Merchandise exports excluding ships, oil platforms, crude oil, and natural gas.

5/ Unit values of merchandise trade excluding ships.

3. Services and transfers

The deficit on services and transfer account decreased from NKr 5 billion in 1979 to NKr 3 billion in 1980 (Table 27). Net freight earnings from shipping increased by 13 per cent to NKr 10 1/2 billion because of a continued rise in average freight rates and the appreciation of the U.S. dollar (underlying many freight contracts) and despite a 2-3 per cent decline in the volume of Norwegian shipping activity. The surplus on account of net services of the oil sector rose to nearly NKr 2 billion in 1980. Net travel expenditure abroad stayed at the previous year's level; the rate of increase in travel earnings (14 per cent) was twice that of travel expenditure. The previous sharp rise in net payments of interest and dividends abroad was nearly arrested at a level of some NKr 9 1/2 billion as a result of the reduction in foreign debt. Net transfer payments abroad increased only marginally to NKr 2.3 billion.

The deficit on services and transfers stayed at NKr 3 billion in 1981. Net earnings from shipping rose by 8 per cent, while net travel expenditure increased by a third. A NKr 1 billion increase in net expenditure on interest payments abroad can mainly be attributed to increased interest and dividend payments by the oil and shipping sectors and the increase in net transfer payments abroad to increased foreign aid. In 1982 the deficit on services and transfers is forecast to remain at NKr 3 billion.

4. Current transactions of the oil sector

The current external surplus of the oil sector grew particularly rapidly in 1978-80. The surplus doubled from 1979 to about NKr 39 billion in 1980 (Table 32). Oil and gas export receipts increased by 88 per cent in value, the increase comprising a 23 per cent volume growth and a 53 per cent increase in prices reflecting partly the appreciation of the U.S. dollar.

The current external surplus of the oil sector rose to about NKr 44 billion in 1981. The increase in the value of oil and gas exports was partly offset by a NKr 2 1/2 billion increase in net interest and dividend payments abroad, which reflected the sector's growing need for foreign capital and higher interest rates. The volume of exports of oil and gas declined by 6 per cent, because of some decline in production and increased use of domestic oil in Norwegian oil refineries. Oil exports declined by 12 1/2 per cent and natural gas by 1/2 per cent in volume. Export prices rose by 23 per cent for crude oil and 25 per cent for natural gas, the average gas price still being less than half of that for crude oil per one ton of oil equivalent.

The largest part of Norwegian oil is sold under long-term contracts under which prices tend to follow those in the international market for similar premium quality crudes such as light Algerian, Nigerian, and Libyan oil with a low sulphur content. The Norwegian authorities

retroactively establish quarterly norm prices for crude oil for tax purposes, which reflect current market prices. No norm price is set on natural gas, for which prices are based on long-term contracts according to market conditions prevailing at the time of the contract. Increases in natural gas prices have reflected changes in oil prices with an approximate lag of one year in the old contracts, which cannot be renegotiated. In new contracts concluded since 1980 the level of gas price is set at or near the price of crude oil, and with escalation clauses the development in oil prices is taken into account more accurately and with a time lag of three months.

In 1982 the current external surplus of the oil sector is forecast to decline sharply to NKr 32 1/2 billion, the decline reflecting continued decline in the volume of oil exports partly reflecting substitution of domestically produced oil for imported oil, a stagnant development of oil prices ^{1/} and increased imports of oil sector equipment.

5. Current transactions of the shipping sector

The current external surplus of the shipping sector increased by NKr 2 1/2 billion to NKr 10 billion in 1980 (Table 32). Net freight receipts rose by NKr 1 billion to NKr 10 1/2 billion. Freight rates continued to rise except for large tankers. The price component rose by 24 1/2 per cent for gross freight earnings. Net exports of ships (excluding exports of new ships) rose to NKr 1 billion. The merchant fleet in terms of gross tonnage continued to decline (by 2 per cent) in the course of 1980. The excess capacity of the fleet, measured by laid-up tonnage, was 3 per cent at the end of 1980.

In 1981 the current external surplus of the shipping sector fell to NKr 9 billion, largely because net exports of ships were replaced by small net imports. Net freight earnings rose to NKr 11 1/2 billion, partly because the appreciation of the U.S. dollar vis-à-vis the krone compensated for declining freight rates (in terms of U.S. dollars). The volume of gross freight earnings declined a little; the price component of gross freight earnings increased at a slower rate (13 per cent) than that of gross expenditure abroad (18 per cent). Net interest expenditure grew somewhat as a result of increased ship acquisitions. The gross tonnage of the merchant fleet started to grow (by 3 per cent) after having diminished for several years.

In 1982 the current account surplus of the shipping sector is expected to increase by about NKr 1 billion, when a resumed growth in world trade is forecast to produce an increase of nearly NKr 2 1/2 billion in net freight earnings. This is expected to be accompanied by increased net imports of ships and interest payments abroad.

^{1/} The price of natural gas is expected to rise by more than that of oil in 1982 because of lagged effects of earlier oil price rises.

6. Capital account and external debt

The shift of Norway's current account balance into surplus led to a net outflow of long-term capital of Nkr 4.4 billion in 1980. This net outflow was comprised of an outflow of Nkr 3.4 billion from the public sector and Nkr 1 billion from the private sector (Table 27 and Chart 9). Long-term borrowing of the Central Government was discontinued in the spring of 1980 after two new fixed-rate five-year loans had been raised totalling Nkr 1 billion. There was a sizable net inflow of short-term capital (including errors and omissions) amounting to Nkr 7 billion. The main part took the form of increased short-term borrowing abroad in foreign currency by the private banking sector in order to hedge against the exchange risk resulting from their forward purchases of foreign exchange from oil companies, which pay oil taxes in kroner.

In 1981 a net outflow of long-term capital of Nkr 5 1/2 billion is estimated on the basis of official estimates of October 1981, comprising a Nkr 7 billion net outflow from the public sector and an inflow of some Nkr 1 billion of private capital. However, on the basis of external debt statistics (Table 33) there appears to have been a net outflow also from the private sector despite the fact that an inflow is expected for the oil sector. In 1982, a net outflow of long-term capital of Nkr 4.5 billion is forecast. This is expected to come from a Nkr 10 billion net outflow of public sector capital and a Nkr 5.7 billion net inflow of private capital, mainly to the oil and shipping sectors.

The net external debt, which peaked in nominal terms at Nkr 103 1/2 billion at the end of 1979, decreased to Nkr 93 1/2 billion at the end of 1980 (Table 33). In relation to GDP the debt decreased from a peak of 46 1/2 per cent in 1978 to 33 per cent in 1980 (Chart 9). Debt of the oil sector (repayment of which does not follow a fixed schedule but is made from oil and gas export earnings) was 30 per cent of the total net external debt in 1978; it began to decline in nominal terms in 1979. At the end of 1980 that debt was 25 per cent of the total. In 1980-81 net foreign debt of the public sector declined, as the central government sector reduced its indebtedness by more than Nkr 8 billion. Central government debt consists mainly of five-year bonds, repayments of which are scheduled to peak in 1983 (Table 34).

The continued surplus on external current account was reflected in a further reduction in Norway's net external debt in 1981. The Central Government continued its policy of not borrowing abroad, and it reduced its foreign indebtedness by Nkr 3 1/2 billion in 1981. The net debt of the private sector declined by some Nkr 3 billion, and the total net debt is estimated to have fallen to Nkr 82 billion, equivalent to 25 per cent of GDP. The external debt of the oil and shipping sectors is increasing, in view of increased investments. Norway's debt service payments were 21 1/2 per cent of exports of goods and services in 1980 (against 21 per cent in 1979). In 1981 they are estimated at 17 1/2 per cent.

7. International reserves

In 1980, gross official international reserves rose by Nkr 10.4 billion (SDR 1.5 billion) to Nkr 31.3 billion (SDR 4.7 billion) at the end of the year, equivalent to 19 weeks' imports of goods (Table 35 and Chart 9). In addition to its gross reserves Norges Bank had assets in the form of outstanding forward and swap contracts of Nkr 4.3 billion (US\$835 million) at the beginning of 1981. Norges Bank intervened in the spot and forward foreign exchange markets during the year mostly to relieve the upward pressure on the krone and also to contain the rise in bank liquidity. Norges Bank's net purchases of foreign exchange by way of swaps and forward and spot interventions amounted to Nkr 10.8 billion (US\$2.2 billion) in 1980.

Gross official reserves were Nkr 36.6 billion (SDR 5.4 billion) at the end of 1981 (equivalent to 21 weeks' imports of goods). Net purchases by Norges Bank were Nkr 4.9 billion (US\$1 billion) during the year, mostly by means of currency swaps, although spot and forward interventions were also used. Swap transactions were used to neutralize excessive krone liquidity, with settlements timed at times of need for kroner, especially dates for oil tax payments in April and October.

The net foreign liabilities of the commercial and savings banks rose by Nkr 7.8 billion during 1980 to Nkr 11.6 billion at the end of the year (Table 35). Most of the increase took place during the three last quarters of 1980, as banks raised short-term foreign loans to cover the exchange rate risk connected with the increase in their forward dollar claims against the oil companies, which were selling dollars forward to domestic banks to pay oil taxes in kroner. The banks' net foreign liabilities decreased by Nkr 3.3 billion in the first 11 months of 1981 to Nkr 8.3 billion. The net foreign exchange assets of the private nonbank sector (as defined in Table 35) doubled during 1980 to Nkr 3.4 billion. At the end of November 1981, the net foreign assets of the private nonbank sector were Nkr 1.9 billion.

8. Policies on foreign trade and payments

a. Exchange rate system

In managing the exchange rate of the Norwegian krone the authorities are guided by a trade-weighted index based on a basket of 12 currencies of the country's most important trade partners. The weights of the index are proportional to Norway's foreign trade (exports and imports) with each of the countries whose currencies are included in the index, except for the U.S. dollar. The weight of the U.S. dollar has been adjusted to take account of the fact that a great part of exports and imports of shipping services and petroleum products are dollar based. The weights in the basket, which have been unchanged since the basket system was introduced in December 1978, were published in March 1979 and are as follows:

<u>Currency</u>	<u>Percentage weight</u>
U.S. dollar	25
Swedish krona	18
Deutsche mark	14
Pound sterling	13
Danish krone	7
Japanese yen	6
French franc	4
Netherlands guilder	4
Finnish markka	3
Belgian franc	2
Italian lira	2
Swiss franc	<u>2</u>
Total	100

The exchange rate is managed so as to allow only limited fluctuation around the base level for the effective value, albeit Norway has not announced any binding fluctuation margins for the index. The base level of the index (100), is based on the average middle exchange rates, which prevailed at the Oslo foreign exchange market in August 1978. The Norges Bank intervenes on the market to the extent necessary to prevent large fluctuations in the basket index. The U.S. dollar has been used as an intervention currency. The rate of exchange of the krone for the U.S. dollar is fixed daily on the basis of the average weighted variations in quotations for the U.S. dollar in relation to the other currencies in the basket. There are no taxes or subsidies on purchases or sales of foreign exchange.

b. Exchange rate developments

During most of 1980 there was upward pressure on the krone, which was reflected in some movement of the currency basket index (Chart 11). The average basket rate of the krone showed a 1.3 per cent appreciation in 1980. The appreciation was concentrated on the period March through September 1980. The basket rate of the krone depreciated somewhat in the period from October to December 1980, so that it was 1.2 per cent lower at end-December 1980 than one year earlier. Measured by the Fund's effective exchange rate index (MERM), the krone appreciated on average by 2.3 per cent in 1980. The Norges Bank intervened in both spot and forward markets in the course of 1980 in order to stabilize the basket index.

The basket rate of the krone depreciated further in January 1981, appreciated in February, and changed little until end-May. In June the krone depreciated again and the index exceeded 102 at the beginning of July. ^{1/} Later in 1981 the basket rate appreciated again. These

^{1/} A basket index number below (above) 100 indicates an appreciation (depreciation) of the krone vis-à-vis the base period.

movements were related to strong fluctuations in the exchange rate of the U.S. dollar vis-à-vis major European currencies so that the krone depreciated substantially vis-à-vis the dollar from July 1980 to August 1981 and again in early 1982. The average basket rate depreciated by 1.8 per cent in 1981, and the MERM-rate depreciated by 3.4 per cent. A forward premium on the krone against the U.S. dollar was recorded during most of 1980-81, reflecting high interest rates abroad (Chart 8). A small forward discount developed from May to August 1980, and again in late 1981, when interest rates abroad fell.

c. Exchange and trade policies

No major changes in exchange rules and regulations took place in 1980 and 1981. The requirement of a near balance on banks' total positions in foreign exchange was extended to all authorized banks, regulations concerning oil companies' and other business sector's placements abroad were relaxed, and the basic exchange allowance for tourist travel was raised as well as the limit for use of foreign exchange to purchase a vacation house abroad.

d. Changes in exchange and trade regulations 1/

1980

April 1. Authorized banks were required to balance their total positions in foreign exchange at the end of the day within margins ranging from plus or minus NKr 75 million to plus or minus NKr 5 million, depending upon the size of a bank's total assets.

May 5. The oil companies were given general permission to hold their foreign currency assets as bank deposits and other short-term investments with maturities of up to 12 months and may, after special permission from the Norges Bank, hold foreign currency assets with maturities longer than 12 months.

May 12. The basic exchange allowance for tourist travel abroad was raised from the equivalent of NKr 5,000 to NKr 10,000 a trip for each person.

The amount in Norwegian banknotes which each person leaving Norway may carry was raised from NKr 800 to NKr 2,000.

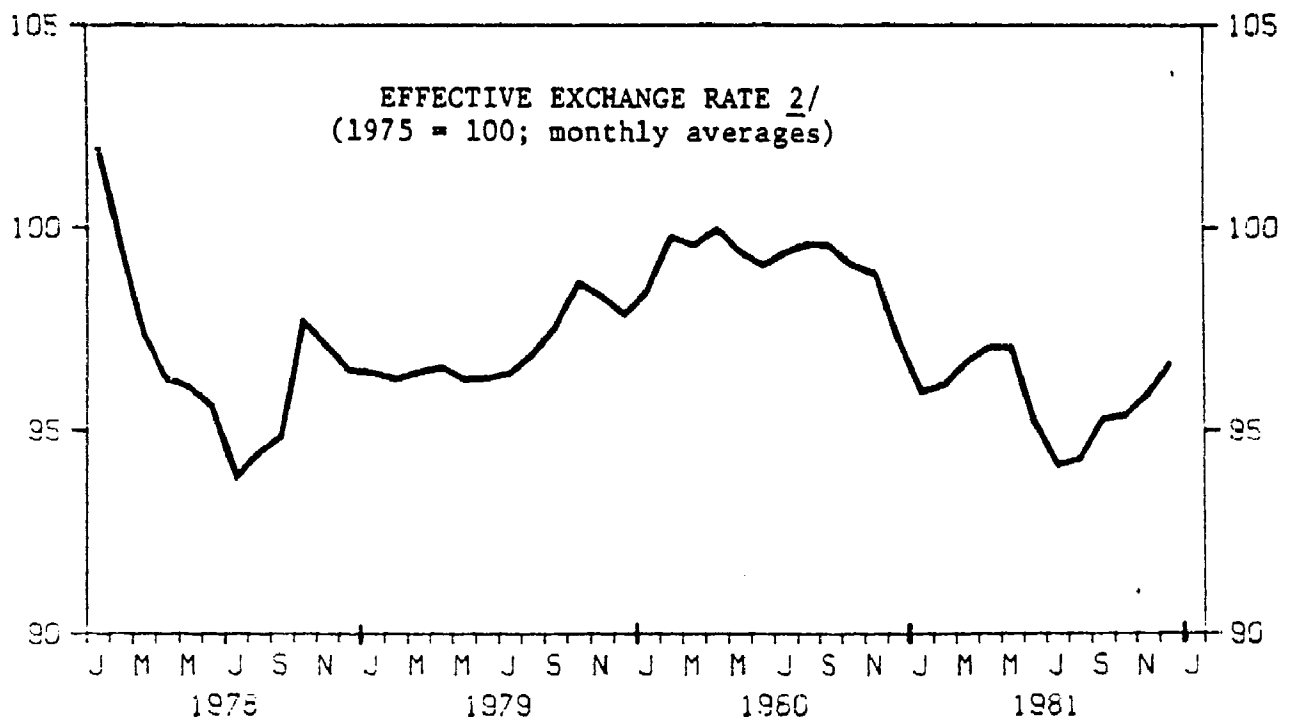
1981

January 27. The sanctions against Iran were abolished.

May 25. The limit on the transfer of capital abroad for the purchase of real estate for recreational purposes was raised from NKr 250,000 to NKr 350,000 per family.

1/ A more complete description of the exchange and trade system is contained in IMF, Annual Report on Exchange Arrangements and Exchange Restrictions.

CHART 11
NORWAY
EXCHANGE RATE DEVELOPMENTS



Sources: IMF, International Financial Statistics; and data provided by the Norwegian authorities.

1/ Index of the currency basket of 12 currencies relative to the Norwegian krone; a declining value of the index indicates an appreciating krone (note inverted scale). Basket system in effect since December 12, 1978.

2/ Based on the IMF Multilateral Exchange Rate Model.

December. The 12-month rule concerning the business sector's placements abroad was abolished, so that companies with long-term liabilities in foreign currency can, upon application to Norges Bank, hold foreign bank deposits and foreign bonds quoted on recognized stock exchanges without restriction on maturities of such assets.

1982

January 1. The prohibition against import or export of banknotes in higher denominations than 100 kroner was abolished.

e. Development assistance

Norway's official development assistance appropriations increased by 25 per cent to Nkr 2.9 billion in 1981, equivalent to 0.92 per cent of GNP, as compared to the Nkr 2.3 billion (0.85 per cent of GNP) disbursed in 1980. In 1980 multilateral assistance accounted for 43 per cent of the official development assistance, while the remaining 57 per cent consisted of bilateral assistance. Practically all official development aid is given in the form of grants. Bilateral assistance is directed primarily to countries with low per capita income; the main recipients in 1980 were Botswana, Kenya, Mozambique, Tanzania, Zambia, Bangladesh, India, Pakistan, and Sri Lanka, which accounted for 64 per cent of bilateral assistance. The budget appropriations for official development assistance in 1982 were increased by 26 per cent to Nkr 3.7 billion, equivalent to some 1.05 per cent of estimated GNP. The main principles of the Norwegian official development aid program, viz., the grant form, the untied nature of the aid (except for aid in kind), the even balance between multilateral and bilateral aid, and the favoring of low income countries will, according to official statements, be followed also in the future.

Table 1. Norway: Demand and Supply

	1980		1970-74	1974-78	1979	1980	1981	1982 1/
	Nkr billions	Per cent of GDP	Volume change in per cent per annum					
Private consumption	134.9	47.6	3.6	4.1	3.2	2.2	1.3	1.1
Public consumption	53.4	18.8	3.0	6.0	3.5	4.7	4.9	3.0
Civilian	45.6	16.0	6.4	6.6	3.5	4.2	3.1	3.3
Military	8.0	2.8	-0.7	3.0	3.6	7.5	15.4	1.3
Gross fixed investment	70.1	24.7	8.0	3.2	-5.0	-0.7	16.5	-1.1
General government 2/	11.4	4.0	6.1	6.7	-7.4	2.5	-8.6	-5.6
Housing	13.6	4.8	5.7	5.5	2.4	—	0.9	3.4
Business sector	45.2	15.9	9.1	1.7	-6.4	-1.7	27.7	-1.3
Agriculture, forestry and fishing	5.8	2.0	5.3	12.2	-12.7	7.8	4.8	3.1
Mining (excluding oil), and manufacturing	9.1	3.2	7.8	0.7	-11.1	7.2	11.9	-10.0
Oil sector 3/	6.3	2.2	89.8	4.7	-33.0	-18.5	156.8	-11.1
Shipping	2.6	0.9	-8.5	-17.4	143.8	-22.4	49.4	17.6
Power	6.8	2.4	1.0	15.0	-0.6	1.3	5.7	2.7
Other	14.5	5.1	8.3	-1.7	5.6	0.4	2.0	3.6
Final domestic demand	258.4	91.2	5.1	4.2	0.8	1.9	6.2	0.9
Stockbuilding 4/	7.6	2.7	...	...	2.8	2.6	-4.9	1.4
Total domestic demand	266.1	93.9	4.8	2.7	3.7	4.6	1.0	2.4
Of which: mainland Norway 5/	(257.1)	90.7	(4.3)	(3.0)	(4.8)	(5.6)	(-3.0)	(2.8)
Exports of goods and services	134.9	47.6	5.9	6.5	2.6	2.2	1.0	-1.8
Total demand	401.0	141.4	5.1	3.9	3.4	3.8	1.0	1.0
Imports of goods and services	117.5	41.4	6.0	1.8	-0.7	3.6	1.9	6.0
Gross domestic product	283.5	100.0	4.8	4.8	5.1	3.9	0.7	-1.1
Of which: mainland Norway	226.4	79.8	(4.5)	(3.1)	(4.3)	(2.2)	(1.0)	(1.7)
Memorandum items								
Private consumption deflator	...	...	7.5	9.3	5.1	9.9	13.9	11.4
GPD deflator	...	...	7.8	8.1	6.6	14.3	14.6	9.3
GDP (in current prices)	283.5	100.0	12.9	13.2	12.0	18.8	15.3	8.1
GDP mainland Norway (in current prices)	226.4	79.8	(12.9)	(12.6)	(8.4)	(10.9)	(14.3)	(12.4)

Sources: Central Bureau of Statistics, National Accounts, Statistisk ukehefte, and Economic Survey; and Ministry of Finance, Revised National Budget; and data provided by the Norwegian authorities.

1/ Forecast of December 1981.

2/ Excludes public enterprises.

3/ Including oil drilling activity and pipeline transport for oil and gas.

4/ Change as a percentage of previous year's GDP in constant prices.

5/ Excludes the oil and shipping sectors.

Table 2. Norway: Contributions of Demand Components
to GDP growth

(As percentage of real GDP in previous year)

	1978	1979	1980	1981	1982 <u>1/</u>
Private consumption	-0.9	1.6	1.1	0.6	0.5
Public consumption	1.1	0.7	0.9	1.0	0.6
Gross fixed investment	-3.9	-1.5	-0.2	4.3	-0.3
General government					
fixed investment	0.4	-0.4	0.1	-0.4	-0.2
Housing	0.5	0.1	--	--	0.2
Business fixed					
investment	-4.8	-1.3	-0.3	4.6	-0.3
Of which:					
Oil and shipping					
sectors	-4.5	-0.8	-0.7	3.8	(-0.2)
Change in inventories	<u>-2.2</u>	<u>2.8</u>	<u>2.6</u>	<u>-4.9</u>	<u>1.4</u>
Total domestic demand	-6.0	3.6	4.4	1.0	2.2
Foreign balance	10.6	1.5	-0.5	-0.3	-3.3
Gross domestic product	4.5	5.1	3.9	0.7	-1.1

Sources: Central Bureau of Statistics, Statistisk ukehefte, and Economic Survey; and Ministry of Finance, National Budget; and data provided by the Norwegian authorities.

1/ Forecast of December 1981.

Table 3. Norway: Stocks in Manufacturing and Wholesale Trade 1/

(Volume changes in per cent per annum)

	Per cent of total <u>1/</u>	1970-74	1974-78	1979	1980	Sept. 1981 <u>2/</u>
Manufacturing	78.0	1.6	4.7	-9.6	18.4	5.9
Raw materials	28.8	-0.7	3.0	-4.9	12.4	4.0
Finished goods, goods in process	49.2	2.8	5.6	-11.6	20.6	7.1
Wholesale trade	<u>22.0</u>	<u>4.3</u>	<u>1.3</u>	<u>-5.4</u>	<u>9.0</u>	<u>-6.8</u>
Total	100.0	2.2	3.9	-7.7	14.8	2.4
Domestically- produced goods	64.5	1.9	6.2	-8.9	15.9	6.0
For domestic use	45.2	0.5	4.5	-3.4	10.5	7.2
For export	19.3	4.9	9.7	-21.4	30.0	3.9
Imported goods	35.5	2.7	-0.6	-5.8	13.3	-4.6

Source: Central Bureau of Statistics, Monthly Bulletin of Statistics, and Statistisk ukehefte.

1/ Based on a sample survey with 1970 weights.

2/ Percentage change from September 1980.

Table 4. Public Sector Demand

	1980 Nkr billions	1970-74	1974-78	1979	1980	1981	1982 1/
		Volume changes in per cent per annum					
Public consumption	53.4	5.5	5.3	3.5	4.7	4.9	3.0
Central government	21.3	3.5	2.8	2.8	5.7	8.3	2.3
Local government	32.1	7.1	7.1	3.9	4.0	2.0	3.5
General government fixed investment	11.4	6.1	8.4	-7.4	2.5	-8.6	-5.6
Central government	3.6	5.4	2.9	-13.3	6.1	0.5	1.7
Local government	7.8	6.4	11.3	-4.5	0.9	-12.9	-7.6
General government final demand (in per cent of GDP)	64.8 (22.9)	5.7 (22.6)	5.9 (24.4)	1.4 (23.9)	4.3 (22.9)	2.5 (22.4)	1.7 (23.7)
Public enterprise fixed investment	15.3	15.8	-10.6	-5.8	-2.0	22.8	...
Total public sector demand (incl public enterprises) (in per cent of GDP)	80.1 (28.3)	9.4 (27.1)	1.9 (30.8)	-0.2 (29.9)	3.0 (28.3)	6.5 (28.6)	...

Sources. Central Bureau of Statistics, Economic Survey 1981, and National Accounts 1969-80; and Ministry of Finance, National Budget; and data provided by the Norwegian authorities.

1/ Forecast of December 1981.

Table 5. Norway: Value added by Sector

	Per cent of GDP	Volume changes in per cent per annum					
		1970- 1974	1974- 1978	1979	1980	1981	1982 <u>1/</u>
Agriculture, forestry, and fishing	4.5	3.9	-0.6	3.0	3.8	4.7	-0.7
Industry	<u>26.0</u>	<u>4.4</u>	<u>0.4</u>	<u>2.1</u>	<u>0.8</u>	<u>0.5</u>	<u>0.7</u>
Mining and manufacturing	15.8	4.6	-1.3	2.2	1.1	-1.3	0.9
Construction	6.8	2.9	5.0	-0.8	2.7	1.4	0.7
Power	3.4	6.7	1.7	9.5	-5.9	8.7	2.8
Shipping	4.4	5.3	3.3	-4.2	0.3	0.3	6.0 <u>2/</u>
Total services	<u>49.4</u>	<u>4.6</u>	<u>5.0</u>	<u>5.7</u>	<u>2.9</u>	<u>0.9</u>	<u>2.1</u>
Private services	35.7	4.4	4.4	6.2	2.5	0.2	0.8
Public services	13.7	5.5	6.6	4.3	4.1	2.8	3.6
GDP excluding oil sector	84.3	4.6	3.0	3.7	2.1	0.9	1.6
Of which:							
Sheltered sector	66.3	4.5	4.3	4.5	2.6	1.3	1.8
Exposed sector	18.0	4.4	-1.7	1.3	0.5	-0.3	0.7
Of which:							
Import-competing sector	10.9	3.7	-1.4	2.2	-0.9	-0.8	...
Export-competing sector	7.1	5.7	1.1	0.6	1.6	0.1	...
Oil sector	15.7	...	81.9	21.8	22.9	-1.6	-12.0 <u>2/</u>
GDP	100.0	4.8	4.8	5.1	3.9	0.7	-0.1

Sources: Central Bureau of Statistics, Economic Survey, and Statistisk ukehefte; and Ministry of Finance, National Budget.

1/ Official forecasts of October 1981; they differ somewhat from data in Tables 1 and 2, where more recent figures have been available.

2/ Forecasts in the National Budget 1982 refer to sectors "shipping and oil drilling" and "oil sector excluding oil drilling", respectively.

Table 6. Norway: Industrial and Energy Production

(Volume changes in per cent per annum)

	Percentage Weights <u>1/</u>	1970-74	1974-78	1979	1980	1981
Mining	10.9	...	61.7	16.5	24.1	-2.1
Traditional mining	2.3	1.5	1.9	4.9	-1.7	-1.8
Oil and gas	8.5	...	105.3	17.5	26.5	-2.2
Manufacturing	77.5	4.0	-1.5	2.1	1.0	-1.0
Food, beverages, and tobacco	8.9	1.9	-0.2	1.9	2.7	--
Textiles, apparels, and shoes	3.9	-3.2	-4.0	-1.1	1.1	-5.6
Wood processing	8.2	8.0	-0.2	-1.0	-1.0	-3.9
Pulp and paper	4.1	1.2	-3.2	10.2	--	0.8
Printing and publishing	5.9	3.1	--	-2.2	1.1	-1.1
Chemical industry	8.4	4.2	-1.5	10.2	--	-0.9
Mineral products	3.5	5.3	-3.2	1.1	3.2	-6.2
Iron, steel, and ferro-alloys	4.7	4.7	-4.6	16.9	-5.2	-8.7
Nonferrous metals	2.5	5.7	-0.9	6.6	1.8	-0.9
Engineering products <u>2/</u>	26.8	5.3	-0.8	-1.1	3.2	1.0
Of which:						
Transport equipment	8.3	3.8	-2.1	-7.8	-1.2	--
Other	0.7	2.4	-1.2	-1.9	-19.4	-10.0
Energy (Hydro)	11.6	7.4	1.7	10.4	-6.0	10.3
Total	100.0	4.7	5.1	6.0	7.3	-0.2
Export goods	27.0	4.2	8.2	1.1	0.9	-0.8
Consumption goods	16.7	2.4	2.2	2.8	0.9	0.8
Investment goods	6.1	5.5	2.9	-7.2	2.0	0.9
Semifinished goods	50.2	4.3	0.3	4.2	0.2	-0.3

Sources: Central Bureau of Statistics, Monthly Bulletin of Statistics, and Statistisk ukehefte.

1/ Base year: 1975.

2/ Includes metal processing, machinery and transport equipment.

Table 7. Norway: Oil and Gas Production
(In millions of tons of crude oil equivalent)

Estimate of:	1976	1977	1978	1979	1980	1981	1985	1990
September 1975	14.0	37.0	55.0	72.0	78.0	85.0	85.0	85.0
April 1977	13.6	22.4	40.0	60.0	67.0	65.0	72.0	54.0
October 1978	13.7	15.9	30.0	42.2	62.4	65.8	72.0	54.0
May 1980	13.7	15.9	31.3	40.0	55.0	60.0	55.0	50.0
April 1981	13.8	17.7	31.9	40.3	50.5	50.0 ^{1/}	60.0	75.5
February 1982	<u>13.8</u>	<u>17.7</u>	<u>31.9</u>	<u>40.4</u>	<u>50.5</u>	<u>49.1</u>		
Crude oil	13.8	13.6	17.0	18.8	24.4	23.3		
Natural gas	--	3.1	14.9	21.6	26.1	25.8		

Sources: Ministry of Finance, Natural Resources and Economic Development (Parliamentary Report No. 50, 1974-75); Long-Term Program 1978-81 (April 1977); Supplementary to the Long-Term Program 1978-81 (April 1978); Ministry of Petroleum and Energy, The State of Activities on the Norwegian Continental Shelf (Parliamentary Report No. 53, 1979-80); Ministry of Finance, Long-Term Program 1982-85 (April 1981); Central Bureau of Statistics, Economic Survey 1981 (February 1982).

^{1/} Ministry of Finance, National Budget 1982.

Table 8. Norway: The Merchant Fleet

(In millions of gross registered tons)

	1977	1978	1979	1980	1981
<u>(End of period)</u>					
Total fleet	<u>26.8</u>	<u>23.1</u>	<u>21.5</u>	<u>21.1</u>	<u>21.7</u>
Tankers	<u>15.4</u>	<u>14.5</u>	<u>13.4</u>	<u>13.2</u>	<u>13.5</u>
Other ships	<u>11.4</u>	<u>8.6</u>	<u>8.1</u>	<u>7.9</u>	<u>8.2</u>
Laid-up	5.8	2.8	0.6	0.7	2.7
Contracted at foreign yards	2.2	1.2	1.9	2.5	2.8 <u>1/</u>
<u>(Change during period)</u>					
Net addition to fleet due to:	<u>-0.3</u>	<u>-3.7</u>	<u>-1.6</u>	<u>-0.4</u>	<u>0.5</u>
New ships built in Norway	<u>0.3</u>	<u>0.1</u>	<u>0.3</u>	<u>0.1</u>	<u>0.2</u>
New imported ships	<u>1.9</u>	<u>1.0</u>	<u>0.6</u>	<u>0.4</u>	<u>0.9</u>
Secondhand imported ships	<u>0.1</u>	<u>--</u>	<u>0.3</u>	<u>0.1</u>	<u>0.4</u>
Sale of ships abroad (-)	<u>-2.5</u>	<u>-4.8</u>	<u>-2.8</u>	<u>-1.0</u>	<u>-1.0</u>

Source: Central Bureau of Statistics, Statistisk ukehefte, and Monthly Bulletin of Statistics; and data provided by the Norwegian authorities.

1/ As of November 1, 1981.

Table 9. Norway: Labor Market Developments

			1977	1978	1979	1980	1981
<u>(In thousands of persons)</u>							
Labor market surveys							
Labor force			1,851	1,888	1,910	1,946	1,971
Employment			1,824	1,854	1,872	1,913	1,932
Of which:							
Persons affected by labor market measures			11	12	14	15.3	16.4 ^{1/}
Unemployment			27	34	38	33	40
Registered unemployment			16.1	20.0	24.1	22.3	28.7
Notified unfilled vacancies			8.8	7.0	6.3	8.0	6.5
<u>(In per cent of labor force)</u>							
Unemployment survey data			1.5	1.8	2.0	1.7	2.0
Unemployment registered			0.9	1.1	1.3	1.1	1.5
Persons affected by labor market measures			0.6	0.6	0.7	0.8	0.8 ^{1/}
	<u>1980</u>		<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
	Number of	Per cent	<u>Employment in thousands of man-years</u>				
	man-years	of total	<u>(Annual changes)</u>				
Agriculture,							
forestry, and							
fishing	139	8.1	-4.0	-3.0	1.0	-1.0	-3.0
Industry	549	32.0	4.0	-3.0	-8.0	3.0	-5.0
Mining, and							
manufacturing	380	22.2	1.0	-8.0	-6.0	-4.0	-7.0
Construction	150	8.7	3.0	5.0	-3.0	6.0	1.0
Power	19	1.1	--	--	1.0	1.0	1.0
Total services	966	56.3	31.0	26.0	18.0	23.0	15.0
Private services	594	34.6	18.0	10.0	9.0	9.0	6.0
Public services	372	21.7	13.0	16.0	9.0	14.0	9.0
Oil	5	0.3	1.0	2.0	1.0	2.0	--
Shipping	56	3.3	1.0	-4.0	-1.0	2.0	--
Total							
employment	1,715	100.0	33.0	18.0	11.0	29.0	7.0
Of which:							
Sheltered							
sector	1,359	79.2	34.0	30.0	15.0	29.0	12.0
Exposed							
sector	356	20.8	-1.0	-12.0	-4.0	--	-5.0

Sources: Central Bureau of Statistics, Monthly Bulletin of Statistics, Economic Survey, and National Accounts.

^{1/} In the first nine months of 1981.

Table 10. Norway: Productivity by Sector 1/
(Volume change in per cent)

	1970-74	1974-78	1979	1980	1981	1982 <u>2/</u>
Agriculture, forestry, and fishing	10.2	2.0	2.3	4.6	7.0	0.2
Mining and manufacturing	3.7	-0.5	3.8	2.2	0.6	1.4
Construction	2.6	3.0	1.3	-1.4	0.7	0.7
Power	5.4	0.6	3.5	-10.8	3.2	0.7
Services	2.2	1.9	3.7	0.5	-0.7	0.7
Shipping	9.0	8.6	-2.4	-3.3	0.3	3.8
Oil sector	...	24.3	4.4	-4.4	-1.6	-17.8
All sectors	4.0	3.5	4.4	2.2	0.3	-0.9
Of which:						
Sheltered sector	3.5	2.1	3.3	0.4	0.4	0.8
Exposed sector <u>3/</u>	4.9	1.6	2.7	1.1	1.2	1.3

Sources: Ministry of Finance, National Budget; Central Bureau of Statistics, National Accounts; and Central Bureau of Statistics, Economic Survey.

1/ Measured as GDP per man-year.

2/ Official forecasts of October 1981.

3/ Excluding oil.

Table 11. Norway: Government Financial Assistance to Industry

(In millions of Norwegian kroner)

	1977	1978	1979	1980	1981 <u>1/</u>	1982
Loans and grants	1,159.0	1,236.0	1,424.0	1,412.1	1,807.0	1,308.9
Industrial fund	92.0	126.0	185.0	107.2	103.3	71.0
Research and development	37.0	84.0	130.0	94.7	125.0	64.0
Stocks subsidy and liquidity loans	297.0	125.0	52.2	46.8	50.0	--
Support for selected branches	424.0	404.0	426.4	420.2	720.0	523.4
Shipbuilding	(300.0)	(245.0)	(227.0)	(191.6)	(540.0)	(375.0)
Others	(124.0)	(159.0)	(199.4)	(228.6)	(180.0)	(148.4)
Export promotion	14.0	42.0	83.3	107.2	172.0	166.0
Environmental protection	39.0	89.0	63.2	31.5	90.4	22.0
Regional policy	256.0	366.0	376.9	435.4	446.8	462.5
Supply of capital	486.0	584.0	801.4	648.0	936.5	570.0
Shipbuilding credits <u>2/</u>	775.0	321.0	325.5	270.5	320.0	320.0
Total	2,420.0	2,141.0	2,443.9	2,161.5	2,964.0	2,198.9

Source: Ministry of Finance, National Budget, 1982.

1/ National Budget appropriation.

2/ Refund of import duty for purchases of ships and NKr 450 million subsidy in 1977 for ordering ships from Norwegian yards.

Table 12. Norway: Government Assistance to Employment

	1978	1979	1980	1981 <u>1/</u>	1982
Financial Assistance					
<u>(In millions of Norwegian kroner)</u>					
Ordinary budget	490	501	633	916	1,041
Contingency appropriation	<u>--</u>	<u>135</u>	<u>209</u>	<u>299</u>	<u>250</u>
Total assistance	490	636	842	1,215	1,291
Employment Covered by Labor Market Measures					
<u>(Average number of persons)</u>					
Public works	2,097	3,004	2,968	3,719 <u>2/</u>	
Job training programs	3,104	3,462	4,041	4,909 <u>2/</u>	
Rehabilitation programs	6,079	6,958	7,747	8,596 <u>2/</u>	
Other	<u>143</u>	<u>549</u>	<u>593</u>	<u>559 <u>2/</u></u>	
Total	11,423	13,973	15,349	17,756	
As per cent of labor force	0.6	0.7	0.8	0.9	

Source: Ministry of Finance, National Budget.

1/ Budget appropriation.

2/ First 6 months.

Table 13. Norway: Total Factor Income, Personal Income, and Savings

	1980 In Nkr billion	1970-74	1974-78	1979	1980	1981
		Changes in per cent per annum				
Total factor income	213.8	13.2	13.1	12.8	20.8	15.3
Of which:						
Entrepreneurial income	68.9	9.1	9.0	44.5	44.1	22.1
Exposed sector <u>1/</u>	9.0	23.7 <u>2/</u>	11.8 <u>2/</u>	17.0 <u>2/</u>	15.7 <u>2/</u>	14.5 <u>2/</u>
Sheltered sector	27.6	16.6 <u>2/</u>	14.5 <u>2/</u>	14.3 <u>2/</u>	14.7 <u>2/</u>	16.7 <u>2/</u>
Personal income	189.4	...	14.1	7.2	12.3	13.9
Of which:						
Wages	123.9	13.3	14.5	4.4	12.1	12.0
Other earned income	23.9	...	8.4	8.4	13.2	20.9
Current transfers	41.6	15.2	16.6	16.0	12.2	15.4
Direct taxes	50.2	...	12.4	9.1	15.0	6.5
Personal disposable income	139.2	11.2	14.6	6.6	11.3	16.5
Of which:						
Private consumption	134.9	11.3	13.7	8.5	12.3	15.4
Saving	4.4	7.4	38.2	-24.9	-13.3	50.8
Personal savings ratio (in per cent of personal disposable income)	(3.1)	(2.3)	(4.0)	(4.0)	(3.1)	(4.0)
Real personal disposable income <u>3/</u>	...	3.5	4.9	1.4	1.3	2.3

Sources: Central Bureau of Statistics, National Accounts, and Economic Survey; Ministry of Finance, National Budget; information provided by Norwegian authorities; and statistical estimates.

1/ Excluding the oil and gas sector.

2/ Profit margin in the exposed and sheltered sectors, expressed in per cent of gross value added in the two sectors.

3/ Deflated with implicit private consumption deflator.

Table 14. Norway: Costs and Prices

(Annual percentage changes)

	1970-74	1974-78	1979	1980	1981
Industrial costs (manufacturing)					
Hourly wage costs	14.8	14.8	4.9	10.0	10.6 1/
Output per man-hour	5.4	1.2	4.6	2.2	0.6 1/
Unit labor costs	8.8	13.5	0.3	7.6	10.0
GDP deflator	8.0	7.8	6.3	15.2	15.1
Consumer prices	7.5	9.5	4.8	10.9	13.6
Of which:					
Imported consumer goods	7.7	9.2	6.0	8.1	7.4
Wholesale prices	8.4	7.3	8.6	14.9	11.3
By use					
Consumer goods	1.3	8.1	6.5	11.4	12.7
Producer goods	9.6	6.9	4.8	12.7	9.6
Investment goods	5.8	9.4	5.6	7.1	5.9
By selected groups					
Food	7.9	7.9	4.7	11.7	14.7
Raw materials	7.9	4.7	8.4	13.6	10.6
Fuel	15.1	9.8	22.6	37.7	20.1
Semimanufactured goods	8.5	5.7	5.7	10.8	6.8
Machinery	6.4	8.1	6.5	7.9	5.9

Sources: Central Bureau of Statistics, Economic Survey, Monthly Bulletin of Statistics, and Statistisk ukehefte; and Ministry of Finance, National Budget.

1/ Per man-year.

Table 15. Norway: Public Sector Accounts 1/

	1978	1979	1980	1981	1982 2/	1980	1981	1982
				Forecast		Percentage change		
(In billions of Norwegian kroner)								
Personal income tax and social security	40.0	43.6	50.2	53.5	61.2	15.0	6.5	14.5
Nonoil companies' income tax	2.9	3.5	3.8	4.2	4.1	10.0	10.1	-1.9
Employers' social security contributions	18.0	18.8	21.2	23.6	26.4	12.7	11.5	11.9
Oil taxes	6.1	9.9	24.5	27.4	27.0	146.9	11.8	-1.5
Company income tax	(4.7)	(8.2)	(20.3)	(22.3)	(21.8)	(147.1)	(9.9)	(-2.2)
Production tax	(1.3)	(1.7)	(4.2)	(5.1)	(5.2)	(145.6)	(21.0)	(2.0)
Other indirect taxes	35.6	37.9	42.6	49.9	54.2	12.5	17.1	8.7
Income from assets	4.6	5.8	7.0	9.4	11.4	20.2	33.6	21.8
Total revenue (excluding oil taxes)	107.2	119.5	149.3	167.9	184.4	24.9	12.5	9.8
	(101.1)	(109.6)	(124.8)	(140.6)	(157.4)	(13.9)	(12.6)	(12.0)
Consumption 3/	43.5	46.7	53.6	62.0	70.5	14.6	15.8	13.7
Interest	5.9	7.6	9.7	11.2	11.4	27.2	16.2	1.1
Subsidies 4/	15.4	15.4	18.0	20.3	21.6	16.9	13.1	6.1
Transfers to households	31.9	36.9	42.0	49.2	55.4	13.9	17.0	12.8
Transfers to abroad	1.8	1.9	2.1	2.6	3.2	6.6	25.9	21.2
Investment, net 5/	12.5	12.3	12.7	12.4	12.2	3.0	-1.9	-1.9
Total expenditure	110.9	120.9	138.0	157.8	174.3	14.2	14.4	10.4
Balance before loan transactions	-3.7	-1.3	11.3	10.1	10.1	...	...	...
Balance excluding oil taxes	-9.8	-11.3	-13.2	-17.2	-16.8	...	...	...
(In per cent of GDP)								
Gross taxes	48.1	48.0	50.3	48.8	48.3	...	...	...
Gross taxes, excluding oil taxes 6/	50.9	50.9	51.7	50.4	49.9	...	...	...
Transfers to private sector 6/	25.0	25.6	26.4	26.7	26.3	...	...	...
Net taxes, excluding oil taxes 6/	25.9	25.3	25.3	23.7	23.6	...	...	...
Balance before loan transactions	-1.7	-0.6	4.0	3.1	2.8	...	...	...
Balance excluding oil taxes 6/	-5.2	-5.5	-5.8	-6.6	-5.8	...	...	...

Source: Ministry of Finance, National Budget.

1/ Accruals basis.

2/ Based on the National Budget presented by the outgoing Government in October 1981.

3/ Including depreciation.

4/ Excluding compensation for value-added tax on food.

5/ Including capital transfers to public enterprises.

6/ In per cent of GDP excluding oil and shipping.

Table 16. Norway: Central Government Finance 1/

	1978	1979	1980	1981	1982	1980	1981	1982
				Forecast <u>2/</u>		Percentage change		
(In billions of Norwegian kroner)								
Oil sector tax revenue	3.8	6.6	18.6	26.9	29.4	181.9	44.5	9.3
Direct taxes	(2.5)	(4.9)	(14.9)	(22.0)	(24.2)	(204.0)	(48.0)	(10.0)
Indirect taxes	(1.3)	(1.7)	(3.7)	(4.9)	(5.2)	(118.7)	(30.6)	(6.1)
Other tax revenue	43.0	45.5	53.5	59.5	65.1	17.5	11.2	9.4
Direct taxes	(8.7)	(9.6)	(12.0)	(12.1)	(13.4)	(24.5)	(0.6)	(10.9)
Indirect taxes	(34.3)	(35.9)	(41.5)	(47.4)	(51.7)	(15.6)	(14.3)	(9.0)
Transfers from public sector	0.7	0.8	1.0	1.2	1.3	14.3	22.0	13.0
Income from assets	3.8	4.8	5.7	7.5	9.3	18.2	32.0	24.2
Total revenue	51.3	57.8	78.7	95.1	105.1	36.3	20.7	10.6
Consumption	16.7	17.9	20.5	24.2	27.4	15.0	18.1	13.2
Interest	4.6	6.1	7.8	9.0	8.7	28.2	15.5	-3.6
Transfers to private sector and abroad	16.1	16.5	19.0	21.4	24.7	14.9	12.8	15.3
Transfers to other public sector	15.5	16.2	21.2	25.1	27.2	30.7	18.2	8.5
Investment	6.5	6.5	6.7	7.1	7.0	2.4	6.3	-1.3
Total expenditure	59.4	63.2	75.2	86.8	95.0	19.0	15.5	9.4
Balance before loan transactions	-8.1	-5.4	3.5	8.2	10.1	...	...	...
Balance excluding oil taxes	-11.9	-12.0	-15.1	-18.7	-19.3	...	...	...
Loans to state banks	6.2	7.0	7.3	5.8	6.2	...	...	...
Other loans, net	1.9	1.9	1.3	0.7	0.4	...	...	...
Net financing requirement	16.2	14.3	5.0	-1.7	-3.5	...	...	...
(In per cent of GDP)								
Balance before loan transactions	-3.8	-2.3	1.2	2.5	2.8	...	...	...
Balance excluding oil taxes <u>3/</u>	-6.3	-5.9	-6.6	-7.2	-6.6	...	...	...
Net financing requirement	7.6	6.0	1.8	-0.5	-1.0	...	...	...

Source: Ministry of Finance, National Budget.

1/ Cash basis.

2/ Based on the National Budget presented by the outgoing Government in October 1981.

3/ In per cent of GDP excluding oil and shipping.

Table 17. Norway: Summary of Discretionary Revenue Changes, 1980-82

(Estimated full-year budgetary effect
in millions of Norwegian kroner)

1980 National Budget

Increase in deductions against local income taxes	-350
Increase in tax deductions for children	-420
Reduction of employers' social security contributions in certain regions	-80
Indirect tax increases on gasoline, electricity use, and mineral oil	865
Increase in members' social security contributions	350
Increase in employers' social security contributions	<u>350</u>
Total	715

1980 Revised National Budget

Higher taxation of oil company profits	...
Lower income tax rates and higher deductions for children	-1,400 <u>1/</u>

1981 National Budget

Reduction of income tax rates and adjustment of brackets	-3,800
Increase in allowances against assessed local income taxes	-730
Higher limits on saving with tax advantage and on tax-exempt interest income	-200
Increase in tax deductions for children	-730
Removal of limit on member contributions to social security	130
Increase in child-care deduction	<u>-70</u>
Net change in direct taxation	-5,400
Increase in excise taxes	1,900
Reduction in subsidies, including compensation for VAT on food	<u>1,000</u>
Total	-2,500

Revised National Budget 1981

Reduction in investment tax	-300 <u>2/</u>
-----------------------------	----------------

National Budget 1982 (as revised in November 1981)

Adjustment of tax brackets	-2,190
Continuation of temporary tax relief of 1981	-525
Increase in allowances against local income taxes	-760
Increase in members' social security contribution rates	690
Reintroduction of limit on members' contributions to social security	-90
Higher limits on saving with tax advantage	-290
Increase in child-care deduction	-125
Changes in wealth tax, including limit on combined income and wealth taxes	<u>-40</u>
Total	-3,330

Sources: Ministry of Finance, National Budget, and Revised Budget Proposal.

1/ Effect in 1980.

2/ Effect in second half of 1981.

Table 18. Norway: Local Government Sector 1/

	1978	1979	1980	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
				Forecast	2/	Percentage change		
<u>(In billions of Norwegian kroner)</u>								
Direct taxes	22.1	22.8	24.6	27.7	30.7	8.0	12.3	11.1
Indirect taxes	0.4	0.5	0.5	0.6	0.6	13.1	15.7	10.2
Transfers from other public sector	13.0	14.3	17.9	20.8	24.2	25.1	16.2	16.2
Other	<u>-0.5</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-0.1</u>	<u>-0.1</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total revenue	35.0	37.1	42.7	49.0	55.5	15.0	14.8	13.3
Consumption	26.1	28.2	32.2	36.9	42.1	14.5	14.5	14.1
Interest	1.2	1.5	1.9	2.2	2.7	23.0	18.9	20.2
Transfers to private sector	3.3	3.7	5.6	6.9	7.8	49.9	22.7	13.7
Transfers to other public sector	0.8	0.6	1.0	1.2	1.3	61.6	17.9	11.6
Investment	<u>5.9</u>	<u>5.7</u>	<u>5.9</u>	<u>5.2</u>	<u>5.1</u>	<u>3.0</u>	<u>-10.9</u>	<u>-3.3</u>
Total expenditure	37.4	39.7	46.6	52.4	59.0	17.2	12.5	12.5
Balance before loan transactions	-2.4	-2.6	-3.9	-3.4	-3.5	...	...	...
(Per cent of GDP)	(-1.1)	(-1.1)	(-1.4)	(-1.1)	(-1.0)	...	...	...
<u>(In per cent of taxable income)</u>								
Municipal and county maximum tax rate	22.0	21.0	21.0	21.0	21.0	...	...	...
Income tax equalization levy	1.0	2.0	2.0	2.0	2.0	...	...	...

Source: Ministry of Finance, National Budget.

1/ National accounts basis, but excluding municipal enterprises.

2/ Based on the National Budget presented by the outgoing Government in October 1981.

Table 19. Norway: Social Security Sector

	1978	1979	1980	1981- Prelim- inary	1982 Fore- cast <u>1/</u>	1980	1981	1982
						Percentage change		
<hr/>								
(In billions of Norwegian kroner)								
Members' contributions	8.5	10.5	11.7	13.8	...	12.0	17.9	...
Employers' contributions	16.6	17.7	18.9	22.1	...	8.9	16.6	...
Central government transfers	6.0	6.8	10.8	12.9	...	60.1	19.0	...
Local government transfers	0.4	0.2	0.1	--	...	-54.9	-63.4	...
Other	<u>1.2</u>	<u>1.4</u>	<u>1.6</u>	<u>1.7</u>	<u>...</u>	<u>10.4</u>	<u>8.1</u>	<u>...</u>
Total revenue	32.8	36.2	43.1	50.5	54.8	19.1	17.2	8.4
Benefit payments to private persons	25.7	30.2	33.4	39.0	...	10.7	16.7	...
Other transfers	4.4	4.9	7.2	8.0	...	46.0	11.6	...
Other expenditure	<u>0.8</u>	<u>0.7</u>	<u>0.8</u>	<u>1.0</u>	<u>...</u>	<u>13.7</u>	<u>16.8</u>	<u>...</u>
Total expenditure	30.9	35.9	41.4	48.0	53.0	15.6	15.9	10.4
Balance	1.9	0.3	1.7	2.5	1.9	...	...	...
(Per cent of GDP)	(0.9)	(0.1)	(0.6)	(0.8)	(0.5)	...	...	...
<hr/>								
	<u>1977</u>	<u>1978</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
	<u>May 1</u>	<u>Jan. 1</u>	<u>July 1</u>	<u>Jan. 1</u>	<u>Jan. 1</u>	<u>Jan. 1</u>	<u>Jan. 1</u>	
<hr/>								
(Per cent of wage bill)								
Members' contributions								
Wage earners' pension	3.8	3.8	4.2	5.0	5.3	5.3	5.7	
Self-employed pension	8.7	8.7	9.1	9.9	10.2	10.2	10.6	
Health scheme	4.4	4.4	4.4	4.4	4.4	4.4	4.4	
Employers' contributions								
Lowest rate	...	...	...	...	...	8.6 <u>2/</u>	8.6	
Middle rates	{ 12.3	12.3	12.3	12.3	12.3	12.6	12.6	
	{ 14.3	14.3	14.3	14.3	14.3	17.6	14.6	
Highest rate	16.5	16.5	16.5	16.5	16.8	16.8	16.8	
Government contributions								
Central government	2.60	3.75	3.75	4.00	4.90	5.6	5.0	
Local government	--	0.40	0.40	--	--	--	--	

Sources: Ministry of Finance, National Budget; and Central Bureau of Statistics, Economic Survey.

^{1/} Based on the National Budget presented by the outgoing Government in October 1981.

^{2/} A new regional zone was established in northern Norway as of 1981.

Table 20. Norway: Factors Affecting Money Supply 1/
(Contributions to growth) 2/

	1978	1979	1980	1981	1982 Fore- cast
Domestic sources	<u>19.0</u>	<u>19.5</u>	<u>18.5</u>	<u>21.1</u>	<u>18.6</u>
Central government sector <u>3/ 4/</u>	<u>13.7</u>	<u>12.5</u>	<u>11.1</u>	<u>10.7</u>	<u>11.4</u>
Balance before loan transactions	4.2	4.6	4.0	5.5	5.7
Loan transactions	9.5	7.9	7.1	5.2	5.7 <u>5/</u>
Commercial and savings banks	5.3	7.0	7.4	10.4	7.2
Net sales of foreign exchange by the banks to the public <u>6/</u>	<u>-7.6</u>	<u>-5.9</u>	<u>-6.7</u>	<u>-9.5</u>	<u>-8.7</u>
Change in broad money	11.4	13.6	11.8	11.6	9.9
Memorandum items:					
Average change in broad money <u>7/</u>	12.2	13.2	12.0	...	...
GDP of mainland Norway, percentage change <u>8/</u>	8.4	8.4	10.9	14.3	12.4

Sources: Ministry of Finance, National Budget, and the Final Budget Bill for 1982; and Norges Bank, Publikums Likviditet.

1/ Holdings by the nonbank public, including the local government sector and public enterprises, of currency and coins, bank deposits other than savings with tax advantages, and unutilized bank overdrafts and construction credits.

2/ Changes in per cent of broad money supply at end of preceding year.

3/ Including social security sector, state banks, and Norges Bank.

4/ Adjusted to exclude oil tax receipts.

5/ Includes lending to Statoil.

6/ Equivalent to the external current account deficit less private capital inflow, adjusted to exclude oil taxes; domestic bank advances to residents against foreign exchange licenses are included.

7/ Based on average of end-month data.

8/ GDP excluding oil and shipping sectors.

Table 21. Norway: Credit Budget for the Private and Municipal Sectors

(In billions of Norwegian kroner)

	1978	1979	1980	1981 Forecast <u>1/</u>	1982
Total credit	<u>26.4</u>	<u>26.5</u>	<u>32.3</u>	<u>34.5</u>	<u>47.7</u>
Direct capital inflow from abroad	<u>3.4</u>	<u>1.7</u>	<u>1.6</u>	<u>3.0</u>	<u>11.8</u>
Shipping and oil drilling	-1.6	-0.7	-0.1	1.5	5.5
Oil extraction and pipeline	2.6	-1.8	-6.3	-3.5	2.8
Other private and municipal <u>2/</u>	-0.7	1.5	2.4	2.5	1.5
Short-term capital <u>3/</u>	3.1	2.8	5.5	2.5	2.0
Domestic credit supply	<u>23.0</u>	<u>24.8</u>	<u>30.7</u>	<u>31.5</u>	<u>35.9</u>
Commercial and savings banks	5.8	8.4	8.5	9.0 <u>4/</u>	9.6
Commercial banks	(2.8)	(4.0)	(4.0)	(4.3)	(4.3)
Savings banks	(3.0)	(4.3)	(4.2)	(3.6)	(3.6)
Special quota	(--)	(--)	(0.3)	(1.2)	(1.8)
State banks <u>5/</u>	11.3	11.2	10.9	8.4	8.1
Private finance companies	0.3	0.1	0.1	0.3	0.4
Nonlife insurance companies	0.1	0.2	0.2	0.3	0.4
Life insurance and pension funds	1.3	1.5	1.4	1.5	2.2
Bond market	-0.5	-0.5	2.8	9.0	9.0
Loan associations	2.6	2.1	2.5		
Share market	1.1	0.9	2.2	1.7	1.7
Central government funds					
for Statoil	0.4	0.5	0.2	--	3.8
Other	0.5	0.4	1.8	1.3	0.7

Sources. Ministry of Finance, National Budget, and the Final Budget Bill for 1982.

1/ As of December 1981.

2/ Regulated capital inflow, includes domestic bank lending against foreign exchange licenses.

3/ Including errors and omissions.

4/ Preliminary outturn was Nkr 12.7 billion, comprising Nkr 6.6 billion for commercial banks and Nkr 6.1 billion for savings banks.

5/ Including the Post Office Savings Bank and loans intermediated by the Municipal Bank.

Table 22. Norway: Liquidity Controls on Commercial and Savings Banks

<u>Borrowing period</u>	<u>Automatic Liquidity Loans (A-Loans) 1/</u>			<u>Permitted access to A-loan tranches</u>	
	<u>Maximum cumulative 1-day loans during period as a percentage of total assets</u>			<u>1980</u>	<u>1981</u>
	<u>First tranche</u>	<u>Second tranche</u>	<u>Third tranche</u>		
January-February	21	21	21	None	Half of each
March-April	42	21	21	Half of each	Full
May-June	42	21	21	Full	Full
July-August	21	21	21	Full	Full
September-October	21	21	21	Half of first	Full
November-December	21	21	21	Half of first	Full

Buffer tranche: Each bank is entitled to use an additional 21 per cent tranche during one two-month loan period in the course of any three consecutive loan periods. The buffer tranche was suspended in January-February 1980.

Primary Reserve Requirements in Southern Norway
(As a percentage of total liabilities)

	<u>Commercial Banks</u>	<u>Savings Banks</u>
1979 January	--	--
July	3.0	3.0
August	3.0	9.0
October	3.0	3.0
1980 January	6.0	10.0
June	5.0	8.0
September	13.0	10.0
1981 April	10.0	10.0
May	8.0	8.0
November	10.0	10.0

Bond Investment Obligations

If bond holdings are less than the indicated percentage of total assets:

Investment obligation is the following percentage of increase in total assets

	<u>Southern Norway</u>	<u>Northern Norway</u>	<u>Southern Norway</u>	<u>Northern Norway</u>
1977 January	27	27	35	15
1979 November	30	27	60	15
1980 November	30	27	30	15
1982 January	30	27	20	10

Source: Norges Bank, Economic Bulletin.

1/ When the A-loan facility has been exhausted for a given two-month period, conditional loans (B-loans) are available provided banks using the facility accept limits on lending over the following six months, stipulated on the basis of the lending growth permitted by the credit budget less one fourth of the bank's highest B-loan. In addition, loans on special terms (S-loans) can be granted subject to the conditions stipulated by Norges Bank.

Table 23. Norway: State Banks' Operations

(In billions of Norwegian kroner)

	1978	1979	1980	1981	1982 Fore- cast
Commitment quotas	<u>11.4</u>	<u>11.5</u>	<u>11.3</u>	<u>11.4</u>	<u>12.4</u>
Housing	<u>5.4</u>	<u>5.4</u>	<u>5.1</u>	<u>5.0</u>	<u>5.7</u>
Other	6.0	6.1	6.2	6.4	6.7
State Housing Bank	5.1	5.1	4.7	4.7	5.3
State Bank for Agriculture	0.6	0.6	0.7	0.7	0.6
Municipal Bank	1.7	1.6	1.5	1.5	1.5
State Bank for Industries	0.7	0.6	0.7	0.7	0.7
State Bank for Fisheries	0.3	0.3	0.3	0.2	0.2
Post Office Savings Bank	0.6	0.7	0.8	0.8	0.8
Loan Fund for Education	1.4	1.6	1.7	1.9	2.2
Regional Development Fund	0.7	0.7	0.7	0.7	0.7
Other	0.2	0.4	0.3	0.4	0.4
Lending (Credit Budget)	11.3	11.2	10.9	8.4	8.2
(Percentage change in stock of loans)	(20.4)	(16.7)	(14.0)	(9.5)	(8.4)
Financing	<u>10.6</u>	<u>11.9</u>	<u>9.0</u>	<u>6.9</u>	<u>7.1</u>
Central government loans	<u>6.2</u>	<u>7.0</u>	<u>7.3</u>	<u>5.8</u>	<u>6.2</u>
Net foreign borrowing	3.8	4.4	0.8	-0.7	-0.6
Net domestic bond issues	0.6	0.5	0.9	1.8	1.5

Source. Ministry of Finance, National Budget, and the Final Budget Bill for 1982.

Table 24. Norway: Changes in Commercial
and Savings Banks' Liquidity

(In billions of Norwegian kroner)

	1977	1978	1979	1980	1981
	<u>(Change during the period)</u>				
Factors affecting primary reserves					
Central government transactions	7.8	5.3	2.2	-2.3	-6.2
Currency holdings of nonbank public (increase -)	-1.8	-0.9	-0.7	-1.1	-1.4
Banks' net sales of foreign exchange to Norges Bank	-7.2	-1.7	3.8	13.0	6.6
Net purchases (-) or sales by Norges Bank of money market paper	--	-0.5	-2.2	2.7	0.1
Other transactions with Norges Bank	2.1	-4.3	-1.5	-1.8	-0.6
Primary reserves	0.9	-2.1	1.4	10.4	-1.5
Cash and deposits	(--)	(0.2)	(0.4)	(0.3)	(-0.1)
Treasury bills	(0.9)	(-2.3)	(1.0)	(10.1)	(-1.4)
Required primary reserves (increase -)	-3.6	5.4	-2.2	-12.4	0.8
Borrowing from Norges Bank (increase -)	-4.1	3.5	0.9	0.4	-1.2
Free primary reserves <u>2/</u>	-6.7	6.8	0.2	-1.7	-1.9
	<u>(End of period)</u>				
Primary reserves	3.8	1.5	3.0	13.4	11.6
Free primary reserves	-8.6	-1.8	-1.6	-3.3	-5.2

Sources: Norges Bank, Economic Bulletin, and Bankenes Kronelikviditet; and data provided by Norges Bank.

1/ Including transactions of state banks, public enterprises, and Postal Giro.

2/ Primary liquid assets minus required primary reserves minus loans from Norges Bank.

Table 25. Norway: Central Government Finance
and Domestic Bond Market

(In billions of Norwegian kroner)

	1978	1979	1980	1981 Forecast <u>1/</u>	1982
Central Government					
Gross financing requirement	17.6	16.6	12.2	7.8	11.0
Debt repayment	<u>1.3</u>	<u>2.3</u>	<u>7.2</u>	<u>9.5</u>	<u>10.9</u>
Net financing requirement	16.2	14.3	5.0	-1.7	0.1
Foreign loans	9.6	4.7	-2.5	-5.5	-7.7
Domestic financing	6.6	9.6	7.5	3.8	7.8
Temporary loans from official institutions	(4.6)	(1.4)	(-0.4)	(1.5)	(0.8)
Net sales of bills and bonds to Norges Bank	(3.5)	(0.3)	(-7.4)	(3.4)	(6.2)
Net sales of bills to other than Norges Bank	(-1.4)	(2.7)	(11.9)		
Decrease in cash balances (increase -)	(-5.7)	(-3.1)	(1.0)		
Net sales of government bonds <u>2/</u>	(5.6)	(8.3)	(2.5)	(-1.1)	(0.8)
Net domestic bond issues	<u>6.8</u>	<u>11.0</u>	<u>10.7</u>	<u>9.7</u>	<u>11.5</u>
Central Government <u>2/</u>	<u>5.6</u>	<u>8.3</u>	<u>2.5</u>	-1.1	0.8
State banks	0.6	0.5	0.9	1.8	1.5
Private and municipal sector	0.7	2.1	7.3	9.0 <u>3/</u>	9.2
Net domestic bond purchases	<u>6.8</u>	<u>11.0</u>	<u>10.7</u>	<u>9.7</u>	<u>11.5</u>
General Pension Fund	0.7	2.2	1.8	1.5	1.6
Postal Giro and Savings Bank	-0.1	-0.2	-0.4	-0.1	0.7
Life insurance and pension funds	1.8	2.4	2.8	3.0	3.3
Commercial and savings banks	4.3	6.4	6.4	4.8	4.2
Other	--	0.3	0.1	0.5	1.8

Sources. Ministry of Finance, National Budget, and the Final Budget Bill for 1982.

1/ As of December 1981.

2/ Excluding bonds sold to Norges Bank.

3/ Preliminary outturn is NKr 10.1 billion.

Table 26. Norway. Interest Rates
(In per cent per annum)

	Norges Bank			Central Government			Commercial Banks		
	Official d-account rate	A-loans, third tranche 1/	Marginal rate, loans to banks 2/	Money market paper	90-day Treasury bills	State bonds (housing) (five-year)	Day-to-day interbank rate	3-month deposits, maximum	Loans, maximum 3/ Short- term and long- term
	(End of period)						(Average)		
1979 I	7 0	9 0	7 9	9 9	5 5	6 5	5 6	5 1	12 2
II	7 0	9 0	10 1	9 9	5 5	6 5	8 6	5 1	12 2
III	7 0	9 0	9 8	10 4	5 5	6 5	8 5	5 1	12 2
IV	9 0	11 0	11 5	10 4	8 5	6 5	10 8	5 1	12 2
1980 I	9 0	11 0	12 5	12 5	8 5	6 5	10 7	5 1	12 2
II	9 0	11 0	12 7	11 5	8 5	6 5	12 3	5 1	12 3
III	9 0	11 0	11 8	11 5	8 5	7 5	10 8	5 1	13 0
IV	9 0	11 0	11 6	11 5	8 5	7 5	10 9	5 0	13 0
1981									
January	9 0	11 0	10 9	11 5	6 5	8 0	10 5	5 1	13 2
February	9 0	11 0	11 6	11 5	9 5	8 0	12 5		15 7
March	9 0	11 0	10 2	11 5	9 5	8 0	10 5		
April	9 0	11 0	11 5		9 5	8 0	11 5	5 1	14 1
May	9 0	12 0	12 5	13 1	10 5	8 0	11 8		15 8
June	9 0	12 0	12 6		10 5	8 0	12 3		
July	9 0	12 0	11 0	13 1	10 5	8 0	11 9		
August	9 0	12 0	12 3	13 1	10 5	8 0	12 5	5 1	14 1
September	9 0	12 0	10 6	13 1	10 5	8 0	10 7		16 0
October	9 0	12 0	12 1		10 5	8 0	11 3		
November	9 0	12 0	11 3	..	10 5	8 0	13 6	5 1	...
December	9 0	12 0	12 5	.. 4/	10 5	8 0	18 9		

Sources. Norges Bank, Economic Bulletin, and Bankenes Kronelikkvidtet; Ministry of Finance, National Budget; and data provided by Norges Bank.

1/ See Table 22. The interest rate on loans in the first tranche is equal to the official discount rate, and it is 1.5 percentage points (1 point prior to May 1981) above the discount rate for loans in the second tranche.

2/ Interest rate for the last tranche borrowed, averaged across banks.

3/ Highest reported lending rates, averaged across banks

4/ Money market paper yielding 13 6 per cent was issued in January 1982.

Table 27. Norway: Balance of Payments
(In billions of Norwegian kroner)

	1978	1979	1980 ^{1/}	1981 ^{1/}	1982 ^{2/}
Exports, f.o.b.	57.9	70.0	92.9	105.7	106.3
Imports, c.i.f.	<u>62.0</u>	<u>70.4</u>	<u>84.5</u>	<u>90.4</u>	<u>101.3</u>
Trade balance	-4.1	-0.4	8.4	15.3	5.0
Shipping	8.2	9.5	10.7	11.5	13.8
Oil drilling	0.7	0.6	0.6	1.4	1.5
Other services to oil sector ^{3/}	-1.9	0.1	1.2	1.2	-1.5
Travel	-2.6	-2.8	-2.8	-3.7	-2.8
Other services	-2.2	-0.7	-0.6	-0.3	0.2
Interest and dividends	-7.2	-9.3	-9.6	-10.4	-14.1
Transfers ^{4/}	<u>-1.9</u>	<u>-2.2</u>	<u>-2.3</u>	<u>-2.8</u>	
Net services and transfers	-6.9	-4.9	-2.9	-3.2	-2.9
Current balance ^{4/}	-11.0	-5.3	5.5	17.1	2.1
(in millions of SDRs)	(1,677)	(-807)	(855)	(1,788)	(311) ^{5/}
(in per cent of GDP)	(-5.2)	(-2.2)	(1.9)	(3.7)	(0.6)
Public sector long-term capital	<u>14.8</u>	<u>8.5</u>	<u>-3.4</u>	<u>-6.8</u>	<u>-10.2</u>
Central government loans	9.6	4.7	-2.5	-5.6	-7.7
Local government loans	0.4	--	0.7	0.6	0.2
State bank loans	3.8	4.4	0.8	-0.7	-0.6
Public enterprise loans ^{6/}	1.6	--	-1.4	-0.5	-1.2
Other	-0.6	-0.5	-1.0	-0.6	-0.9
Private sector long-term capital	<u>2.1</u>	<u>3.1</u>	<u>-1.0</u>	<u>1.3</u>	<u>5.7</u>
Financial institutions	--	-0.4	0.1	--	-0.5
Other private	2.0	3.5	-1.1	1.3	6.2
Loans	-0.2	1.2	-0.7	0.4	4.7
Direct investment	2.2	2.0	-0.2	0.5	1.0
Other	--	0.3	-0.3	0.5	0.6
Total long-term capital	16.8	11.6	-4.4	-5.4	-4.5
Short-term capital, including errors and omissions	4.6	0.2	6.6	-1.6	...
Valuation change due to exchange rate change	-4.7	-0.4	2.6		...
Allocation of SDRs	--	0.2	0.2	0.2	...
Change in net official reserves (increase -)	-5.8	-6.3	-10.5	-5.3	...

Sources: Central Bureau of Statistics, Economic Survey; Ministry of Finance, National Budget, and data provided by the Norwegian authorities.

^{1/} Capital account figures for 1980 and 1981 are based on National Budget from October 1981, they are consistent with current account estimates of Nkr 5.0 billion in 1980 and Nkr 8.5 billion in 1981

^{2/} Official forecast of December 1981; forecast for long-term capital accounts is from October 1981 and is consistent with current account forecast of Nkr 3.7 billion.

^{3/} Including pipeline transportation of oil and gas exports and, in 1982, some imports of equipment directly to the oil sector.

^{4/} Including official transfers.

^{5/} Exchange rate January 1982 average.

^{6/} Excluding oil sector.

Table 28. Norway: Merchandise Exports 1/

	<u>1980</u>		<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982 2/</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982 2/</u>
	Nkr bil- lions	Per cent of total	Percentage change in value				Percentage change in volume			
Food, beverages, tobacco (0.1)	5.4	5.9	13.9	7.8	19.6	...	12.3	-5.0	8.0	...
Raw materials, except fuels (2. 4)	4.6	5.0	24.2	8.7	7.5	...	10.6	--	0.9	...
Fuels (3)	44.5	48.6	65.1	77.7	16.3	...	22.4	20.3	-5.8	...
Of which:										
Crude petroleum (333)	28.5	31.1	67.1	93.6	7.6	-12.9	11.0	24.4	-12.5	-18.5
Natural gas (341.40)	12.9	14.1	51.9	76.8	24.9		45.7	20.6	-0.3	
Manufactures (5-9) <u>3/</u>	33.3	36.3	2.7	13.6	6.9	...	-4.8	--	--	...
Of which:										
Chemicals (5)	5.7	6.3	38.2	20.6	4.8	...	20.8	-3.4	-0.6	...
Manufactures classi- fied by pro- cessed material (6) <u>4/</u>	17.5	19.1	20.1	12.0	0.3	...	1.7	-3.3	-2.6	...
Machinery, trans- port equipment (7) <u>3/</u>	7.3	8.0	-34.7	10.0	24.0	...	-28.2	6.5	5.0	...
Miscellaneous manu- factures (8)	2.4	2.7	<u>22.5</u>	<u>19.5</u>	<u>6.6</u>	<u>...</u>	<u>9.6</u>	<u>5.6</u>	<u>0.6</u>	<u>...</u>
Total, excl. ships	87.9	95.8	23.5	38.0	12.5	...	5.6	5.8	-1.5	...
Total	91.7	100.0	20.0	33.8	12.2	0.4	1.4	4.1	-3.7	-5.6
Oil and natural gas	41.4	45.2	61.7	88.2	13.0	-12.9	23.1	22.7	-6.1	-18.5
Ships	3.8	4.2	-11.8	-21.7	7.1	27.0	-49.4	-40.3	14.2	17.0
Oil platforms	0.1	0.1	-87.9	-87.3	1056.3					
Other goods (tradi- tional exports)	46.4	50.6	24.3	13.0	10.3	10.0	8.6	--	--	4.0

Sources: Central Bureau of Statistics, Monthly Bulletin of External Trade; Ministry of Finance, National Budget; and data provided by the Norwegian authorities.

1/ Classified according to the SITC, Rev. 1; SITC codes in parentheses.

2/ Official forecast of December 1981.

3/ Excluding ships, part of SITC 735.

4/ Primarily ferrous and nonferrous metal products, paper products, and textiles.

Table 29. Norway: Merchandise Imports

	1980		1979		1980		1981		1982 1/		1979		1980		1981		1982 1/	
	Nkr billions	Per cent of total	Percentage change in value		Percentage change in value		Percentage change in value		Percentage change in volume		Percentage change in value		Percentage change in value		Percentage change in volume		Percentage change in value	
Imports by SITC sections 2/																		
Food, beverages, tobacco (0,1)	5.6	6.6	10.9	17.3	1.8	...	...	...	...	...	6.0	4.1	4.1	-4.7	...	...	...	...
Raw materials, except fuels (2.4)	7.4	8.9	27.0	30.0	1.6	...	...	...	...	...	21.5	8.3	8.3	-7.7	...	...	...	...
Fuels (3)	14.4	17.2	44.9	35.3	-10.1	...	...	...	...	...	12.0	-5.0	-5.0	-20.0	...	...	...	...
Manufactures (5-9) 3/	54.8	65.5	10.1	22.3	7.6	...	...	...	...	...	2.0	13.3	13.3	2.9	...	...	...	...
Of which:																		
Chemicals (5)	5.7	6.8	25.1	14.3	0.1	...	...	...	...	...	5.6	4.0	4.0	-6.4	...	...	...	...
Manufactures by classified by processed material (6)	15.4	18.5	5.5	27.7	-1.4	...	...	...	...	...	-4.5	14.8	14.8	-6.1	...	...	...	...
Machinery, transport equipment (7) 3/	22.5	26.9	8.4	22.9	16.0	...	...	...	...	...	2.8	10.4	10.4	10.3	...	...	...	...
Miscellaneous manufactures (8)	10.8	12.9	11.7	17.5	7.3	...	...	...	...	...	10.6	8.6	8.6	5.7	...	...	...	...
Total, excluding ships	82.2	98.3	16.0	26.2	3.6	11.6	11.6	5.3	10.8	10.8	...	...	...	...	...	...	...	...
Ships (pt. 735)	1.4	1.7	2.7	-58.3	216.5	56.1	56.1	...	...	...	...	...	...	155.0	45.8	...	...	...
Total	83.6	100.0	15.2	20.6	7.2	13.8 4/	13.8 4/	...	...	...	...	...	...	2.0	7.0 4/	...	...	...
Imports classified by end-use																		
Consumption	18.1	21.7	16.3	13.7	9.3	...	...	...	...	...	...	...	...	...	...	...	...	...
Investment	13.7	16.4	4.7	4.4	44.4	...	...	...	...	...	...	...	...	...	...	...	...	...
Intermediate input	51.8	61.9	18.7	28.6	-3.4	...	...	...	...	...	...	...	...	...	...	...	...	...

Sources Central Bureau of Statistics, Monthly Bulletin of External Trade; Ministry of Finance, National Budget; and data provided by the Norwegian authorities.

1/ Official forecast of December 1981.

2/ Commodity codes of SITC, Rev. 1, in parentheses.

3/ Excluding ships, part of SITC 735

4/ Excluding some imports of equipment directly to the oil sector.

Source: Central Bureau of Statistics, Monthly Bulletin of External Trade.

Table 31. Norway: Indicators of Competitiveness and Performance

(Annual percentage change)

	1977	1978	1979	1980	1981
Export unit values <u>1/</u>	7.3	5.1	17.2	30.3	14.4
Import unit values <u>1/</u>	8.1	5.2	10.4	12.4	4.0
Terms of trade	-0.7	-0.1	6.2	15.9	10.1
Terms of trade, goods and services <u>2/</u>	-3.1	-0.9	4.6	9.9	5.0
Terms of trade, traditional goods <u>3/</u>	-0.6	-3.4	4.4	0.8	5.8
Effective exchange rate (MERM)					
End of period	-3.8	-6.6	3.1	-3.4	0.5
Period average	1.6	-5.8	0.2	2.3	-3.4
Unit labor costs in manufacturing	12.2	8.1	0.3	7.6	10.0
Export industry	13.1	-0.1	-8.2	12.8	
Import-competing industry	11.5	9.3	2.5	7.0	
Relative unit labor costs in manufacturing <u>4/</u>	5.5	-5.6	-5.4	-0.2	0.4 <u>5/</u>
(Cumulative from 1973)	(27.1)	(20.0)	(13.5)	(13.2)	(13.7)
Export unit values in manufacturing	5.6	7.1	7.7	13.8	7.7
Relative export unit values <u>4/</u>	-2.2	-9.8	3.5	4.7	-2.5 <u>5/</u>
(Cumulative from 1973)	(11.7)	(0.7)	(4.2)	(9.1)	(6.4)
Export performance					
Volume of traditional exports <u>6/</u>	-5.5	6.6	8.2	--	--
Traditional export markets <u>7/</u>	3.4	5.9	10.6	-0.5	0.5
Export market shares	-8.6	0.7	-2.2	0.5	-0.5
(Cumulative from 1973)	(-18.9)	(-18.3)	(-20.1)	(-19.9)	(-20.1)
Relative prices of Norwegian import-competing production <u>8/</u>	1.0	-2.4	-2.2	-0.6	8.4
Market shares of import-competing industry <u>9/</u>	58.4	60.3	59.7	56.6	56.2
Percentage change	-1.4	3.3	-1.0	-5.2	-0.7
Volume of traditional imports <u>10/</u>	5.3	-12.1	7.8	10.1	-0.7

Sources: Central Bureau of Statistics, Economic Survey, and Monthly Bulletin of External Trade; Ministry of Finance, National Budget; International Monetary Fund, Data Fund, and World Economic Outlook.

1/ Excluding ships.

2/ National account basis.

3/ Exports of goods excluding oil and gas, ships, and oil platforms; imports of goods excluding ships and oil platforms.

4/ Adjusted for effective exchange rate changes. Relative unit labor costs and relative unit export values are on IFS basis.

5/ First three quarters of 1981, change from 1980 average.

6/ Excluding oil and gas, ships, and oil platforms.

7/ Nonoil market growth according to IMF's World Economic Outlook.

8/ Price index for deliveries of domestic production to the home market relative to a price index for imports; weighted average of 13 commodity groups.

9/ Weighted averages of 13 commodity groups based on volume data, indicating the share of domestic demand met by home production including inventory changes.

10/ Excluding ships and oil platforms.

Table 32. Norway: External Transactions of Oil and Shipping Sectors, and the Current Balance of Mainland Norway

(In billions of Norwegian kroner)

	1978	1979	1980	1981	1982 <u>1/</u>
Oil sector					
Exports of oil and gas	13.6	22.0	41.4	46.8	41.1
Oil and gas pipeline transport	1.2	2.0	2.5	3.0	2.2
Exports of used platforms	0.2	0.5	--	0.7	2.8
Drilling services (net)	0.7	0.6	0.6	1.4	1.5
Direct imports of goods and services	-4.5	-2.0	-1.6	-0.9	-3.7
Imports of platforms	-0.5	-0.1	--	-0.3	-3.9
Net interest and dividends	<u>-3.0</u>	<u>-3.7</u>	<u>-4.3</u>	<u>-6.7 <u>1/</u></u>	<u>-7.6</u>
Current balance	7.8	19.2	38.6	43.9	32.5
Shipping sector					
Exports of used ships	3.5	3.4	2.4	3.3	4.3
Imports of new and used ships	-3.4	-3.4	-1.4	-3.7	-5.3
Gross freight earnings	18.2	22.3	26.9	31.0	34.8
Shipping expenditure abroad	-10.0	-12.8	-16.3	-19.5	-21.0
Net interest	<u>-1.7</u>	<u>-1.9</u>	<u>-1.8</u>	<u>-2.3 <u>1/</u></u>	<u>-3.2</u>
Current balance	6.7	7.5	9.9	8.7	9.6
Mainland Norway					
Current balance	-25.5	-32.0	-42.9	-40.5	-40.0

Sources: Central Bureau of Statistics, Economic Survey; Ministry of Finance, National Budget; and data provided by the Norwegian authorities.

1/ Forecast of December 1981.

2/ Excluding oil and shipping sectors; calculated as a residual.

Table 33. Norway: Net External Debt
(In billions of Norwegian kroner; end of period)

	1977	1978	1979	1980	1981
Private sector ^{1/}	67.4	71.3	71.1	75.5	72.3 ^{2/}
Oil industry	(27.8)	(29.5)	(27.8)	(22.9)	(...)
Shipping industry	(19.5)	(19.3)	(18.7)	(18.7)	(...)
Other	(20.1)	(22.5)	(24.6)	(33.9)	(...)
Central government	15.0	25.4	30.5	25.5	22.1
Local government	4.8	5.8	6.9	7.4	8.0
State banks	5.9	11.1	16.0	16.5	16.1
Norges Bank	<u>-8.7</u>	<u>-14.6</u>	<u>-20.9</u>	<u>-31.6</u>	<u>-36.9</u>
Total	84.4	99.0	103.6	93.3	81.6 ^{3/}
(in SDR billions)	(13.5)	(15.1)	(15.9)	(14.1)	(12.1)
(in per cent of GDP)	(44.1)	(46.5)	(43.7)	(32.9)	(25.2)

Source: Norges Bank, Annual Report; and data provided by the Norwegian authorities.

^{1/} Including nonfinancial public enterprises.

^{2/} Residual.

^{3/} The difference between the total net debt in 1980 and 1981 is set at the estimated surplus on current account. It differs slightly from the estimate in Table 27.

Table 34. Norway: External Long-Term Debt Repayment

(In billions of Norwegian kroner)

	1981	1982	1983	1984	1985	1986	1987	1988 and later
Repayment of principal <u>1/</u>								
Central Government	4.5	7.1	10.2	5.9	1.0	--	--	--
Local government	0.6	0.7	0.6	0.9	0.7	0.6	0.6	2.3
State banks	1.3	0.9	1.0	1.2	1.5	1.7	1.4	6.7
Public enterprises	0.4	1.1	0.5	0.9	1.0	1.1	0.6	2.0
Public sector	6.8	9.8	12.3	8.9	4.2	3.4	2.6	11.0
Shipping industry	5.0	3.2	3.3	2.8	2.6	2.0	0.9	5.8
Oil industry <u>2/</u>	2.3	1.9	2.2	2.6	1.0	1.2	1.7	17.9 <u>3/</u>
Other private sector	0.9	0.7	1.1	1.2	1.0	1.0	0.6	2.5
Private sector	8.2	5.8	6.6	6.6	4.6	4.2	3.2	26.2
Total repayment of principal	15.0	15.6	18.9	15.5	8.8	7.6	5.8	37.2
Interest payments, all sectors <u>4/</u>	11.8	10.3	8.8	6.4	5.1	4.9	4.2	10.6
Total external debt service	26.8	25.9	27.7	21.9	13.9	12.5	10.0	47.8

Source: Data provided by the Norwegian authorities.

1/ Repayment schedule of long-term debt outstanding as of December 31, 1980, interest payments not included.2/ Including public enterprises in oil industry.3/ For oil exploration and production loans there is no fixed repayment schedule.4/ Interest figures based on estimated average interest rate of 9 per cent on central government debt and 10 per cent on all other long-term debt.

Table 35. Norway: Official International Reserves and Private Sector Foreign Position

(In billions of Norwegian kroner; end of period)

	1977	1978	1979	1980	1981
Official reserves <u>1/</u>					
Gold	0.3	0.3	0.3	0.3	0.3
SDRs	0.6	0.6	0.9	1.0	1.3
Reserve position in the Fund	1.5	1.3	1.2	1.3	1.4
Foreign exchange	<u>9.0</u>	<u>12.2</u>	<u>18.5</u>	<u>28.7</u>	<u>33.5</u>
Gross official reserves	11.3	14.4	20.9	31.3	36.6
Foreign liabilities	<u>2.9</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>
Net foreign assets	8.5	14.3	20.6	31.0	36.3
					<u>November 1981</u>
Commercial and savings banks					
Foreign assets	3.4	2.3	1.9	1.5	7.3
Foreign liabilities	<u>2.9</u>	<u>3.4</u>	<u>5.7</u>	<u>13.1</u>	<u>15.6</u>
Net foreign assets	0.5	-1.1	-3.8	-11.6	-8.3
					<u>November 1981</u>
Other sectors					
Bank deposits abroad and foreign securities	4.2	5.9	7.2	10.4	9.0
Shipowners	(1.9)	(2.4)	(2.9)	(3.4)	(...)
Insurance companies	(0.9)	(1.0)	(1.3)	(1.4)	(...)
Other	(1.5)	(2.5)	(2.9)	(5.6)	(...)
Short-term foreign exchange loans	<u>3.5</u>	<u>5.5</u>	<u>5.5</u>	<u>7.0</u>	<u>7.0</u>
Net foreign assets	0.7	0.5	1.7	3.4	1.9
Memorandum item:					
Gross official reserves <u>1/</u>					
In SDR millions	1,845	2,236	3,218	4,739	5,412
In weeks of imports of goods	9	12	16	19	21

Sources: Norges Bank, Monthly Balance Sheet and Penger og Kreditt.

1/ The figures for official reserves are derived from Norges Bank's balance sheet. Gross official reserves as reported in the IFS are slightly different, mainly because the exchange rate for the U.S. dollar used by Norges Bank for valuation of official reserves differs from the market rate used by the IMF.

Tax Policy Changes

Guidelines for a comprehensive tax reform were established in a 1977 government report. The tax reform was motivated by the need to minimize the adverse consequences of a high rate of taxation on income distribution, incentives, and resource allocation. Major elements of the tax reform were introduced in 1981. A Tax Commission appointed by the Government to study further changes in the structure of personal income taxes and transfers is expected to report by the end of 1983. The 1977 guidelines call for reducing income tax progressivity through fewer and wider brackets, shifting the tax burden somewhat from direct taxation to indirect taxation, simplifying and limiting tax deductions, taking steps to reduce tax avoidance and tax evasion, reducing before-tax income inequalities and other differences in living standards, and changing income taxation in favor of families with children. Several changes in tax policy, particularly in 1981, have been adopted to further these objectives.

Tax deductions for families with children have been raised sharply since 1970, comprising a larger increase for the first child than for additional children. The allowance for families with one child almost tripled from 1979 to 1981, to NKr 2,652, and it more than doubled in the same period, to NKr 6,168, for families with two children. Further increases of NKr 504 for the first child (NKr 396 each for the second child and third child) have been proposed for 1982. An additional child-care deduction is provided, which for children under 17 is proposed to be raised from NKr 900 in 1981 to NKr 1,000 in 1982, and by NKr 200 to NKr 1,400 for children aged 17-19.

Direct taxation was reduced in 1981 by widening state income tax brackets by 10 per cent on average and lowering marginal tax rates by 5 percentage points for most brackets (Chart 7). The top bracket was eliminated in 1981 in conjunction with removal of the maximum on member contributions to social security, so that the maximum marginal rate of state income tax was reduced from 48 per cent to 38 per cent. The Government's revised budget proposal would fully adjust all tax brackets in 1982 for expected inflation (10 per cent) to avoid any sharpening of income tax progressivity. As in previous years, a greater than average adjustment is to be made in 1982 for the lowest income brackets. Because of the proposal to restore in 1982 the limit on member contributions to social security, a top marginal tax rate of 43 per cent is to be applied in 1982. The personal allowance for local income tax assessment was raised by 13 per cent in 1981, and a further 12 per cent increase is proposed for 1982. The tax reductions to facilitate the nationwide income agreements in the spring of 1980 included an increase of NKr 900 in the tax deduction as of May 1 for each child and a tax reduction of about 0.6 per cent of 1980 pensionable income. Also, in support of the price freeze in August-December 1981, taxes were reduced by 0.5 per cent of the first NKr 100,000 of 1981 pensionable income and 0.3 per cent of the

next Nkr 50,000. These tax reductions are also incorporated into the proposed tax scales for 1982. Part of the decrease in the direct tax burden in 1981 was offset by increases in excise taxes, cutbacks in compensation for value-added tax on certain basic foods, and other reductions of consumer subsidies. Excise tax rates were raised in 1982 to adjust for inflation.

Taxation of the oil sector was increased in 1980 from about 75 per cent of taxable earnings to about 85 per cent of earnings. A new regional tax zone in northern Norway was established in 1981, and employer contribution rates for social security were reduced by 4 percentage points to 8.6 per cent in this region. Other changes in business taxation include a reduction of the general investment tax rate from 13 per cent to 10 per cent with effect from July 1981, ^{1/} and reductions in direct taxation in 1982 through an expansion of allowable tax-free investment reserves and a reduction of company income tax rates.

In order to stimulate saving, tax advantages are available for saving up to certain limits, which were raised in 1981 and are twice as high in 1982 as in 1980 (Nkr 8,000 for a taxpayer with dependents). In addition, the limit on tax-exempt interest income was raised by a third in 1981, to Nkr 4,000 for taxpayers with dependents. Additional measures to encourage saving are under study. Other tax changes by the new Government include an 0.4 percentage point increase in members' rates of contribution to social security in 1982, a limitation of the combined income and wealth taxes for 1981 to a maximum of 80 per cent of income, a reduction of capital gains tax on sales of shares, and an inflation adjustment of wealth tax brackets.

^{1/} Industrial investments were exempted from this tax in 1979.

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