

April 6, 1982 - 82/47

The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with Norway
Executive Board Meeting 82/41 - April 5, 1982

Executive Directors commended Norway for combining external balance with low unemployment in 1980/81 despite sluggish traditional exports. They noted, however, that this favorable development coincided with the leveling off of economic growth in 1981 and a resurgence of price and wage pressure. Directors felt that the rising inflationary pressure was adverse to solving Norway's main economic problem that has arisen with the development of the oil and gas sector. This problem has been to keep the traditional exposed sector competitive, so as to maintain full employment with an acceptable regional balance.

Directors thought that past attempts to solve this problem through employment support at existing places of work has reduced labor mobility, and slowed the adjustment of the non-oil economy to changes in the structure of demand, thereby aggravating the task of restoring competitiveness. They also noted that employment support, together with improvements in social benefits and lower income taxes, had led to highly expansionary fiscal policies, adding considerably to the inflationary pressures and leading to a tighter stance of monetary policy than would otherwise have been necessary.

Directors, therefore, supported the new Government's objectives of tightening fiscal policy, moderating wage increases and stimulating productivity growth, in order to strengthen the position of the traditional industries. They believed that these aims would be in line with the Government's desire to prevent too heavy a dependence on the oil sector and to minimize the conflict between improving competitiveness and preserving regional balance.

Several Directors agreed that, given the overall balance of payments position, the use of exchange rate policy to maintain the competitiveness of the traditional exposed sector would not be appropriate, even though some loss of cost competitiveness in 1982 may be unavoidable. Another view expressed was that exchange rate policy should be geared solely to the traditional sectors.

Directors considered that a tightening of fiscal policy would be needed to contain income expectations and wage drift, and that it would facilitate the task of limiting the supply of liquidity to the public. In this context, several Directors thought that the time horizon of planned tax reductions, as well as of reductions in transfer payments, may need to be reviewed. To achieve the task of limiting the supply of liquidity to the public, Directors felt that a more flexible interest rate policy and a strengthening of the instruments of monetary policy would be required. It would be helpful if the Central Bank were able to conduct open market operations in its efforts to contain money supply. Such a policy, again, would require a rise in interest rates, which are at present low in real terms.

Directors noted that the external current balance is expected to shift into deficit in the medium term, given the substantial scaling down of previously expected oil revenue, partly due to lower oil prices. However, they felt that these deficits could be financed.

Norway was commended for being guided by a strict policy of energy conservation notwithstanding its large output of oil, gas, and hydro-electric power.

Finally, Directors commended Norway's exemplary record in the field of development assistance.