The National Budget 2019

A summary
Main economic policy features and outlook for the Norwegian economy

On 17 January 2018, the Solberg Government was expanded to include the Liberal Party. The policy of the expanded Solberg Government is based on the Jeløya platform of 14 January 2018:

Norway is a country of great opportunities. High labour utilisation and high productivity are the foundations for high economic growth throughout the country. The Government’s economic policy is based on the premise that wealth needs to be created before it can be shared.

The Government will conduct a responsible economic policy, with public spending being tailored to the economic situation within the limits defined by the fiscal rule. The increased petroleum revenue spending shall be directed towards investments in knowledge and infrastructure, as well as growth-promoting tax reductions.

The Government will promote the creation of resilient and versatile businesses and will therefore conduct an economic policy that facilitates economic growth. The value of Norway’s future labour output is the main component of our national wealth. The Government will therefore focus on getting people into work and off social security benefits, as well as on investing in skills development.

In the long run, welfare developments in Norway are determined by the growth capacity of the mainland economy. Because of that the Government will prioritise measures that promote economic growth and higher productivity in the Norwegian economy. This applies to both the private and the public sector.

In a longer perspective demand for goods and services from the petroleum industry will go down. The Norwegian economy will need additional growth drivers in the years ahead. We need well-functioning markets, and must facilitate growth and employment in sectors exposed to international competition. Capacity for structural adjustment will leave Norwegian businesses better placed to face international competition.

The tax system must be growth-promoting and facilitate the strengthening of competitiveness and the creation of new profitable jobs. The Government wants a tax system that stimulates work and effort, and a lower tax level to offer families more choice.

Climate change is one of the key challenges of our era. Tax policy shall serve to reduce Norwegian greenhouse gas emissions. The Government will base its climate policy on market-based and cost-effective measures. The most important tools of Norwegian climate policy are, and will remain, cross-sectoral measures in the form of greenhouse gas taxes and transferable emission allowances.

Efficient resource utilisation involves both doing things right and doing the right things. The Government will adopt structural measures promoting more efficient utilisation of society’s overall resources. This may deliver benefits in the form of reduced public expenditure, but the effect may also take the form of higher quality and improved public services without any change in the level of expenditure. Structural measures may also include regulatory changes that primarily add value in the private sector, for example through increased productivity.

In order to ensure a sustainable welfare society, it is becoming ever more important to scrutinise public sector resource use and improve the utilisation of taxpayers’ money. This necessitates clear prioritisation of fiscal budget expenditure. The Government will promote better targeting of transfers to the private sector and focus public sector investment more on economically profitable projects. At the same time, the public sector must demonstrate capacity and willingness for structural adjustment, and measures to make the public sector more efficient and effective and less bureaucratic need to be implemented.

An efficient and effective public sector is also
necessary to meet the need for welfare services without reducing the availability of manpower in the private sector. The Government will facilitate high-quality services and introduce competition to improve services and make service production more efficient in areas where this is appropriate. Private providers should then be able to compete for the provision of government-funded services on the same terms as public providers when this provides good services for the end-users.

Well-functioning financial markets are of decisive importance to the growth capacity of the economy and to the daily lives of people, by providing profitable projects with access to capital at prices reflecting the risk and by giving people access to borrowing and investment opportunities. The Government will facilitate a well-functioning capital market, safe banks and a competitive financial industry.

The Government Pension Fund is a success because Norwegian politicians have based their decisions on thorough professional assessment of the investment strategy, with an objective of achieving the highest possible return at a moderate level of risk, and with ethically motivated exclusion criteria relating to, inter alia, weapons, human rights and severe environmental damage. The Government will continue to base the management of the Fund on applicable guidelines and professional assessments, aiming for a long-term investment strategy involving acceptable risk.

The Norwegian economy is performing well. Economic growth is robust, businesses are expanding investment, and even more people are finding work, all over the country. The economic policy framework for 2019 is a responsible budget that ensures continued growth capacity in the Norwegian economy and addresses both short- and long-term challenges:

- The Government’s policy promotes activity, employment and structural adjustment. After a steep increase in petroleum revenue spending in the wake of the oil price decline, the Government has in recent budgets focused on normalising fiscal policy, as growth in the Norwegian economy has rebounded. The economy is currently performing well throughout the country. The budget for 2019 has a neutral fiscal policy stance, in order to make room for business-led growth and to avoid excessive appreciation of the Norwegian krone, which would impede sectors exposed to international competition. Petroleum revenue spending corresponds to 2.7 percent of the capital of the Government Pension Fund Global. The Government is, within a responsible framework laid down by the fiscal rule, promoting economic growth and structural adjustment by focusing on infrastructure, knowledge and growth-promoting tax reductions. Real growth in underlying fiscal budget expenditure is estimated at 1.3 percent, which is well below estimated growth in the mainland economy.

- A lower tax rate on ordinary income for individuals and corporations is especially growth-inducing. The tax rate has, in line with the parliamentary tax reform agreement, been reduced to 23 percent in 2018, and the Government is proposing a further reduction to 22 percent in 2019. The Government is also proposing a lower marginal tax rate on wages, as well as making a number of proposals that will expand tax bases and improve the tax system. In order to prevent groups from shifting taxable profits to other jurisdictions, it is proposed to change the interest deductibility limitation rule and to tighten the rules determining when a company is deemed to be tax resident in Norway. The changes to the tax system will promote investment in Norwegian businesses, facilitate higher employment and better protect the Norwegian tax base.

- The Government will use the good times to ensure a sustainable welfare society and a safer and more secure Norway. In line with the Government’s political platform, there is a focus on measures to structurally adjust the Norwegian economy to create new jobs and ensure additional growth drivers, meet Norway’s climate commitments, facilitate inclusive working life, ensure sound welfare schemes, reduce poverty and boost integration. Many businesses are looking to hire more people, and we need to get more people included in the labour force and to strengthen the integration of immigrants in working life. The Government is also prioritising measures to fight crime, bolster emergency response preparedness and enhance Norway’s defensive capabilities.

Robust growth in the Norwegian economy
The Norwegian economy is performing well. Business confidence is higher than it has been for a long time, employment is increasing rapidly, and unemployment has declined.

The downturn in the wake of the oil price decline in 2014 is over, and the mainland economy is in a cyclical upturn. Economic growth is cur-
rently above the long-term trend, and is expected to increase further next year. Growth is reinforced by a rebound in the petroleum industry and strong performance in the international economy. Increased household purchasing power is lifting household consumption, while improved competitiveness and strong growth abroad are facilitating export and investment growth.

Economic policy has contributed to the upturn. When the oil price started to decline, an expansionary fiscal policy stance was adopted to boost demand for goods and services. Targeted measures prevented unemployment from sticking to a high level. In March 2016, Norges Bank lowered the key policy rate to a record-low 0.5 percent. At the same time, Norwegian krona depreciation and moderate wage settlements have made Norwegian businesses more competitive.

Current economic developments merit a gradually tighter economic policy. Norges Bank increased the key policy rate by 0.25 percentage points in the September monetary policy meeting and indicated further rate increases ahead. Tighter monetary policy will facilitate a more balanced development in the Norwegian economy, with more stable development in the property market, after many years of very low interest rates.

The domestic upturn is supported by strong robust growth in the international economy, despite some levelling off in euro zone growth since the beginning of this year. Growth is particularly strong in the US and Sweden. Uncertainty about future developments in the international economy is somewhat higher than before, especially because of the new tariffs and uncertainty about trade policy. There is also uncertainty about the effects of UK’s exit from the EU. Positive developments are that business investment is finally picking up in many countries and that labour markets continue to improve. Unemployment levels are at their lowest for several decades in a number of countries.

The oil price has increased markedly over the last year and has recently been above 80 dollars per barrel. Gas prices in Europe have also increased. Futures prices are indicating a somewhat lower oil price over the next few years. The gas price is forecast to increase this year, before falling back slightly next year.

The cutback in petroleum investment appears to be over for now, and investment is expected to pick up over the next few years. Cost reductions and efficiency improvements mean that most projects planned for the Norwegian continental shelf will also be profitable at significantly lower oil and gas prices than today.

Mainland Norway is also expected to register increased investment and higher exports. The competitiveness of Norwegian businesses has improved considerably in recent years. The Norwegian krona depreciation in the wake of the oil price decline in 2014 has served to reduce the difference between the cost level in Norway and abroad. Exports increased last year. Businesses all over the country are planning to expand investment, according to Norges Bank’s regional network. Statistics Norway’s survey of business expectations and investment counts are also registering positive signals from businesses.

Housing investment increased steeply until last year, but has declined somewhat in the last few quarters. The level remains very high. Housing prices have been increasing again since the beginning of this year, after having declined throughout last year. For Norway as a whole, housing prices have now returned to more or less their peak level of last year. The increase in household debt has slowed down somewhat over the last few months, but continues to significantly outpace income growth. High and expanding indebtedness has increased the vulnerability of households. This summer, the Government renewed the Housing Mortgage Regulations, which are intended to promote more sustainable household debt development.

Several factors indicate higher consumption ahead. Employment is increasing significantly, and unemployment is low. Household purchasing power is expected to increase markedly next year, after having been held back by high consumer price inflation in 2018. Norwegian households are generally optimistic about the future.

A dry and warm summer resulted in lower electricity production and subnormal water levels in Norwegian reservoirs. This was accompanied by record-high electricity prices, and consumer prices were 3.4 percent higher in August this year than in the same month last year. Consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) were 1.9 percent higher in August than in the same month last year. Higher electricity prices mean that consumer price inflation looks set to be higher this year than previously anticipated. A lot of rain recently
Figure 1 Economic developments

1 The line shows the share of the population in working age (15-74 years) that are employed and is based on LFS. The columns show accumulated growth in the number of employed people (in 1000) since 4. quarter 2015 and is based on national accounts.

Sources: Macrobond, Statistics Norway, Ministry of Finance, Norges Bank and The Norwegian Technical Calculation Committee for Wage Settlement
has given more water in Norwegian reservoirs and electricity prices have come down again. Electricity prices are expected to decline towards more normal levels next year, thereby markedly reducing consumer price inflation.

Labour market developments are distinctly better than expected. Unemployment as measured by both the Statistics Norway labour force survey and the number of unemployed registered by Norwegian Labour and Welfare Administration offices has declined. Registered unemployment is now well below the average for the last 20 years. The unemployment reduction has been registered in all parts of the country, and regional unemployment differences have declined.

Employment is increasing steeply at the moment. Over the two last years, employment has increased by about 70,000 people. The employment rate has started to increase again.

We expect employment growth ahead to partly take the form of labour immigration, with the remainder being made up of the unemployed or those outside the labour market getting into work. While all of the growth in employment came among immigrants over the period from 2008 to 2014, this had changed to about five out of ten the last year until first half-year 2018. Many of these immigrants were already living in Norway when they were hired. The wage level in Norway remains attractive for employees in other European countries, but net immigration has declined in recent years, especially from Sweden, Poland and the Baltic countries. Net immigration from EU-countries in Eastern Europe was about 2,000 per year in 2016 and 2017, down from an average of 20,000 in the years 2010-2012.

It is likely that a tighter labour market will result in somewhat higher wage growth ahead. The intensity of the cost pressure will depend, inter alia, on the availability of manpower and the extent to which competition from international manpower will hold back wage growth in some industries domestically. Experience from, inter alia, Sweden may indicate that wage growth will not resume as readily as in previous cyclical upturns.

Overall, mainland Norway GDP growth is forecast to 2.3 percent this year and 2.7 percent next year. This is well above trend growth in the Norwegian economy. Fluctuations in electricity production as a result of the warm and dry summer is temporarily reducing growth this year and increasing it next year.

The forecasts are uncertain. The Brexit negotiations, mounting protectionism and a higher conflict level between countries may potentially undermine global economic growth. Higher investment, higher employment and somewhat higher wage growth, on the other hand, point to increased economic growth. The steep credit growth in some countries, including China, adds uncertainty as to the medium-term sustainability of economic growth in those countries.

In Norway, a high debt burden may result in many households having to curtail consumption in the event of an interest rate increase or if housing prices were to fall for a prolonged period of time. This may inhibit the economic growth surge. On the other hand, the Norwegian economy is currently facing a concurrence of numerous positive drivers, including a high oil price, a resurgence in petroleum investment, a strong international growth impetus, competitive Norwegian businesses and strong employment growth.

A well-adapted economic policy
The Jeløya platform emphasises that petroleum revenue spending shall be tailored to the economic situation, within the limits defined by the fiscal rule. Expansionary fiscal policy can avert recession, but can also amplify economic fluctuations if policy is not tightened when the economic outlook is favourable.

The economic policy conducted by the Government in response to the oil price decline has worked. Together with low interest rates, depreciation of the Norwegian krone and improved competitiveness, targeted measures to stimulate activity and employment served to reverse the cyclical downturn in the Norwegian economy. As economic growth has rebounded, the Government has in its latest budgets focused on normalising fiscal policy. Petroleum revenue spending growth has been scaled back to facilitate the creation of new private sector jobs and avoid excessive Norwegian krone appreciation and pressure on businesses exposed to international competition. The budgets for 2017 and 2018 had a near neutral fiscal policy stance, compared to an average fiscal impulse of 0.7 percent for the first years after the oil price decline.

We have now entered a new cyclical upturn. Mainland economic growth is forecast to be above the long-term trend, employment is increas-
ing rapidly and unemployment has declined. The Government is proposing a budget with a neutral fiscal policy stance for 2019, in view of the current outlook for the Norwegian economy and sectors exposed to international competition.

Improved competitiveness is the most important contribution to structural adjustment of the Norwegian economy, by increasing private sector profitability and making it more attractive to invest in businesses exposed to international competition. When demand from the petroleum industry falls back some years from now, the competitiveness of businesses will be decisive to the emergence of other industries. If excessive government budget expenditure growth were to result in monetary policy being tightened more rapidly than is currently anticipated, it could lead to a sudden Norwegian krone appreciation that would undermine the improvement in competitiveness.

The Norwegian economy will need additional growth drivers in the years ahead. Our foremost challenge is to bolster private businesses and facilitate growth and employment in sectors exposed to international competition. Failure to exercise fiscal policy discipline when the economic outlook is favourable may undermine competitiveness, impair labour market mobility and impede access to manpower for businesses exposed to international competition. Such a development would not be a sound response to the structural challenges facing the Norwegian economy.

We are facing a new fiscal policy phase. Petroleum revenue spending has been expanded considerably since the fiscal rule was introduced in 2001. This trend has now been bucked. Both petroleum revenues and real returns on the Fund are forecast to be lower in coming years than in recent years. It is anticipated that the Fund will only grow moderately in coming years, when measured relative to value added in the mainland economy. Consequently, the scope for further expansion of petroleum revenue spending is severely limited. Just over a decade from now, Fund returns will most likely be on a downward path when measured as a portion of value added in the mainland economy, because growth in the Fund capital will then no longer be able to keep up with growth in the mainland economy.

It was anticipated, upon the introduction of the fiscal rule, that new inflows of capital to the Fund would become more important. As the petroleum reserves has been converted into financial wealth, uncertainty in oil prices has gradually become less important, while uncertainty about the market value of the fund's investments is of greater significance to the development in the fund. A major decline in the Fund capital would, when taken in isolation, suggest that petroleum revenue spending should be curtailed. The petroleum revenue spending guidelines are flexible for precisely the reason that fiscal policy shall be enabled to handle such situations and support balanced development in the Norwegian economy. The petroleum revenue spending impact of major changes to the Fund capital or the structural deficit shall be evened out over several years – and this applies to both upward and downward fluctuations.

The long-term average return on the Government Pension Fund Global (GPFG) has been estimated at 3 percent. This means that we will be better placed to face challenging times if we spend less than 3 percent of the Fund in good times. For 2019, the Government's proposal implies that we are spending 2.7 percent of the Fund. This is NOK 30 billion less than if we were spending 3 percent. This Government has kept petroleum revenue spending below the fiscal policy guideline ever since it was first appointed – even when confronted with the oil price decline in 2014.

If the value of the equities held by the Fund were to decline by 25 percent from current levels – a possibility we need to acknowledge – and petroleum revenue spending remains at the same level as under the Government’s budget proposal, the spending rate would be 3.2 percent rather than 2.7. This underlines that the 2019 withdrawal is based on sound economic policies, where the use of oil revenues, even with a 25 per cent fall in share prices, will be relatively close to the 3 per cent path.

Norway’s economy and competitiveness are affected by the amount of petroleum revenues spent, but also by how these are spent. Report No. 29 (2000-2001), a white paper on guidelines for economic policy, emphasised that the increase in petroleum revenue spending should be focused on measures likely to improve the productivity, and thus the growth capacity, of the rest of the economy. In deliberating the white paper on Long-term Perspectives on the Norwe-
The Standing Committee on Finance and Economic Affairs noted unanimously that the Storting emphasised, in 2001, that petroleum revenues could not become an excuse for avoiding necessary systemic reforms. The Standing Committee on Finance and Economic Affairs also unanimously endorsed the key prioritisation from 2001, calling for spending to be focused on infrastructure, knowledge and growth-promoting tax reductions. The Government is continuing its prioritisation of these areas in the budget for 2019.

To maintain more or less the same growth in the standard of living as Norwegians have become accustomed to over the last 40 years, productivity will need to increase more rapidly than in the last 10-12 years. Moreover, public revenues will need to be spent sensibly to secure the long-term funding of welfare schemes. This requires a continuation of targeted reforms in the public administration and the rest of the economy.

High labour participation and productivity are important for both economic growth and the sustainability of public finances. Employment is high in Norway. At the same time, there are many recipients of social security benefits. The proportion of non-labour force participants due to illness or impaired work capacity is higher in Norway than in many other countries. Reducing this proportion is a central priority for the Government.

Norway’s aging population will result in considerably higher expenditure on pensions and health and long-term care services in the years to come. Only a minor part of such increased expenditure can be funded by the revenues from the Government Pension Fund. The pension reform is designed to deliver long-term savings and to increase labour supply, but it is not sufficient to close the gap between central government expenditure and revenues in the long run. New measures will be needed to secure the funding of existing welfare schemes.

**Key figures in the budget for 2019**

The Government’s budget proposal for 2019 provides for petroleum revenue spending of NOK 231.2 billion, as measured by the structural, non-oil deficit. This corresponds to 2.7 percent of the estimated capital of the Government Pension Fund Global as at the beginning of the year. Petroleum revenue spending via the fiscal budget is estimated at 7.5 percent of mainland Norway trend GDP. This is NOK 44,000 per capita. One eighth of spending via government budgets is currently obtained from the Government Pension Fund. Real growth in underlying fiscal budget expenditure is estimated at 1.3 percent, which is well below estimated growth in the mainland economy.

The change in the structural, non-oil deficit is often used as a simple yardstick for the effect of the budget on aggregate demand for goods
Table 1 General government financial balance. NOK million

<table>
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<th>Description</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tr>
<td>Central government financial balance</td>
<td>183 038</td>
<td>286 755</td>
<td>302 286</td>
</tr>
<tr>
<td>Fiscal Budget surplus and Surplus in Government Pension Fund</td>
<td>148 646</td>
<td>237 643</td>
<td>279 028</td>
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<tr>
<td>Non-oil budget surplus</td>
<td>-222 826</td>
<td>-234 703</td>
<td>-232 494</td>
</tr>
<tr>
<td>Net revenues from petroleum activities</td>
<td>167 847</td>
<td>258 946</td>
<td>285 822</td>
</tr>
<tr>
<td>Interest and dividends on the Pension Fund</td>
<td>203 625</td>
<td>213 400</td>
<td>225 700</td>
</tr>
<tr>
<td>Surplus in other central government and social security accounts</td>
<td>-2 142</td>
<td>-1 169</td>
<td>370</td>
</tr>
<tr>
<td>Definitional differences between Fiscal Budget and national accounts\</td>
<td>36 534</td>
<td>50 282</td>
<td>22 888</td>
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<tr>
<td>+ Local government financial balance</td>
<td>-15 957</td>
<td>-22 267</td>
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</tr>
<tr>
<td>= General government financial balance</td>
<td>167 081</td>
<td>264 489</td>
<td>277 270</td>
</tr>
<tr>
<td>In per cent of GDP</td>
<td>5.1</td>
<td>7.5</td>
<td>7.6</td>
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\1 \text{Includes central government accrued but not recorded taxes. Direct investments in state enterprises, including government petroleum activities, is defined as financial investments in the national accounts.}

Sources: Statistics Norway and Ministry of Finance.

and services. The Government is proposing to increase petroleum revenue spending by NOK 4.5 billion from 2018 to 2019, measured in fixed prices. This is estimated to keep the structural, non-oil deficit more or less unchanged when measured as a percentage of mainland Norway GDP. This means that the budget has a neutral fiscal policy stance.

Aggregate spending on knowledge, transport and tax reductions over the period 2014-2019 has been significantly higher than over the period 2006-2013, in line with the objectives of this Government. For the period as a whole, 13 percent of the overall room for fiscal policy manoeuvre has been devoted to tax reductions, whilst 24 percent has been absorbed by knowledge and transport spending. In addition, 22 percent of the room for manoeuvre has been accounted for by increased expenditure in the national insurance scheme, whilst close to 21 percent has been allocated to strengthening local government finances, including municipal knowledge and transport investments.

**The tax proposal**

The Government is giving priority to tax changes that will strengthen the growth capacity of the economy, facilitate structural adjustments and generate new jobs. A lower tax rate on ordinary income for individuals and corporations is especially growth-inducing. The Government therefore proposes to reduce the tax rate from 23 to 22 percent. This will, along with a further increase in the valuation discount for shares and operating assets in the net wealth tax, make it more profitable for Norwegian owners to invest in Norway. The marginal tax rate on wages will be reduced for the vast majority of people, and by most for those earning the lowest incomes.

The Government is proposing to expand certain tax bases to improve the tax system and fund tax reductions that enhance the growth capacity of the economy. This includes changes to the rules on the taxation of insurance and pension undertakings. Targeted measures are also implemented to prevent base erosion and profit shifting, including, inter alia, changes to the interest deductibility limitation rule and the tax rules determining when a company is deemed to be tax resident in Norway. The Government is proposing that employers be required to report, withhold and pay employer’s social security contributions on wages in the form of gratuities. Gratuities are taxable income, but have been subject to inadequate tax reporting.

In order to curtail the property tax on residential properties and holiday homes, the Government proposes, inter alia, to reduce the maximum tax rate from 0.07 to 0.05 percent from 2020.

The climate and environmental impetus of the tax system is strengthened. The Government also proposes to reduce the tax on chocolate and sugar products to its (price-adjusted)
2017 level. It is proposed to reduce the electricity tax by NOK 0.01 per kWh.

A new financial reporting standard reduces the overall valuation of banks’ lending portfolios. It is proposed that such reductions be deductible in their entirety in the year of introduction, i.e. 2018. This will result in a non-recurring tax reduction of NOK 550 million booked in 2019.

Total new tax reductions in 2019 as the result of the Government’s proposals are about NOK 1.1 billion accrued and NOK 1.8 billion booked. Almost 9 out of 10 personal taxpayers will have lower or unchanged tax under the proposal.

**The Government’s priorities**

In the budget for 2019, the government promotes job creation, improved welfare and increased security. The fiscal budget for 2019 supports the Government’s long-term objective of a sustainable welfare society. The measures are tailored to the economic outlook and pave the way for resolving the major challenges facing Norway:

- **Structural adjustment of the Norwegian economy**

Supporting structural adjustment of the Norwegian economy to create growth, jobs and a more diversified economy, is at the core of the Government’s economic policy. It is a key priority for tax policy. At this juncture, maintaining business competitiveness is an important reason to rein in petroleum revenue spending, and the Government is proposing a budget with a neutral fiscal policy stance for 2019. Improved competitiveness is the most important contribution to economic adjustment, by increasing private sector profitability and making it more attractive to invest in businesses exposed to international competition.

High productivity ensures that the standard of living in Norway is amongst the highest in the world. In the last decade, productivity in Norway and other Western economies has increased at a slower pace than before. Productivity growth has nonetheless been higher in Norway than in many European countries, and now appears to be accelerating somewhat.

Continually increasing the returns from the resources we use is the key to improved living standards and maintaining strong welfare schemes. Moreover, capacity for adapting will leave Norwegian businesses better placed to face international competition. Structural adjustment is not primarily achieved through individual measures in the annual budget proposals, but through long-term reform of the general policy framework and society’s institutions. The Government will conduct a forward-looking business policy promoting private sector growth, profitable jobs, as well as structural adjustment of Norwegian industry.

The budget proposal is paving the way for a majority of new jobs to be created in private businesses, and the Government is prioritising road and rail development, along with research, innovation and skills.

The Government is maintaining its strong focus on improving road, rail and public transport. Improved scope for fast and efficient transport supports the necessary structural adjustment and makes life easier for individuals and businesses alike.

Knowledge, research and development contribute in making businesses more competitive, and in the creation of new industries. The Government is presenting a revised long-term plan for research and higher education simultaneously with the fiscal budget for 2019. This introduces three new investment initiatives totalling NOK 1.5 billion over the period 2019-2022, of which NOK 800 million is earmarked for a technology initiative and NOK 450 million for R&D on business renewal and structural adjustment.

Both the Productivity Commission and the OECD have noted that higher productivity can be achieved through structural reforms that enhance growth opportunities for businesses and through measures to improve public sector efficiency. The tax reform, with a lower tax rate on ordinary income for corporations and individuals, makes it more profitable to invest in Norway. This promotes economic growth, facilitates structural adjustment and creates new jobs. The Government will modernise the public sector to enable welfare schemes to be maintained. The de-bureaucratisation and efficiency reform will be continued, thus freeing up resources for priority objectives. Several comprehensive reforms have been implemented to obtain better services and improved use of resources in the public sector, including the local government reform, the regional government reform, the railway reform,
the police reform and the university reform, as well as the establishment of the company Nye Veier AS. Reform efforts that serve to improve the use of society’s resources, in both the private and the public sector, are continuing.

The Government will continue to modernise the public sector and make it more efficient and effective, in order to thereby safeguard welfare. This contributes to a more sustainable welfare society. The fiscal budget reinforces public sector innovation efforts and public sector digitalisation. The objectives are to simplify people’s lives and to get more welfare from all tax revenues.

- **Meet Norway's climate commitments**

Climate change is one of the key challenges of our era. Our tax policy shall serve to reduce Norwegian greenhouse gas emissions. The Government will base its climate policy on market-based and cost-effective measures. The most important instruments in Norwegian climate policy are, and will remain, cross-sectoral measures in the form of greenhouse gas taxes and transferable emission allowances.

The Government is conducting an ambitious climate and environmental policy. The climate challenge can only be dealt with through global collaboration, but Norway also needs to reduce its own emissions. The Government wants Norway to be a driving force in international climate collaboration and wishes to strengthen the parliamentary agreement on climate policy.

Norway’s climate commitment for 2030 is to reduce emissions by at least 40 percent compared to 1990. We are in dialogue with the EU on an agreement on joint fulfilment of the emission reduction target. The Government will use the opportunities offered by the EU framework for meeting Norwegian climate commitments in the non-EU ETS sector, whilst at the same time aiming to meet as much as possible of the commitment domestically.

In the budget for 2019, the Government is proposing measures to reduce greenhouse gas emissions in both the short and the long run. A major climate-friendly transportation initiative is proposed. It is proposed to increase appropriations for railway investment, operation and maintenance by NOK 2 billion, as well as to almost double central government appropriations for co-funding of key public transport projects in the four largest cities.

Norway is funding a number of climate initiatives outside its own borders, including, inter alia, on renewable energy, on tropical deforestation reduction and on climate change adaptation for developing countries. These initiatives serve to reduce global greenhouse gas emissions. This type of support and collaboration forms a key element of the UN Framework Convention on Climate Change and the follow-up of the Paris Agreement. The Government is proposing to increase appropriations for climate- and environmentally-oriented development assistance, including renewable energy, Norway’s International Climate and Forest Initiative (NICFI) and combating marine pollution, by more than NOK 1 billion.

The Government is proposing to increase appropriations for Enova. Enova is an important instrument for promoting the development and use of new climate technology and supports, inter alia, zero- and low-emission solutions within shipping and land transportation. Initiatives that yield the highest non-EU ETS sector emission reductions shall be given priority.

The Government has established the investment company Nysnø Klimainvesteringer AS (formerly Fornybar AS). The objective of the company is to facilitate emission reductions by investing in new climate technology. The Government proposes to increase appropriations for the company by NOK 200 million in 2019.

The CO₂ handling initiative should contribute to developing and demonstrating cost-effective technology for CO₂ capture and storage with dissemination potential. The Government is proposing a continuation of the research and demonstration initiative, including operation of Technology Centre Mongstad. The planning of full-scale CO₂ handling continues, and appropriations are proposed for pilot projects on capture, transportation and storage.

Greenhouse gas emissions are forecast to decline by just over 7 million tonnes of CO₂ equivalents by 2030 under current policy. The vast majority of the reduction is expected to be in non-EU ETS emissions, which are forecast to decline by 5¼ million tonnes from 2017 to 2030.

- **Facilitate inclusive working life**

The Government seeks to facilitate that as many as possible shall participate in the labour market.
For individuals, having a job means steady income, personal development and participation in a social arena. At the same time, comprehensive government funded welfare schemes depend on balancing the number of contributors of revenue and recipients of benefits. Hence it poses a challenge to individuals and society if many people are outside the labour force.

The Government will actively use the upturn in the Norwegian economy to increase employment. When unemployment is low and more businesses are hiring, we need to include people outside the labour market. The Government has consequently launched an inclusion initiative, and propose NOK 125 million to facilitate this initiative. Social exclusion represents a large labour reserve that needs to be mobilised. A joint public and private sector effort aim at getting more persons with impaired functioning and/or gaps in their CV into permanent, ordinary jobs. The Jeløya platform aims for at least five percent of new central government employees to be persons with impaired functioning or gaps in their CV. The inclusion initiative is focusing on support for employers that recruit from the target groups of the initiative, on getting more people qualified for work, as well as on a combination of health- and work-oriented follow-up, especially for individuals with mental health or substance abuse problems.

People with impaired work capacity, youth, immigrants from non-EEA countries, and people who have been unemployed for a long time are given special priority for participation in labour market programmes. More people with substance abuse problems shall participate in labour market programmes. Appropriations for permanently adapted work are proposed expanded. Safe and law-abiding working life facilitate more inclusive working life by providing safety and security for employees and employers. The Government will improve conditions for law-abiding actors, and combat work-related crime. Initiatives against work-related crime are increased.

High productivity depend on a highly skilled labour force. The Government has launched a number of initiatives to improve quality in schools. These aim at providing pupils with the best possible education trough early intervention, and to prevent dropouts. A special effort to increase the quality of vocational training is proposed. The Government will continue the effort to increase knowledge development for teachers in kindergarden and schools. More adults have become entitled to upper secondary education, and adults have been given easier access to flexible training that can be combined with work. Additional resources are devoted to adults in 2019, at both the primary and secondary education level.

The labour market is changing, and skill requirements increase. Technological developments challenge existing jobs and the skills of individuals, but also create opportunities for homesourcing of jobs. The Government will carry out a skill reform to avoid people from exiting the labor force. The effort aims to facilitate lifelong learning and ensure that no one exit the labour force due to lack of skills. The reform will improve access to supplementary training and on-the-job training. Two important elements are the development of flexible continuing education programmes within technology and digital solutions, and industry programmes for industries that are particularly affected by digitalisation, automation and structural adjustment.

– **Ensure robust welfare schemes**

The Government seeks to maintain and develop robust welfare schemes and welfare services. Robust welfare services contribute to reducing inequality and are important for the individual's ability to succeed, regardless of circumstances. Robust welfare and income protection schemes are important both for the adaptability of the workforce as a whole and for the individual. Welfare schemes must be designed to stimulate participation in the labour market, while ensuring that those who can not participate due to health or age are guaranteed an income.

Welfare schemes are strengthened under the Government's budget proposal. The Government seeks to invest in hospitals, faster access to treatment and improved care for the elderly. By giving priority to substance abuse treatment, mental health and anti-poverty measures, we will improve municipal welfare provision and strengthen the social safety net. Hospitals will receive NOK 1,350 million in increased operating appropriations to facilitate increased patient treatment and short waiting times. The local government sector, which provides key welfare services, will see real growth of NOK 2.6 billion in unrestricted revenues. This enables municipal and county administrations to provide more and better services.
The Government suggests providing grants to allow for 1,500 places in assisted living facilities in addition to promoting the establishment of 450 daytime activity offers for people with dementia. Furthermore, the Government will continue and expand the ongoing trials with care services funded by central government. Health services addressing substance abuse and mental health problems are strengthened significantly by expanding the recruitment of psychologists for municipalities by an additional 120 full-time equivalents. The Government is also following up on the senior citizen reform; *A full life – all your life* which aims to enhance municipal administrations’ capacity for structural adjustment and quality improvement in municipal health and care services.

The Government will present a new national health and hospital plan in the autumn of 2019. The objective is to deliver patient-oriented health services in a manner that will be sustainable also in the long-term. Improving coordination across levels, adopting new technology and developing skills will be central themes.

In order to maintain the sustainability of key welfare schemes, it is necessary that more people participate in working life and remain in work for longer. This necessitates a more work-oriented approach and activity requirements in welfare schemes. Tailored income security schemes for groups that are unable to participate in the labour market shall, at the same time, be maintained. The Government has also made a number of modifications to income security schemes to counter passive benefit periods and facilitate re-entry into the labour market. This is exemplified by the introduction of a duty of active participation for young recipients of financial assistance and the restructuring of the work assessment allowance.

The key components of the pension reform are improved financial sustainability and stronger work incentives. In March 2018, an agreement was concluded with the social partners on restructuring of occupational pension and early retirement pension in the public sector. The restructuring will increase incentives to remain in work for longer. The agreement is being followed up with legislative proposals.

The Government is aiming to refine welfare schemes through a modernisation of the public sector. The ICT solutions of the Norwegian Labour and Welfare Administration are being modernised to develop good self-service solutions for users, access to own case files and opportunities for digital communication with the public administration. This facilitates positive user experiences, shorter processing times and higher quality in the administration of benefits. Resources are, at the same time, released to strengthen assistance to users who need work-oriented follow-up.

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**Reduce poverty**

Norway is amongst the OECD countries with the highest income and lowest economic inequality. International studies show that quality of life and standard of living are equitably distributed in Norway, and that the incidence of persistently low income is relatively low. The income level of low-income individuals is higher in Norway than in many other countries, and the extensive public services ease the consequences of low incomes. Living on a low income may nonetheless be a challenge that can affect health, education and social life. Growing up in low-income families may restrict choice, as well as increase the risk of social exclusion and other challenges later in life.

The Government’s top priority in terms of welfare policy is to combat poverty, especially amongst families with children, in order to reduce social exclusion. The Government has in recent budgets strengthened national grants for the alleviation of child poverty. For 2019, the Government proposes an increased appropriation to initiate a pilot project to cover individual expenses associated with participation in organised activities for children from low-income families, as well as holiday programmes for children and parents from the same group.

In order to counter poverty and low incomes in the longer run, the educational system must provide children and youth with the skills needed to take part in the labour market of tomorrow. In the budget for 2019, the Government proposes to increase the grant for follow-up and coaching programme for youth at risk of dropping out of education by NOK 20 million. The Government is also proposing NOK 46 million to extend the free of charge core time kindergarten scheme to two-year olds, as well as NOK 9 million for recruitment initiatives for kindergartens in vulnerable urban areas. In the fiscal budget for 2019, the Government proposes to expand the grant scheme for urban improvement initiatives by NOK 20 million. In order to assist households with low incomes and high housing expenses,
the Government is proposing to increase the housing allowance for families with children, as well as other large households, by NOK 60 million.

Facilitating participation in working life is at the core of the Government’s effort to combat poverty and low incomes. The use of activity requirements in income security schemes may result in fewer passive recipients and strengthen work incentives. The Government has launched an inclusion initiative to help more people get into work. By further reducing the marginal tax rate on wages, the Government is making it a little more profitable to work more. The tax system also has a direct redistributive effect. The Government's tax policy is characterised by growth-promoting tax reductions that are benefitting broad population groups. About half of the reductions in personal taxes in 2019 will accrue to those with gross incomes of less than NOK 600,000.

The Government is aiming to publish a white paper on inequality and social sustainability in late 2018/early 2019.

The Sustainable Development Goals represent a global initiative for the eradication of extreme poverty. Internationally, the Government will promote economic growth and fight poverty through an expanded focus on business development, agriculture and renewable energy. The Government proposes to increase appropriations for official development assistance by NOK 2.5 billion in 2019.

It is intended to present an integration strategy in late 2018 to provide clear direction for future integration efforts. The main objective is to increase the participation of immigrants in working life and other social arenas. A comprehensive and coordinated approach is required to improve goal attainment, and the strategy touches on the responsibilities of several ministries. The focal areas of the strategy will include qualifications and education, work, everyday integration and negative social control.

An important part of the strategy is to assess how overall integration resources can be used most effectively to attain the desired outcomes. The Government is proposing a total of NOK 420 million for a number of measures to boost integration in 2019. The proposals include, inter alia, the development of introduction programme modules, urban improvement initiatives in Oslo, skills enhancement for Norwegian language teachers, trials with the use of financial incentives in the introduction programme and further development of the Job Opportunity scheme. The proposal to extend the free of charge core time kindergarten scheme to two-year olds is also held by the Government to be conducive to improved integration. So is increased grants for cultural initiatives and projects to stimulate diversity and integration.

Security and emergency response preparedness

The Government is working towards a safer and more secure society. The budget proposal focuses on initiatives to fight crime, increase emergency response preparedness and enhance Norway’s defensive capabilities. The Government is following up on the long-term plan for the defence sector (LTP) by proposing an increase of NOK 2.8 billion for LTP purposes. This amount will, inter alia, be spent on expanded activity in the Norwegian Armed Forces, investment in new submarines, new surveillance aircrafts and new artillery for the Norwegian Army, increased ambitions for our land forces and accelerated procurement of new coastguard vessels.

The construction of a national emergency response centre for the police continues. The centre will enhance emergency response preparedness and result in a more rapid and coordinated response from the police when incidents occur. During 2019, three new police helicopters will enter into service. The Government also proposes increased appropriations for object protection in
the Norwegian Armed Forces by bringing several planned protection projects forward to 2019, along with more exercise activity in the Norwegian Home Guard.

The budget proposal includes improved protection of the police and Police Security Service’s sensitive objects. The National Police Directorate has compiled a comprehensive object protection plan. The Government follows up by proposing increased funds as well as the establishment of two protected data centres for the justice sector. The construction of the national emergency response centre will in addition involve protection of four of the police’s sensitive objects.

The Government proposes to facilitate increased police presence. The budget proposal contributes to recruitment of graduates from the Norwegian Police University College in 2019, as well as the full-year effect of the recruitment of graduates in 2018.

In order to increase efforts against gang and youth crime, especially in Oslo, the Government proposes to increase appropriations for the police and the mediation services. Moreover, the Government will strengthen the work of the child welfare services directed at young criminals.

The budget proposal devotes additional resources to ICT security. Increased appropriations are proposed for the Police Security Service and the National Security Authority. The Government also proposes to expand national research in cryptology, digital security and emergency response preparedness.

The first six new search and rescue helicopters will have been received by the end of 2018, with the delivery of an additional six helicopters being scheduled for 2019.

**Monetary policy**

The long-term role of monetary policy is to provide the economy with a nominal anchor. Low and stable inflation is the best contribution monetary policy can make to promoting a high level of welfare and economic growth over time. The economy functions better with low and stable inflation than with high and variable inflation.

Norges Bank is responsible for the operational implementation of monetary policy under guidelines laid down in the form of regulations. New Monetary Policy Regulations were enacted in March of this year. The operational target of monetary policy is annual consumer price inflation of close to 2 percent over time. Inflation targeting shall be forward-looking and flexible, so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances.

Interest rates have been low for a long time. This has contributed to the growth rebound in the Norwegian economy. The market participants are expecting interest rates to increase somewhat over the next few years, both internationally and in Norway. Norges Bank increased the key policy rate in its September monetary policy meeting. According to the Bank’s Monetary Policy Report of September this year, it is most likely that the key policy rate will be increased further in the first quarter of next year, and thereafter gradually increased to about 2 percent by the end of 2021. Such a development in the key policy rate would somewhat increase the difference between Norwegian and international rates.

**Financial stability and the housing market**

The favourable developments in the Norwegian economy have resulted in strong earnings for Norwegian banks. Banks have strengthened their solvency significantly over the years since the financial crisis, and have also accumulated liquidity buffers that make them less vulnerable to market turbulence.

The sustained increase in the household debt burden is an indication that financial imbalances have been building up. Interest rate changes, income loss or a steep housing price decline may result in high-debt households having to curtail consumption to service their debts.

Housing prices increased rapidly at the beginning of this year, after having declined over the course of last year. Increases have been more modest over the last few months. For Norway as a whole, prices have returned to last year’s peak level, whilst the level in Oslo still remains somewhat lower. The commercial property market has also registered large price increases over several years, which have contributed to the accumulation of risk in the financial system.

The Government has adopted a number of measures to reduce risk in the Norwegian financial system. In addition to stricter solvency and liquidity requirements for banks, lending practice requirements have been introduced to facilitate more sustainable development in the housing mortgage market.
Employment and income policy

Employment policy shall support high economic growth by bringing as many people as possible into work. High employment and low unemployment are key economic policy objectives for the Government and are of decisive importance for ensuring a sustainable welfare society.

The outlook for the Norwegian economy indicates that there will be increasing demand for labour next year as well. It is therefore important to get as many people as possible into work. This implies that labour market policy measures need to be tailored to the current stage of the business cycle. The Government is taking a broad approach to bringing more people into work, and has launched an inclusion initiative.

The lay-off regulations were amended in the wake of the oil price decline in 2014 and the subsequent weakening of the labour market, in order to enable businesses to retain skilled manpower. The Government will use the current cyclical upturn to include more people in ordinary working life and continue the structural adjustment of the Norwegian economy. In response to the ripple effects of the oil price decline on the Norwegian economy, the maximum period of exemption from the duty to pay wages was gradually increased to 49 weeks over the course of 2015 and 2016. Employers are obliged to pay wages for ten days at the beginning of the lay-off period. Employers are required to pay wages for an additional five days after 30 weeks of unemployment benefits. Employers are thereafter exempted from the duty to pay wages for a further 19 weeks. It is important for income security schemes to support high employment. The labour market is improving and the Government therefore proposes that the maximum period of exemption from the duty to pay wages during lay-off be reduced from 49 to 26 weeks. The so-called employer payment period II, i.e. the requirement for employers to pay wages for an additional five days after 30 weeks, will be abolished at the same time.

Labour market programmes are important to assist the unemployed with getting quickly into work, and to prevent persons with limited or low-demand skills from dropping permanently out of working life. The scale of labour market programmes shall be tailored to the labour market situation. The number of work placements aimed at the unemployed was increased steeply in the wake of the oil price decline in 2014. Placements aimed at the unemployed have been scaled back this year in line with the decline in unemployment, and a further reduction is proposed for next year.

The appropriation will ensure that provisions for persons with impaired work capacity and other vulnerable groups remain well-funded. The appropriation allows room to complete 59 000 placements in 2019. Youth, immigrants from non-EEA countries and long-term unemployed are given special priority for participation in labour market programmes. Moreover, additional resources will be provided for persons participating in permanently adapted work.

Wage bargaining is the responsibility of the social partners. Wage bargaining is coordinated, with key industries in sectors exposed to international competition being the first to bargain. This is intended to keep wage growth within limits that are sustainable over time for businesses exposed to international competition. The authorities are responsible for ensuring that laws and regulations facilitate a well-functioning and flexible labour market. Income policy cooperation helps the authorities and the social partners to develop a common understanding of the economic situation and the challenges facing the Norwegian economy.

Follow-up of the UN Sustainable Development Goals

The 17 Sustainable Development Goals, which were adopted by the UN member states in 2015, represent an ambition to eradicate extreme poverty and hunger by 2030. The overriding objective is to facilitate a good and secure life for all people, without damaging the environment.

The Government’s follow-up of the Sustainable Development Goals is integrated in the Government’s ordinary political processes. For each of the 17 goals one ministry has been given responsibility for coordinating follow-up. The ministries report on their follow-up of their assigned goals in their budget propositions. The Ministry of Finance has coordination responsibility for Goal 8 on economic growth and employment and Goal 10 on reducing inequality.

The Government Pension Fund

The purpose of the Government Pension Fund is savings to finance pension expenditure under the national insurance scheme, as well as to support
long-term considerations in the government’s spending of petroleum revenues. Sound long-term management will help ensure that Norway’s petroleum wealth can benefit both current and future generations. The investment objective for the Government Pension Fund is to achieve the highest possible return with an acceptable level of risk. Management of the Fund shall be transparent, responsible, cost-effective and focused on long-term performance. There is a broad political consensus that the Fund shall not serve as a foreign policy or climate policy tool.

The overall market value of the Government Pension Fund was NOK 8,585 billion as at the end of the first half of 2018, of which the Government Pension Fund Global (GPFG) accounted for NOK 8,335 billion and the Government Pension Fund Norway (GPFN) accounted for NOK 251 billion. The Central Bank Act Commission submitted its report on a new Central Bank Act, as well as organisation of Norges Bank and governance of the GPFG, to the Ministry of Finance on 23 June 2017. The Government intended to present a separate report on this matter to the Storting in October 2018.

The Ministry of Finance has appointed, against the background of advice from Norges Bank to omit the energy sector from the equity benchmark index for the GPFG, an expert group tasked with assessing whether the Fund should be invested in energy equities. The advice from Norges Bank and the input from the public consultation will, along with the report from the expert group, form part of the basis for the Government’s decision.

Tabell 2 Key figures for the Norwegian economy The National budget 2019

<table>
<thead>
<tr>
<th></th>
<th>Billion NOK¹</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Private consumption</td>
<td>1 471,8</td>
<td>2,2</td>
<td>2,6</td>
<td>2,9</td>
<td>2,9</td>
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<tr>
<td>Public consumption</td>
<td>797,4</td>
<td>2,5</td>
<td>1,6</td>
<td>1,5</td>
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<tr>
<td>Gross fixed investment</td>
<td>824,6</td>
<td>3,6</td>
<td>1,1</td>
<td>3,0</td>
<td>3,2</td>
<td></td>
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<tr>
<td>Of which: Petroleum extraction and pipeline transp.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Business sector Mainland Norway</td>
<td>150,9</td>
<td>-3,8</td>
<td>4,8</td>
<td>8,3</td>
<td>6,9</td>
<td></td>
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<tr>
<td>Housing</td>
<td>295,8</td>
<td>9,3</td>
<td>6,0</td>
<td>5,3</td>
<td>3,3</td>
<td></td>
</tr>
<tr>
<td>Of which: Petroleum extraction and pipeline transp.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Housing</td>
<td>198,6</td>
<td>7,0</td>
<td>-10,1</td>
<td>-4,3</td>
<td>1,7</td>
<td></td>
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<tr>
<td>Employment</td>
<td>175,1</td>
<td>3,6</td>
<td>3,6</td>
<td>1,2</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Demand from Mainland Norway²</td>
<td>2 938,6</td>
<td>3,3</td>
<td>1,9</td>
<td>2,3</td>
<td>2,3</td>
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<tr>
<td>Exports</td>
<td>1 196,9</td>
<td>-0,2</td>
<td>1,7</td>
<td>2,2</td>
<td>5,5</td>
<td></td>
</tr>
<tr>
<td>Of which: Crude oil and natural gas</td>
<td>459,5</td>
<td>1,5</td>
<td>-4,9</td>
<td>-1,3</td>
<td>8,4</td>
<td></td>
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<tr>
<td>Goods except oil and gas</td>
<td>381,3</td>
<td>1,7</td>
<td>4,6</td>
<td>5,6</td>
<td>5,4</td>
<td></td>
</tr>
<tr>
<td>Services except oil, gas and shipping</td>
<td>231,6</td>
<td>-5,8</td>
<td>6,2</td>
<td>4,1</td>
<td>5,2</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>1 092,7</td>
<td>1,6</td>
<td>4,7</td>
<td>3,0</td>
<td>3,1</td>
<td></td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>3 304,4</td>
<td>2,0</td>
<td>1,7</td>
<td>2,3</td>
<td>3,3</td>
<td></td>
</tr>
<tr>
<td>Of which: Mainland Norway</td>
<td>2 798,1</td>
<td>2,0</td>
<td>2,3</td>
<td>2,7</td>
<td>2,8</td>
<td></td>
</tr>
</tbody>
</table>

Other key figures:

- Employment, 1000 persons: 1,1 1,6 1,3 0,9
- Unemployment rate, LFS (level): 4,2 3,8 3,7 3,7
- Unemployment rate, registered (level): 2,7 2,3 2,2 2,2
- Annual wage: 2,3 2,8 3 1½ 3
- Consumer price index (CPI): 1,8 2,5 1,5 1,7
- Underlying inflation (CPI-ATE): 1,4 1,3 1,8 2,1
- Crude oil price, NOK per barrel (level): 445 578 583 562
- Three-month money market rates, pct.⁴: 0,9 1,1 1,4 1,8
- Import-weighted exchange rate (yearly change): -0,8 -0,2 -0,7 0,0

¹ Preliminary national accounts in current prices
² Excluding inventory changes
³ Measured as per sent of the LFS labour force
⁴ Technically calculated using forward prices in August
⁵ Positive number indicates a depreciation of the krone

Sources: Statistics Norway, Norges Bank, Norwegian Labour and Welfare Administration, Reuters and Ministry of Finance
Table 3 Key figures for the central government. The National budget 2019

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil deficit, NOK billion</td>
<td>222.8</td>
<td>234.7</td>
<td>232.5</td>
<td>-</td>
</tr>
<tr>
<td>Structural non-oil fiscal deficit, NOK billion</td>
<td>214.6</td>
<td>220.7</td>
<td>231.2</td>
<td>-</td>
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<tr>
<td>Per cent of capital in the Government Pension Fund Global(^1)</td>
<td>2.9</td>
<td>2.6</td>
<td>2.7</td>
<td>-</td>
</tr>
<tr>
<td>Per cent of trend GDP mainland Norway</td>
<td>7.5</td>
<td>7.4</td>
<td>7.5</td>
<td>-</td>
</tr>
<tr>
<td>Fiscal impulse(^2)</td>
<td>0.2</td>
<td>-0.1</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>Real underlying expenditure growth, per cent</td>
<td>1.9</td>
<td>1.2</td>
<td>1.3</td>
<td>-</td>
</tr>
</tbody>
</table>

\(^1\) At the beginning of the year
\(^2\) Measured by the change in the structural, non-oil deficit as a share of trend-GDP mainland Norway. The numbers are rounded with one decimal. The structural deficit in percent of trend-GDP is some 7.4 pct. in 2018 and close to 7.5 pct. in 2019 so that the fiscal impulse is estimated at 0.0 percentage points.

Source: Ministry of Finance
Norway has as most countries a framework that governs the fiscal balance. Norway’s fiscal framework is especially designed for our situation as a large petroleum producer.

A big petroleum industry has certain characteristics that may prove challenging for fiscal policy’s ability to ensure a stable economic development. From a public finance point of view, tax revenues from petroleum extraction are large, vary considerably from year to year, and will eventually end. For many resource-rich countries, the temporary large revenues has led to relatively short-lived booms followed by long-lived and painful adjustments as production and revenues diminish. A common pitfall is excessive spending, which destabilizes the economy and fails to benefit future generations.

The Government Pension Fund Global (hereafter, fund) and the fiscal rule for the use of oil and fund revenues support a stable economic development in both the short and long term. The State’s net cash flow from the petroleum industry is transferred in full to the fund, in addition to the direct returns from the fund itself. The fiscal rule specifies that the transfers back from the fund to the central government budget shall over time equal the expected real return on the fund, estimated at 3 per cent.

The framework delinks the earning from the use of petroleum revenue, a key feature, which is necessary in securing a sound macroeconomic management. In particular, the framework shields the fiscal budget from petroleum price volatility and lessens the risk of overspending by providing policy makers a fiscal policy guideline in their decision making. The fund is invested abroad. This protect the krone exchange rate against large, varying foreign exchange earnings, and lays a foundation for more stable expectations in the currency market.

The fiscal rule is a long-term guide for the use of the money in the fund. It also puts emphasis on evening out economic fluctuations to contribute to good capacity utilisation and low unemployment. Several mechanisms have an effect in this regard. Spending of petroleum income is measured by the non-oil structural budget deficit. This means that the fiscal rule allows automatic stabilisers to play out in full (see appendix 2). The automatic stabilisers in the budget are estimated to be stronger in Norway than in many other countries due to Norway’s comprehensive welfare systems. The fiscal rule also allows budget policy to be used actively to stabilise production and employment. Still, monetary policy is the first line of defence in stabilising the economy.

Figure A1 shows how the spending rule helps Norway convert substantial, yet temporary and fluctuating income from the petroleum industry into more stable spending over public budgets. Following a decline in the second half of the 1990s, the use of petroleum revenue has increased again since 2001, see figure A1. Measured as a share of non-oil trend-GDP, the level is not much higher now than in the 1980s and early 1990s, and is now also based on the expected real return of a large fund.

The fund has grown rapidly in recent years and is now almost three times non-oil GDP. Over time, the inflow of new petroleum revenues will decline, as will the growth of the fund. Consequently, the volatility of the fund’s investment
The portfolio will affect the fund’s value more than the ups and downs of petroleum prices. The fiscal framework needs to take into account the risk of a large drop in the value of the fund. The framework states that fluctuations in the fund shall be evened out over several years. A permanent, large drop may make it necessary to reduce the transfer from the fund to the budget. This calls for prudence in our macroeconomic management.
Appendix 2

Calculation of the structural, non-oil budget balance

The general government budget surplus can vary considerably from year to year without this being the result of structural changes in the budget. To get a better picture of the underlying development of budget policy, it is sensible to examine the development of the budget balance excluding petroleum-industry revenue and expenditure. It is also useful to correct for factors such as the effects of economic fluctuations on direct and indirect taxes and unemployment benefit, see table A.1.

The classification of public revenues and expenditure into a cyclical and a structural part cannot be based on direct observations, but needs to be estimated on the basis of analyses of accounting figures, economic statistics and projections for coming years. The distinction between cyclical and structural changes is usually made on the basis of estimated trend levels for the relevant variables. The findings may be influenced by new economic development data, and are subject to revision even after the national accounts for each year have been finalised.

The calculation of structural direct and indirect taxes is based on data on actual revenues recognised in the national accounts, as well as forecasts for the projection period. The calculations also include taxes on income and wealth payable to municipalities, and essentially cover the period 1960–2017, extended to 2025 using forecasts. The projection period is based on the Ministry of Finance’s medium-term projections and the continuation of the proposed tax programme for 2019. The assumptions may be summarised as follows:

- **Taxes on labour.** This category includes employers’ social security contributions and personal taxes, including net wealth tax levied on individuals. The development in the number of normal man-years employed is an important indicator of developments in employers’ social security contributions and total personal taxes. The projections for are based on a growth in normal man-years employed of 1.6 pct. in 2018 and 1.3 pct. in 2019. The estimates are based on population projections from Statistics Norway.

- **Taxes on capital.** This category includes taxes paid in arrears by companies and other non-individual taxpayers outside the petroleum industry and withholding tax. It is assumed that taxes from enterprises outside the petroleum industry will remain approximately un-

<table>
<thead>
<tr>
<th>Table A.1 The structural, non-oil budget deficit. NOK million</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil budget deficit...............................................</td>
<td>222 826</td>
<td>234 703</td>
<td>232 494</td>
</tr>
<tr>
<td>+ Net interest payments and transfers from Norges Bank.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deviation from trend..................................................</td>
<td>9 825</td>
<td>7 166</td>
<td>3 592</td>
</tr>
<tr>
<td>+ Accounting technicalities .........................................</td>
<td>-3 102</td>
<td>806</td>
<td>3 207</td>
</tr>
<tr>
<td>+ Taxes and unemployment benefits.Deviation from trend........</td>
<td>-14 981</td>
<td>-22 026</td>
<td>-8 046</td>
</tr>
<tr>
<td>= Structural, non-oil budget deficit ..............................</td>
<td>214 568</td>
<td>220 703</td>
<td>231 247</td>
</tr>
<tr>
<td>Measured in pct. of trend-GDP for mainland Norway .............</td>
<td>7.5</td>
<td>7.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Change from previous year in percentage points (fiscal stance)</td>
<td>0.2</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Memo:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments in The Government Pension Fund Global.</td>
<td>198 520</td>
<td>211 059</td>
<td>224 167</td>
</tr>
<tr>
<td>Estimated trend ..................................................................</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural, non-oil budget deficit, including income from investments</td>
<td>16 048</td>
<td>9 644</td>
<td>7 080</td>
</tr>
<tr>
<td>Measured in pct. of trend-GDP for mainland Norway .............</td>
<td>0.6</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

1 Positive figures indicate that the budget has an expansionary impact
2 Does not contain capital gains or -losses

Source: Ministry of Finance.
changed as a proportion of non-oil GDP after 2019.

- **Indirect taxes.** This category includes value added tax, motor vehicle registration tax and other excise duties, and other indirect taxes including stamp duty and miscellaneous sectoral taxes. Private consumption developments are an important influence on indirect taxes.

On the expenditure side of the budget, a cyclical correction is made to unemployment benefit expenditure based on estimated trend deviations for the number of unemployment benefit recipients.

The described methods for calculating the structural budget balance deviate somewhat from methods used by international organizations such as the OECD, IMF and the EU Commission. The Ministry of Finance has access to detailed information about developments in the Norwegian economy and important tax bases, which allows a detailed methodology. OECD, IMF and the EU Commission uses a more aggregate approach, due to their need of a uniform methodology.

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**Figure A.2 Underlying trends in direct and indirect taxes and the number of unemployment benefit recipients**

1 For years up to and including 2017, actual taxes as per the national accounts are shown adjusted for changes in tax rates and the tax base and converted into fixed 2015 prices.

2 A correction is made to take into account that unemployment benefit recipients may be partly unemployed, by converting the number of recipients into full-time equivalents.

Sources: Ministry of Finance and The Norwegian Labour and Welfare Administration.
across countries and a more limited access to detailed information from each country.

Developments in the three main groups of direct and indirect taxes and the number of unemployment benefit recipients are shown in Figures A.2A to A.2D. Labour and capital taxes are projected to be near their trend level, while indirect taxes are expected to be lower than their trend.

Developments in the non-oil and the structural, non-oil fiscal budget surplus are shown in Figure A.3. As regards the surpluses in the years 1987–1988 and the small deficits in 2001 and 2007, it is important to note that these years marked the ends of lengthy, strong cyclical upturns. With the exception of these years, fiscal budgets since 1975 have generally registered significant running deficits when revenues and expenditure relating to the petroleum industry are excluded, although there have been major variations during the period. The structural, non-oil budget deficit increased in the years to 2017, when it was estimated at 7.5 percent of non-oil GDP, and has remained at that level since.

The fluctuations in the structural, non-oil deficit are related to the fact that the budget has at times been used actively to stabilise production and employment trends. The figure shows that the fluctuations in the non-oil deficit are considerably larger than the fluctuations in the structural, non-oil deficit. This is due to the objective of allowing the automatic stabilisers in the budget to function so that cyclical fluctuations in direct and indirect tax revenues, as well as in unemployment benefits, do not influence the expenditure side of the budget.

Experience shows that it is difficult to distinguish the impact of economic cycles from the underlying tax revenue trend. The estimated structural, non-oil deficit may thus be revised considerably if new information emerges.

Figure A.3 Non-oil and structural, non-oil budget balance. Per cent of trend-GDP for mainland Norway. Source: Ministry of Finance.
Appendix 3

Calculation of the structural, non-oil budget balance

Through its demand for goods and services, the petroleum industry contributes considerably to activity and employment in the Norwegian mainland economy. The tax system and the State's Direct Financial Interest (SDØE) ensure that most of the net extraction revenues accrue to the State. Such revenues make a major contribution to the funding of the welfare state and the strengthening of public finances. The State’s net cash flow from petroleum activities has represented 26 per cent of the State's total income since 2000. The management of the Norwegian petroleum wealth is discussed in Appendix 1.

Growth in aggregate demand from the petroleum sector (the sum of investments, intermediate products and wage costs) was particularly steep from the mid-1970s to the mid-1980s. Subsequently, demand from the sector fluctuated around a stable level as a percentage of mainland GDP, before picking up significantly again over the period 2005-2013. In 2014, this trend stopped, and the past couple of years the demand from the petroleum sector has fallen sharply, mostly due to lower investment activity after the decline in the oil price. The forecast for the coming years is for oil investments to increase again, see table 2.

Productivity in the petroleum industry is high. Even though the industry directly employs only about 1 per cent of all employees in Norway, in 2017 it accounted for almost 15 percent of Norway's GDP. The industry's share of total value added has come down from about 22 percent in the years prior to the oil price fall in 2014.

Development of petroleum activities has given rise to a large Norwegian supply industry. According to estimates from Statistics Norway, about 6.1 percent of total employment was directly or indirectly attached to the petroleum sector in 2017, down from about 9 percent in 2013. The highest concentration of such employment is in areas on the southwest coast, but there are supply enterprises in all parts of the country. Moreover, petroleum revenue spending via the fiscal budget also affects employment, in particular in the public sector.