1 Main economic policy features and outlook for the Norwegian economy

The coronavirus pandemic has had a profound impact on Norway and the rest of the world for the last six months. The coronavirus threatens life and health. The pandemic and the infection control measures have had severe implications for both individuals and businesses, as well as for the Norwegian and international economy. The scale and scope of the long-term consequences of the coronavirus pandemic are not yet known and there is still a risk of setbacks in controlling the virus, in both Norway and other countries.

The Norwegian economy remains negatively affected by the coronavirus pandemic and the strict infection control measures that were introduced in Norway and the rest of the world. The recovery has nonetheless started earlier than many had expected. The infection situation in Norway was brought swiftly under control after the steep increase in infections in March, and many of the strict infection control measures have been eased. This has, together with the comprehensive packages of fiscal policy measures, paved the way for a significant increase in the activity of the Norwegian economy after the dramatic contraction in the spring.

Although the recovery has been swifter than envisaged in the early summer, the activity level is likely to remain lower than normal for a considerable period of time. Many people are still furloughed or unemployed. Uncertainty and low demand are suppressing investment appetite, and Norwegian industry is reporting a significant investment reduction this year and next year. Recently, infections are rising in many European countries, and Norway has also experienced an increase in infections lately. New infection control measures have been introduced, primarily at a local level in the areas with the steepest increase in infections. Hence, the positive developments are fragile. However, we now know much more about how various measures work, and we are better prepared for managing a potential new virus flare-up, in terms of both health and economic interventions. It is especially important that we prevent persistently high unemployment.

The pandemic and the introduction of strict infection control measures have given rise to a need for extraordinary fiscal policy and monetary policy measures this year. Norges Bank lowered the key policy rate to zero, and the scale of the measures introduced via the fiscal budget is without precedent in modern Norwegian history. The economic emergency measures adopted or proposed come to a total of NOK 126 billion in 2020. The measures are temporary and shall be phased out as the economy reverts to a more normal situation. All in all, the State has compensated for a major portion of the private sector income shortfall, thereby providing financial security for individuals and staving off bankruptcies and job losses. The measures have limited the detrimental impact on the Norwegian economy, while
at the same time improving the prospects of Norway emerging stronger from the crisis in the long run.

The Government’s roadmap for the next phase; *Norway’s Coronavirus Crisis Exit Strategy – Producing More and Making Working Life More Inclusive*, was published in May. The fiscal budget for 2021 represents a continuation of this strategy. The budget shall help Norway move on from the coronavirus crisis. We shall, at the same time, ensure effective infection control and responsive health services. The budget shall also respond to the long-term challenges facing the country. This means producing more and making working life more inclusive. Economic policy shall serve to:

- **Get people back to work**: Help businesses get going again all over the country and get as many people as possible back to work.
- **Diversify the economy**: We need to create more jobs, in more industries, all over the country. This growth must come in the private sector. We invest in road and rail transport, and improve business regulations.
- **Create a green future**: Enable businesses to create green jobs and a more sustainable future.
- **Build skills**: We shall ensure that more people complete upper secondary education and acquire the skills needed to thrive in the labour market and the business sector of the future. We shall further develop the Education Initiative 2020.
- **Make society more inclusive**: Everyone shall have the opportunity to participate, in both working life and society in general.
- **Preserve security and trust in Norwegian society** and maintain a strong international involvement.

This policy will both help us put the crisis behind us and address the longer-term challenges facing Norway, while at the same time bringing petroleum revenue spending down to a sustainable level. Petroleum revenue spending in the budget for 2021 corresponds to 3 percent of the capital in the Government Pension Fund Global; in line with the fiscal rule.

*The pandemic is having a severe impact on economic developments, but the rebound has started*

The coronavirus pandemic has caused a setback in the Norwegian economy that is without precedent since the war. Economic activity has recovered in line with falling infection levels and easing of the strictest infection control measures. A higher oil price and strong consumption growth have also boosted economic activity. Late March saw the highest registered unemployment since World War II, but it has since declined rapidly. We estimate that GDP for Mainland Norway will decline by 3.1 percent this year, followed by a 4.4 percent increase next year. This will bring the activity level next year above its pre-crisis level, but nonetheless below the levels forecast prior to the coronavirus outbreak.

The strength of the rebound is uncertain and depends on how the pandemic develops. As several other European countries, Norway has recently had renewed outbreaks. New infection control measures have been introduced, primarily in areas with the largest outbreaks. That
increases the risk of a new setback and of unemployment remaining high. The forecasts rest on assumptions that there will not be a renewed coronavirus outbreak as severe as witnessed earlier this year and that a vaccine most probably will be widely available sometime next year.

The contraction of the global economy has also been without precedent. The majority of our trading partners experienced steeper declines in GDP than Norway. Economic activity expanded in response to an easing of infection control measures, but several European countries have recently had renewed outbreaks and have tightened infection control measures, thereby slowing the economic recovery. Norwegian export firms are likely to be faced with weak demand for quite some time. On the other hand, the oil price has increased from the exceptionally low levels of March and April, and the temporary petroleum tax reductions may also dampen the negative impact on the Norwegian offshore supply industry.

GDP for Norway’s trading partners is forecast to decline by 6.3 percent this year. The key message from all forecasters is nonetheless that activity is rebounding, and both the OECD and the IMF now expect a somewhat brighter economic outlook for this year than they did in June. For next year, growth for Norway’s trading partners is forecast at 4.8 percent. This projection assumes that there is no new major wave of infections, and that the infection control measures will be far more limited than those observed in the first half-year.

The oil price has bounced back somewhat and has recently been around 40 dollars a barrel, after having declined to below 20 dollars during the oil market collapse in late April. Production cuts from OPEC and other oil producers have served to reduce excess supply and increase the oil price. Norway has also decided to cut oil production in 2020. Recently, the gas price has also increased. Oil futures indicate that the oil price may increase further.

Unemployment in Norway has declined since the beginning of April, but a high number of workers remain furloughed. The number of people registered as fully unemployed has more than halved since its peak, form 10.7 percent of the workforce in March, to 3.8 percent on 22 September. That is about 0.9 percentage point higher than the average over the last twenty years and 1.5 percentage point higher than in February. The figures include those employees who are completely furloughed, and changes for this group of workers explain both the March increase and the subsequent decline. If we exclude furloughed employees, the number of people registered as fully unemployed in September was close to the historical average.

Unemployment has declined more swiftly than projected in the Revised National Budget in May.

Wage growth looks set to be moderate this year. On 21 August, the parties in key industries in sectors exposed to international competition agreed upon a norm for wage growth of 1.7 percent. At the same time, depreciation of the Norwegian krone over several years has served to improve competitiveness. Subsequent wage bargaining has resulted in settlements within the norm. Exceptionally low electricity prices have reduced consumer price inflation. Consequently household purchasing power should increase this year in spite of low wage growth. Electricity prices are expected to normalise next year, thereby allowing for the prospect of negative real wage growth.
Developments in domestic private consumption have exceeded expectations. Consumption of goods increased markedly from April to July, before declining somewhat in August, but was still 5 percent higher in August than in February. Also more recent data from the Vipps payment service indicate that consumption has come somewhat down form the high level witnessed during the general summer vacation. Some of the upturn in the consumption of goods is mirrored by a drop in consumption of services. Restrictions on travel and cross-border shopping have also boosted domestic consumption. For 2020 as a whole, private consumption is expected to contract by 6 percent, mainly due to a decline in Norwegians’ consumption abroad. Private consumption is projected to expand by close to 8 percent next year.

The overall effect of the pandemic on the housing market has been small. Sales volumes have remained at pre-crisis levels. After declining in March and April, housing prices returned to their February level in May and have continued to increase through the summer. The rapid housing market rebound must be viewed in light of historically low interest rates. The market for new homes has been more heavily impacted, with a reduction in both sales and housing starts during the spring. There are now indications of an upturn in the market for new homes, with fairly high sales of new homes through the summer months.

The setback in the Norwegian economy in 2020 is expected to be less severe than we projected in May. A less severe downturn than anticipated means a lower risk of employees permanently dropping out of the labour market and capital remaining unused. Parts of the business sector are nonetheless facing a particularly strong pressures to adjust. The significant rebound in GDP for mainland Norway observed in the last few months is expected to continue into next year, thus implying strong economic growth in 2021. GDP for mainland Norway is nevertheless expected to be below the levels forecast prior to the coronavirus outbreak, with lower employment and higher unemployment.

Although significantly lower than immediately after the coronavirus outbreak, uncertainty about future developments in the Norwegian economy remains higher than normal. Economic activity may fall again in the event of the authorities being forced to reinstate strict infection control measures.
Figure 1 Economic developments

Tabell 1 Key figures for the Norwegian economy. The National budget 2021

<table>
<thead>
<tr>
<th></th>
<th>Billion NOK</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>1 591.3</td>
<td>1.5</td>
<td>-6.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Public consumption</td>
<td>866.7</td>
<td>1.7</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Gross fixed investment</td>
<td>926.5</td>
<td>6.1</td>
<td>-5.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Of which: Petroleum extraction and pipeline transp.</td>
<td>178.4</td>
<td>12.8</td>
<td>-2.2</td>
<td>-11.5</td>
</tr>
<tr>
<td>Business sector Mainland Norway</td>
<td>335.8</td>
<td>5.6</td>
<td>-10.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Housing</td>
<td>196.2</td>
<td>-0.9</td>
<td>-6.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Public sector</td>
<td>212.7</td>
<td>7.5</td>
<td>4.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Demand from Mainland Norway2</td>
<td>3 202.7</td>
<td>2.2</td>
<td>-4.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Exports</td>
<td>1 311.5</td>
<td>1.5</td>
<td>-2.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Of which: Crude oil and natural gas</td>
<td>463.7</td>
<td>-4.3</td>
<td>9.0</td>
<td>6.3</td>
</tr>
<tr>
<td>Goods from Mainland Norway</td>
<td>432.3</td>
<td>4.9</td>
<td>-4.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Services from Mainland Norway</td>
<td>272.4</td>
<td>6.2</td>
<td>-13.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Imports</td>
<td>1 249.3</td>
<td>5.2</td>
<td>-10.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>3 549.4</td>
<td>1.2</td>
<td>-1.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Of which: Mainland Norway</td>
<td>3 038.6</td>
<td>2.3</td>
<td>-3.1</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Other key figures:

- Employment, persons: 1.6 -1.6 0.6
- Unemployment rate, LFS (level): 3.7 4.7 4.4
- Unemployment rate, registered (level): 2.2 4.9 3.1
- Annual wage: 3.5 1.7 2.2
- Consumer price index (CPI): 2.2 1.1 3.5
- Underlying inflation (CPI-ATE): 2.2 2.7 2.2
- Crude oil price, NOK per barrel (level): 564 408 424
- Three-month money market rates, pct.3: 1.6 0.7 0.4
- Import-weighted exchange rate (yearly change)4: 2.9 5.7 -2.4

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1 Preliminary national accounts in current prices
2 Excluding inventory changes
3 Technically calculated using forward prices in September
4 Positive number indicates a depreciation of the krone

Sources: Statistics Norway, ICE, Norges Bank, Norwegian Labour and Welfare Administration, Reuters, Macrobond and Ministry of Finance

**A well-adapted and responsible economic policy**

The extensive fiscal policy measures have increased petroleum revenue spending in 2020, as measured by the structural non-oil fiscal deficit, to 3.9 percent of the Fund capital. Petroleum revenue spending is now forecast to be NOK 395.0 billion; NOK 151.4 billion more than was adopted last autumn. The fiscal impulse is estimated to be 4.5 percent of mainland Norway GDP; the highest in the fifty years these calculations cover.

Our savings in the Government Pension Fund Global (GPFG) and the fiscal rule give us considerable fiscal leeway to counter the negative impact of the pandemic. In accordance with
the fiscal rule, we have temporarily increased the spending of Fund capital to stimulate economic activity and employment, and to reduce unemployment. The objective has been to minimise the negative impact on the economy by limiting income shortfall for both businesses and individuals, and by averting bankruptcies among viable businesses. After scaling back the strictest infection control measures and the economy started to recover, the measures have focused more on growth and restructuring, as well as targeting those industries that continue to be directly affected by the infection control measures. Box 1.1 gives an overview of economic measures that have been introduced or proposed in response to the pandemic.

The budget for 2021 aims to continue to support private sector activity and employment, but at the same time reduce Fund capital spending towards a more sustainable level. Bringing the infection situation under control has, in combination with extensive economic measures, triggered an earlier start to the economic rebound than many had expected, and economic growth has picked up in recent months. Capacity utilisation in the Norwegian economy is nonetheless estimated to be below normal levels also in 2021. This means that fiscal stimulus also will be needed next year, although to a significantly lesser degree than in 2020.

In order for fiscal policy to be sustainable over time, we must ensure that a temporary expenditure increase does not turn into a permanently higher expenditure level. Larger fiscal deficits today will reduce fiscal sustainability in the longer run. Future generations will have to pay for current public spending through higher taxes or lower public spending. Still, in the absence of strong measures, the downturn would have been steeper with more bankruptcies and higher unemployment. The increased petroleum revenue spending has therefore been both appropriate and necessary.

Public sector expenditures were already at a high level before the crisis. This year, these expenditures have increased to 66 percent of mainland Norway GDP. This is historically high, both in terms of our own development and compared to other countries. Although it is appropriate to take measures to prevent unemployment from persisting at a high level, we must ensure that labour is not locked into unprofitable private sector activities and also that public sector does not permanently crowd out the private sector. Reducing government spending when the economy is improving again will better enable us to combat future crises with an active fiscal policy.

The Government’s budget proposal for 2021 involves bringing down the spending of Fund capital to the long-term fiscal guideline of 3 percent of the Fund. Spending will nonetheless be NOK 61 billion higher than in 2019, calculated at 2021 prices, which reflects that there still will be a need for targeted corona-related measures next year. The budget proposal includes comprehensive measures to bring people back to work, to restructure the economy, to control infection and to support those directly affected by infection control measures. The total scope of measures in 2021 is however smaller than this year’s. The Government is committed to ensuring that the large increase in Fund capital spending in 2020 shall be temporary and targeted to keep the economy going and shall not result in a large permanent increase in public expenditures. The budget will reduce public expenditure to 61 percent of mainland Norway GDP in 2021, 5 percentage points lower than this year, but still higher than in the years before the crisis.
All in all, the budgets for 2020 and 2021 have a strong expansionary effect on economic activity in mainland Norway. The high government expenditure this year will also influence economic activity next year, since it takes time to see the full effect of fiscal policy measures. The expansionary effect of this year’s budget on the economy in 2021 is much stronger than the contractive effect from the reduction in expenditure from this year to next year.

The Government’s budget proposal for 2021 implies Fund capital spending of NOK 313.4 billion, as measured by the structural non-oil fiscal deficit. This corresponds to 9.4 percent of mainland Norway trend GDP. This is close to NOK 60,000 per capita. More than one sixth of general government spending in the budget is currently financed by withdrawals from the Fund.

Looking further ahead, the Fund will not continue to grow as rapidly as it has done until now. The return on the Fund, measured as a share of the economy, will probably start to decline within the next two decades. At the same time, demographic developments, with fewer people in working age per pensioner, will mean higher public expenditure growth and lower public revenue growth. We have long been prepared for the fiscal space to become significantly less than what we have been used to since the introduction of the fiscal rule in 2001. The pandemic made it necessary to spend more, but has also exacerbated the underlying challenges of increased expenditure growth and reduced revenue growth. This will be a main theme in the forthcoming white paper on Long-term Perspectives on the Norwegian Economy.

Although the Fund income finance a significant portion of annual state budget, mainland Norway tax revenues remain the Government’s most important financing source. In the long run, the labour utilisation is many times more important than the Fund income. It is therefore a key fiscal sustainability priority to ensure that unemployment does not persist at a high level and that we get more people to join the labour market.

A sustainable increase in welfare over time also requires a successful structural policy that expands access to, and improves the use of, society’s resources. A general regulatory framework that is conducive to business, along with a tax system and a tax level that offer incentives for investing, working and saving, are key success factors. The measures and investments initiated under government auspices should further the objectives of efficient resource utilisation and economic profitability. When the fiscal rule was established in 2001, the Standing Committee on Finance and Economic Affairs unanimously noted that the increased petroleum revenue spending should be focused on infrastructure, research and education, as well as growth-oriented tax reductions. Aggregate allocations to research, education, transport and tax reductions has been significantly higher over the period 2014-2021 than over the period 2006-2013, in line with the objectives of this Government. For the period as a whole, about 10 percent of the overall fiscal space has been allocated to tax reductions, while 23 percent has been allocated to research, education and transport. In addition, 25 percent of the fiscal space has been allocated to cover increased expenditure under the national insurance scheme, while about 21 percent has been allocated to strengthening local government, including local government investment in research, education
and transport. These calculations exclude the extraordinary expenditure in 2020 in connection with the pandemic.

Figure 2 Fiscal policy
Source: Ministry of Finance
# The National Budget 2021

## Table 2. General government financial balance\(^1\). NOK million

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government financial balance, accrued value</td>
<td>259 919</td>
<td>-182 089</td>
<td>55 489</td>
</tr>
<tr>
<td>Fiscal Budget surplus and Surplus in Government Pension Fund</td>
<td>276 746</td>
<td>-123 489</td>
<td>-37 593</td>
</tr>
<tr>
<td>Non-oil budget surplus</td>
<td>-227 623</td>
<td>-433 190</td>
<td>-371 194</td>
</tr>
<tr>
<td>Net revenues from petroleum activities</td>
<td>256 915</td>
<td>86 701</td>
<td>98 501</td>
</tr>
<tr>
<td>Interest and dividends on the GPFG</td>
<td>238 866</td>
<td>217 000</td>
<td>229 000</td>
</tr>
<tr>
<td>Surplus in other central government and social security accounts</td>
<td>-5 644</td>
<td>9 531</td>
<td>974</td>
</tr>
<tr>
<td>Definitional differences between Fiscal Budget and national accounts</td>
<td>-2 575</td>
<td>-62 130</td>
<td>98 568</td>
</tr>
<tr>
<td>Local government financial balance, accrued value</td>
<td>-33 239</td>
<td>-30 108</td>
<td>-30 369</td>
</tr>
<tr>
<td>= General government financial balance</td>
<td>231 859</td>
<td>-208 509</td>
<td>25 351</td>
</tr>
<tr>
<td>In per cent of GDP</td>
<td>6.5</td>
<td>-6.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>

\(^1\) 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.

## Table 3. Key figures for the central government. The national budget 2021

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil deficit, NOK billion</td>
<td>227.6</td>
<td>433.2</td>
<td>371.2</td>
</tr>
<tr>
<td>Structural non-oil fiscal deficit, NOK billion</td>
<td>242.6</td>
<td>395.0</td>
<td>313.4</td>
</tr>
<tr>
<td>Per cent of capital in the Government Pension Fund Global(^1)</td>
<td>2.9</td>
<td>3.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Per cent of trend GDP mainland Norway</td>
<td>7.9</td>
<td>12.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Fiscal impulse</td>
<td>0.4</td>
<td>4.5</td>
<td>-2.9</td>
</tr>
<tr>
<td>Real underlying expenditure growth, per cent</td>
<td>1.7</td>
<td>10.1</td>
<td>-4.6</td>
</tr>
</tbody>
</table>

\(^1\) At the beginning of the year

Source: Ministry of Finance.
**Box 1 Overview of economic measures introduced in 2020 in response to the coronavirus pandemic**

The Government and the Storting have decided to introduce very extensive measures to alleviate the economic situation and limit the detrimental impact of the coronavirus pandemic. The Government has been launching economic measures in three phases in order to tailor such measures to the economic situation.

The *first phase* saw the introduction of emergency measures to stave off unnecessary bankruptcies and redundancies, along with extra income support for wage earners. These included a government loan guarantee scheme and temporary tax changes to improve the liquidity situation, a reduced countercyclical buffer requirement to prevent stricter bank lending practices from exacerbating the downturn, as well as temporary changes to the unemployment benefit and furloughing rules. The furloughing scheme was modified to make the State absorb a larger portion of furloughing costs. Employer’s social security contributions were temporarily reduced, and a number of other tax reductions and deferrals were introduced. The State also took on a larger share of the cost of sickness absence and caring for children who were ill or otherwise unable to go to school.

The *second phase* saw the introduction of further specific measures to improve solvency in industries, firms and businesses that had been hit especially hard by the pandemic. This included, inter alia, the introduction of a compensation scheme for businesses suffering large sales reductions, a grant scheme for sports, charities and cultural events, as well as separate arrangements targeting the self-employed. The business compensation scheme was subsequently extended and expanded to include seasonal businesses.

The economy is now in the *third phase*, in which measures are intended to boost employment, restructuring and economic growth. The Government’s roadmap for *Norway’s Coronavirus Crisis Exit Strategy – Producing More and Making Working Life More Inclusive* included a number of measures to increase employment, strengthen the private sector, facilitate a green future, expand skills, boost inclusion and improve integration. The measures are intended to stimulate increased activity by being tailored to the economic situation. This implies that the introduction of new measures needs to be considered in relation to, and complement, existing measures. The wage support scheme is an example of such a measure, the purpose of which is to get furloughed employees back to work and prevent unemployment from being entrenched at a high level.

The financial emergency measures adopted or proposed come to a total of NOK 126 billion in 2020; see Table 1.1. These measures come in addition to the so-called automatic stabilisers, which are the effects of income support schemes and tax schemes in place prior to the crisis. The automatic stabilisers are big in Norway due to the comprehensive welfare schemes that are mainly financed by taxes.

For some of the measures introduced earlier, the estimates have subsequently been modified in line with developments. Economic activity in Norway has rebounded more rapidly than had been expected, thus making the need for intervention less comprehensive than feared. The compensation scheme for businesses suffering large sales reductions will, in particular, cost less than the amount appropriated by the Storting. Moreover, it is estimated that the temporary changes to the national insurance income support schemes, such as the expansion of unemployment benefit and sickness benefit, will cost less than previously expected. This is primarily because the labour market has improved more quickly, sickness absence has been lower and care benefit spending has been less than originally anticipated.
Table 4 Economic measures for 2020 that have been adopted or proposed in response to the pandemic. NOK billion

<table>
<thead>
<tr>
<th>Measures targeting businesses</th>
<th>Appropriation 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counter income shortfall for businesses, etc.¹</td>
<td>66.1</td>
</tr>
<tr>
<td>Compensation scheme for businesses suffering large sales reductions</td>
<td>34.8</td>
</tr>
<tr>
<td>Aviation sector, incl. loss provision for guarantee scheme</td>
<td>7.0</td>
</tr>
<tr>
<td>Loss provision, government loan guarantee scheme via banks</td>
<td>14.3</td>
</tr>
<tr>
<td>TOTAL Economic measures</td>
<td>126.3</td>
</tr>
</tbody>
</table>

¹ Includes, inter alia, a reduced obligation for employers to pay wages upon furloughing, reduced employer liability for care benefit and coronavirus-related sickness absence, temporary tax reductions and the support scheme for getting furloughed employees back to work.

² Includes, inter alia, compensation for cultural events, charities and sports, and compensation for national road ferries, trail transport and other public transport.

³ Includes, inter alia, appropriations for the health sector, local government, the police and the Norwegian Labour and Welfare Administration.

Source: Ministry of Finance.

The economic measures are temporary and shall be phased out as the economy reverts to a more normal situation. The compensation scheme for businesses suffering large sales reductions was discontinued at the end of August. Discontinuation of the temporary emergency measures is necessary to avoid supporting inactivity instead of innovation, and to chart a route back to sustainable and targeted economic policy.

In addition to the abovementioned measures, the spring of 2020 saw the adoption of temporary tax reductions for petroleum activities. The reductions are expected to provide the companies liquidity amounting to NOK 115 billion for the years 2020 and 2021. Over time, the changes are expected to inflict a public revenue loss of about NOK 8 billion, measured as net present value. The tax reductions increase oil companies’ prospects for going ahead with planned investments. These tax reductions are not included in Table 1.1.
The tax proposal

The tax proposal for 2021 is well suited for both long-term challenges and the current situation of the Norwegian economy. It follows up on the Granavolden platform by facilitating economic growth, putting a price tag on environmentally harmful activities, protecting tax bases and providing broad tax reductions.

An efficient and growth-inducing tax system is important in both good and bad times. This contributes to the best possible utilisation of production resources and ensures that tax rules do not determine the adaptations of economic agents. This provides, along with a well-functioning capital market, the best basis for restructuring and high productivity. A well-designed tax system will also serve to reduce the impact of cyclical fluctuations.

Experience from the last six months shows that the tax system, along with the income support system, provides a high degree of automatic stabilisation of the economy. When sales and incomes decline, taxes are also reduced, thus reducing the confiscatory effect of taxes. Conversely, the tax system will absorb more revenues when the economy improves again. This countercyclical function of the tax system is based on the premise that tax bases are well aligned with actual incomes. The income support system is well developed and also has a stabilising effect on the economy. The automatic stabilisers of the budget are held to be stronger in Norway than in many other countries, because of extensive welfare schemes and a relatively high tax level.

Although the automatic stabilisers are fairly strong, they do not suffice to stabilise the economy in response to shocks of the magnitude brought about by the pandemic. The tax measures launched in connection with the pandemic outbreak primarily take the form of tax payment deferrals. This has improved the liquidity of businesses in a situation of declining sales. Temporary reductions have also been introduced for certain tax types, both of a general nature and targeting especially vulnerable industries. In the spring, the Government was able to increase the valuation discount for operating assets under the net wealth tax from 25 to 35 percent in order to strengthen Norwegian-owned businesses and jobs. This may also serve to ease the situation for businesses suffering during the pandemic.

The Government’s tax proposal for 2021 shall contribute to reverting the economy to a state of high employment and good resource utilisation. This requires broad tax bases and a tax system that facilitates using resources where returns and value added are highest. The Government is committed to preserving the sound qualities of the tax system. A tax system that channels resources away from the uses that would deliver the highest return for society may delay the upturn and permanently impair the growth capacity of the economy. In 2021, the Government is continuing to reduce the tax on operating assets by increasing the valuation discount from 35 to 45 percent. Moreover, the tax on income will be reduced by lowering the bracket tax and increasing the basic allowance. This will serve to somewhat increase disposable income for both employees and pensioners, while further reducing the marginal tax rate for many taxpayers. The sum total of reductions in the marginal tax rate under this Government is considerable and an important measure to stimulate labour supply.
the resource rent tax into a cash flow tax provides substantial liquidity for hydropower enterprises and facilitates profitable investments.

The Government is with this tax proposal laying the foundations for future growth to be sustainable and protective of the environment and the climate. A uniform pricing of greenhouse gas emissions in the form of emission allowances and taxes that are as broad as possible in scope will provide incentives for climate-friendly investment and ensure that emissions reductions are made where it is cheapest to do so. This will, at the same time, reduce the need for support on the expenditure side and enable Norway to meet its climate commitments without spending more money than necessary.

Total new tax reductions booked in 2021 as the result of the Government’s proposals are about NOK 1.8 billion. Total tax reductions under this Government with this fiscal budget proposal come to about NOK 29.5 billion at 2021 prices, fully phased in.


**Monetary policy**

The long-term role of monetary policy is to maintain monetary stability. Ensuring price stability in the form of low and stable inflation is the best contribution monetary policy can make to promote a high level of welfare, high employment and economic growth over time.

Norges Bank is responsible for the operational implementation of monetary policy based on guidelines set by the Government. The operational monetary policy target is annual consumer price inflation 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 counteract the build-up of financial imbalances.

In order to reduce the economic impact of the pandemic, Norges Bank lowered the key policy rate three times over the period from 13 March to 7 May, by a total of 1.5 percentage point. The key policy rate is currently 0 percent. This is the lowest key policy rate level ever. Norges Bank also launched a number of other measures in response to the pandemic, including granting extraordinary F-loans without any upper cap and with varying maturities, to provide sufficient liquidity for banks and ensure that the key policy rate was duly reflected in money market rates. The central bank has also been offering F-loans in US dollars.

**Financial stability**

Experience shows that the economic costs of financial instability can be high and persistent. In particular, the interaction between the banking sector and the rest of the economy may give rise to an accumulation of financial imbalances, and trigger severe turbulence and deep economic setbacks. The key policy tool for averting financial instability is a regulatory framework that ensures robust and prudently operated financial institutions. Strong bank
solvency and liquidity reduce the likelihood of crisis, and can limit the repercussions when crisis hits. Risks and imbalances may nonetheless arise in the system as a whole, despite banks seeming individually robust.

Positive developments in the Norwegian economy over an extended period of time have paved the way for strong earnings and low losses on the part of Norwegian banks. Banks have strengthened their solvency considerably in step with stricter capital requirements in recent years, and their ability to withstand setbacks in the economy is held to be good. This has made a positive difference during the coronavirus pandemic. Well capitalised banks are a prerequisite for the banking sector to absorb large losses and continue to provide loans for businesses and households. In March, the Ministry lowered the countercyclical capital buffer requirement to 1 percent with immediate effect at the advice of Norges Bank. The objective was to counteract that a tightening of the banks lending practices should exacerbated the downturn in the Norwegian economy.

Despite the current indications of an upturn in the Norwegian economy, there is still much uncertainty and there remains a risk that economic developments may be weaker than expected. It is therefore important for banks to retain any profits for now. On 9 September, the Ministry of Finance reiterated its expectation expressed in March that banks should refrain from distributing any profits until uncertainty has been reduced.

Banks raise a major portion of their funding in the market through notes and bonds. Market funding offers banks more flexible liquidity management, but does also make them more vulnerable to market turbulence. Risk premiums increased significantly in the wake of the coronavirus outbreak, but have since declined and are more or less back to pre-pandemic levels. A somewhat higher proportion of the market funding has become longer term in the last few years, thereby reducing the vulnerability of banks to market fluctuations.

Sustained increases in the household debt burden indicate that financial imbalances have accumulated and represent a vulnerability to the Norwegian economy. Housing mortgages are the main component, but a high level of consumer loans, which for many borrowers come on top of other debt, may serve to increase the risk of steep consumption reductions if incomes decline or interest rates increase. The Government has over the last few years adopted a number of measures to contribute to more sustainable household debt developments, reduce household vulnerabilities and make the financial system more robust.

On 23 March, the Government decided, because of the economic impact of the virus outbreak, to increase the flexibility quotas under Housing Mortgage Regulations to 20 percent in the second quarter of 2020. The larger flexibility quotas were subsequently extended into the third quarter as well. The larger quotas have provided banks with more flexibility to find solutions for their customers in an extraordinary situation. On 11 September, the Ministry of Finance decided not to extend the larger flexibility quotas into the fourth quarter. The Housing Mortgage Regulations and the Consumer Loan Regulations are scheduled to expire on 31 December 2020. The Government is now contemplating whether to extend these regulations and, if so, in what form.
The current EU bank solvency regulations (the CRR/CRD IV capital requirements package) were adopted in 2013, and have in all predominant respects been implemented in Norway, although not incorporated into the EEA Agreement until December 2019. Such incorporation implies certain amendments to the Norwegian capital requirements. In order to maintain the capital requirements in real terms, the Ministry of Finance decided in December 2019 to increase the systemic risk buffer requirement from 3 to 4.5 percent, and to introduce a temporary floor on average risk weighting of property loans in banks that use internal-ratings-based models; so-called IRB models. The increased systemic risk buffer requirement will enter into effect at yearend 2020, for the larger banks.

Employment and income policy

The coronavirus pandemic has had a significant impact on the labour market, leading to lower employment and higher unemployment. High employment and low unemployment are key economic policy objectives for the Government and are of crucial importance in ensuring the sustainability of the welfare state. It is of key importance, both for individuals and for society, that as many people as possible are able to participate in the labour market. Along with other forms of economic policy, employment policy aims to support a high level of economic activity by involving as many people as possible in the labour market. High employment and low unemployment are important to maintain low income disparity.

There is a risk that the pandemic will have a negative long-term impact on labour market adaptations, with higher unemployment and lower employment. The Government is introducing targeted measures to help vulnerable groups both enter and remain in the labour market, and to prevent an increase in health-related social security benefits. This applies, in particular, to youth with low educational attainment, immigrants and people with impaired work capacity. The Government is taking steps to boost employment. This includes measures to help those with disabilities and/or gaps in their CVs enter the labour market. The Government also aims to help more immigrants acquire the skills and language proficiency required for them to join the labour market. The Government this year launched a new initiative to help more people complete upper secondary education and to allow employees to update or acquire new skills. The Government has also facilitated opportunities for unemployed people to improve their skills. A temporary arrangement until year-end 2020 enables unemployed people to participate in training while at the same time retaining their right to unemployment benefits. The Government is proposing to extend this arrangement until 1 July 2021.

To prevent unnecessary redundancies as the result of the virus outbreak in March, the number of days for which employers are obliged to pay wages when furloughing workers was reduced from 15 to two. The labour market has since improved, and the number of days was increased to ten from 1 September. The extraordinary wage compensation for furloughed employees was discontinued on the same date. The Government has further in Prop 142 S (2019-2020) proposed the phasing out of the temporary relaxation of unemployment benefit rules.
introduced in connection with the steep increase in the number of furloughed workers in March.

A long benefit period for furloughed workers may have significant negative lock-in effects by leading workers to remain passive instead of actively seeking work. On the other hand, a number of businesses are still directly affected by infection control measures in Norway and other countries and therefore have a real need to furlough workers for an extended period of time. The Government has therefore in Prop 142 S (2019-2020) proposed to expand the employer exemption from the obligation to pay wages and the corresponding right of the employee to receive unemployment benefits to up to 52 weeks within an 18-month period from 1 November 2020. In order to ensure that employers assess the necessity of continued furloughing on an ongoing basis, the Government has proposed a five-day period for which the employer is obliged to pay wages after 30 weeks of furloughing, with effect from 1 January 2021. The maximum duration of the employer exemption from the obligation to pay wages and the corresponding right of the employee to receive unemployment benefits during furloughing, will be reduced back to 26 weeks on 1 July 2021, if justified by the prevailing circumstances at that time.

A temporary support scheme for employers that brought furloughed employees back to work in July and August was introduced in order to prevent unemployment from persisting at a high level. To stimulate a further reduction in the number of furloughed workers, the Government has proposed to extend this wage support scheme to October, November and December, see Prop 142 S (2019-2020).

Labour market programmes are key tools to allow the unemployed to enter the labour force and to prevent vulnerable groups from permanently dropping out of the labour market. The unemployment rate next year is projected to be higher than before the pandemic, meaning that more people may end up in long-term unemployment. This also increases the risk of workers dropping out of the labour force. The Government is therefore proposing an increase in targeted labour market programmes to help more unemployed people into work. Youth, non-EEA immigrants and long-term unemployed are given special priority for participation in labour market programmes. People with impaired work capacity are facing particular challenges in gaining a foothold in the labour market. Therefore, the Government also proposes a strengthening of programmes targeting this group. Youth who are in neither education, employment nor training are particularly vulnerable. The Government is strongly committed to preventing youth from dropping out of the labour market and to strengthening youth programmes.

Wage bargaining is the responsibility of the social partners. The authorities are responsible for ensuring that laws and regulations facilitate a well-functioning labour market. Wage bargaining is structured to ensure that key industries in sectors exposed to international competition negotiate first. There is consensus among the social partners that wage growth over time should be kept within limits that are sustainable for sectors exposed to international competition. Income policy cooperation helps the social partners and the authorities to develop a common understanding of the economic situation and the challenges facing the Norwegian economy. The Government has this spring and summer maintained close contact
with the social partners when conceiving economic measures in response to the coronavirus pandemic.

**Economic effects of the pandemic in the longer run**

Economic crises may have very severe long-term effects. Many countries have experienced that unemployment tends to go up more easily than down, and may remain persistently at a higher level for quite some time in the wake of a major economic setback. For Norway, the mainland economy is forecast to revert to its pre-crisis level during the first half of next year. The recovery is likely to take longer in most other countries. It may, as in the aftermath of the global financial crisis in 2008-2009, take a long time for activity to have regained the pre-crisis growth path, and unemployment may remain above pre-crisis levels for many years to come.

The long-term economic effects of the coronavirus crisis are uncertain, and it is too early to make highly specific predictions. To support its assessments, the Government appointed, in May this year, a public commission to examine the basis for economic growth, production, employment and welfare after the pandemic. The Commission is chaired by Jon Gunnar Pedersen. It will submit its final report in the first quarter of 2021, but has been instructed by the Ministry of Finance to also submit interim reports along the way, as input for the preparation of the National Budget and the white paper on Long-term Perspectives on the Norwegian Economy.

In its report in connection with the National Budget, the Commission notes, inter alia, that temporary measures, such as supporting businesses that have suffered a loss of earnings and expanding the scope of furloughing rules, may inhibit restructuring of the economy. Such measures should be discontinued fairly early in a recovery phase, and earlier than measures that may improve the capacity for restructuring and growth. The public sector’s role in income support for households cannot be replicated vis-à-vis businesses, although both households and businesses contribute to the public purse. The Commission notes, moreover, that an expansionary fiscal policy stance during the crisis involves intergenerational redistribution. A continuation of expansionary fiscal policy in a subsequent recovery phase may entail persistent structural effects, including, inter alia, a transfer of resources to industries that devote such resources to meeting domestic needs. This will exacerbate the challenges posed by the transition to less petroleum-based exports.

As regards long-term structural effects, the Commission highlights four observations in particular:

- The low employment level during the crisis increases the risk that individuals will drop permanently out of the labour market. This risk is highest for young employees with a weak labour market affiliation.

- Behavioural changes during the crisis have had a positive impact on the environment and the climate. This raises the question of whether some of the behavioural changes
during the crisis may turn out to be permanent, and how to sustain positive effects by according priority to initiatives that offer the highest possible cost-benefit ratio.

- The crisis has reinforced the trends towards more pervasive digitalisation of society. The Commission will examine what effects this may have, and whether public sector initiatives may support such effects.

- International value chains were put to a serious test during the pandemic, with many of these passing that test. The vulnerabilities revealed may nonetheless cause changes in the balancing between effective production measures to build preparedness. Collaboration with other countries may strengthen Norway’s security of supply in preparation for future global crises.

The Government takes notice of the long-term structural effects here identified by the Commission. It would be of particular concern if the economic setback were to result in many people remaining unemployed for an extended period of time, and at worst dropping permanently out of the labour market. The Commission points out that temporary emergency measures may entail undesirable effects if remaining in place for a long time, since these may inhibit restructuring by supporting inactivity instead of innovation. Such measures should be discontinued fairly early in a recovery phase. This has been a key priority for the Government, which is why all emergency measures have come with an expiry date, and some schemes have already been discontinued, such as the compensation scheme for businesses suffering large sales reductions. Besides, the Government has both in Prop. 127 S (2019-2020) in late May and now in the budget proposal for 2021 presented comprehensive measures to stimulate new growth in the economy.

The Government will in the white paper on Long-term Perspectives on the Norwegian Economy provide a more thorough assessment of long-term effects of the economic crisis brought about by the pandemic, along with an in-depth discussion of long-term sustainability in fiscal policy and intergenerational distribution.

The white paper on Long-term Perspectives on the Norwegian Economy was scheduled for publication in the spring, shortly after the pandemic hit Norway. The coronavirus pandemic caused the white paper to be postponed by one year. Said white paper is now scheduled for publication in spring 2021, and the Commission will submit a new interim report in connection with such white paper. The final version of the Commission’s report is scheduled for submission in the first quarter 2021.
Appendix 1

Norway’s fiscal policy framework

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 large 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, the 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 sector is transferred to the fund in full, 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 smoothing 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 fiscal deficit. This means that the fiscal rule allows the so-called automatic stabilisers to function (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. However, monetary policy is still 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 spending of petroleum revenue has increased again after 2001. In recent years, up until the coronavirus outbreak, spending has been kept rather stable measured as a share of mainland trend-GDP, see figure A1. However, the extensive fiscal policy measures in response to the economic setback
caused by the virus have increased petroleum revenue spending in 2020, and spending is still high in the budget proposal for 2021.

The fund has grown rapidly in recent years and is now estimated to be about three times the size of the mainland economy. 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 portfolio will affect the fund’s value more than the volatility 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.

Figure A.1 The State’s net cash flow from the petroleum sector, the structural non-oil fiscal deficit and 3 per cent real return on the Government Pension Fund Global. Per cent of trend-GDP for mainland Norway

Sources: Ministry of Finance and Statistics Norway.
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 fiscal 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.

Table A.1 The structural non-oil fiscal deficit. NOK million

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil fiscal deficit</td>
<td>227 623</td>
<td>433 190</td>
<td>371 194</td>
</tr>
<tr>
<td>+ Net interest payments and transfers from Norges Bank. Deviation from trend</td>
<td>7 685</td>
<td>10 968</td>
<td></td>
</tr>
<tr>
<td>+ Accounting technicalities</td>
<td>5 362</td>
<td>963</td>
<td>-2 301</td>
</tr>
<tr>
<td>+ Taxes and unemployment benefits.(^1) Deviation from trend</td>
<td>1 952</td>
<td>-50 128</td>
<td>-60 384</td>
</tr>
<tr>
<td>= Structural non-oil fiscal deficit</td>
<td>242 621</td>
<td>394 994</td>
<td>313 369</td>
</tr>
<tr>
<td>measured in pct. of trend-GDP for mainland Norway</td>
<td>7.9</td>
<td>12.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Change from previous year in percentage points (fiscal impulse)(^2)</td>
<td>0.4</td>
<td>4.5</td>
<td>-2.9</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></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated trend</td>
<td>240 486</td>
<td>252 971</td>
<td>269 162</td>
</tr>
<tr>
<td>Structural non-oil fiscal deficit, including income from investments, measured in pct. of trend-GDP for mainland Norway</td>
<td>2 135</td>
<td>142 024</td>
<td>44 206</td>
</tr>
<tr>
<td>Estimated trend</td>
<td>0.1</td>
<td>4.4</td>
<td>1.3</td>
</tr>
</tbody>
</table>

\(^1\)The corrections are influenced by adjustments to the tax reform.
\(^2\) Positive figures indicate that the budget has an expansionary impact. The fiscal impulse does not take into account that different income and expenditure items may affect economic activity differently.

Source: Ministry of Finance.

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. Estimating trend levels is particularly challenging during the corona pandemic because the economy has been hit by a sharp downturn, and there is great uncertainty about the future development in the economy. 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 presented.

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 1960–2019, extended to 2040 using forecasts. The projection
The National Budget 2021

period is based on the Ministry of Finance’s medium-term projections and the continuation of the proposed tax programme for 2021. 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 are based on a growth in normal man-years employed of -1.6 pct. in 2020 and 0.6 pct. in 2021. The estimates are based on population projections from Statistics Norway.
Figure A.2 Underlying trends in direct and indirect taxes and the number of unemployment benefit recipients

¹ For years up to and including 2018, 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.

- **Taxes on capital.** This category includes taxes paid in arrears by companies and other non-individual taxpayers outside the petroleum industry and excluding withholding tax. It is assumed that taxes from enterprises outside the petroleum industry will remain approximately unchanged as a proportion of non-oil GDP after 2021.
- **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 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. The pandemic outbreak has brought the Norwegian economy into an economic downturn. Labour, capital and indirect taxes are all projected to be below their trend levels in 2021. The crisis has led to a sharp rise in unemployment in 2020, with a substantial increase in the number of people being laid off temporarily. As many of the furloughed employees have returned to work, the unemployment has moved lower, but it remains high. The number of unemployment benefit recipients is thus expected to be significantly higher than the underlying trend. Unemployment benefit recipients include both furloughed and other registered unemployed. Developments in the non-oil and the structural non-oil fiscal 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.
Spending of petroleum income, measured by the structural non-oil fiscal deficit, has increased substantially in 2020 as a result of fiscal policy measures implemented to lessen the economic impact of the Corona crisis. The structural non-oil fiscal deficit is projected at 12.3 pct. of trend-GDP for mainland Norway in 2020, up from 7.9 pct. in 2019. A major part of the temporary measures will be phased out during 2020. Hence, the spending of petroleum income will be reduced in 2021, but will remain higher than before the crisis.

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. Figure A3 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. The automatic stabilisers are estimated to be unusually high in 2020 and 2021, due to the labour market developments, including the sharp rise in unemployment and lower cyclical tax revenues as a result of the economic downturn, see figure A.2B.

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 on the bases of new information.

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

The role of the petroleum sector in the Norwegian economy

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 25 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 next couple of years the demand from the petroleum sector fell sharply, mostly due to lower investment activity after the decline in the oil price. Last year the aggregate demand from the petroleum sector picked up again, mostly due to a significant increase in the petroleum investments. The Covid-19 pandemic and lower oil and gas prices influence the petroleum sector and the supplier industry in Norway, and the forecast for 2020 and 2021 is for petroleum investments to fall, see chapter 1 for a more thorough description of current developments.

Productivity in the petroleum industry is high. Even though the industry directly employs only about 1 per cent of all employees in Norway, in 2019 it accounted for 14 percent of Norway’s GDP.

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.