

NORWAY

Mainland output growth will moderate over the next two years as the boost from recent oil price increases lessens, overall capacity constraints tighten, and unemployment falls further. Housing construction will remain subdued. Consumer price and wage inflation will increase gradually.

The neutral fiscal stance implied by the fiscal rule and proposed in the 2019 budget is appropriate given solid, but moderating, output growth. The central bank is signalling another increase in its policy rate in March 2019, which is appropriate to contain inflationary pressures. Structural reforms should remain focused on improving the business environment, while maintaining good social outcomes, including lighter taxation financed by greater public-spending efficiency. Following through on proposed measures to meet climate-change commitments will be important.

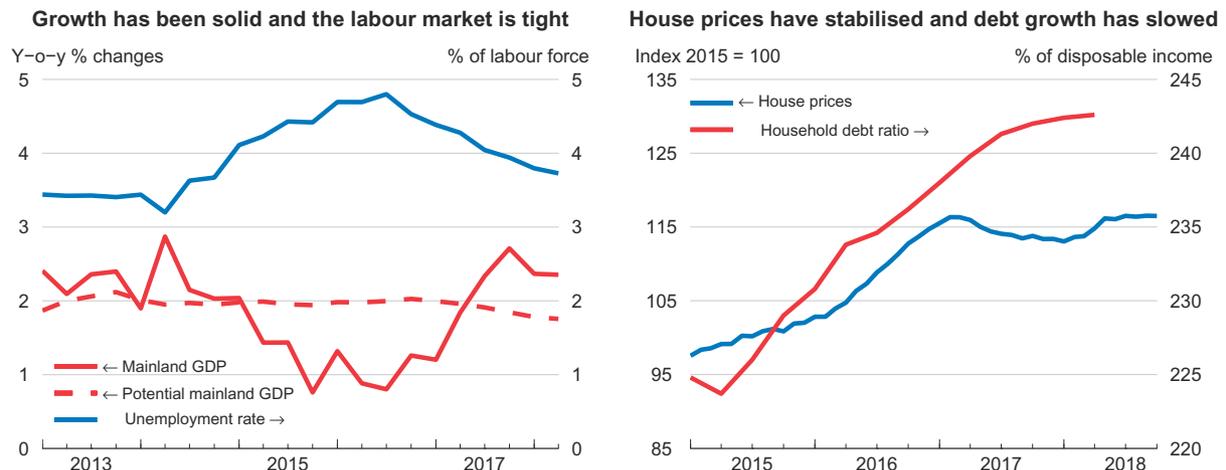
Output growth is solid

Mainland output growth (that is, growth abstracting from oil and gas production) has been supported by recent oil price increases through the associated pick-up in investment and income. Employment growth remains strong, the unemployment rate continues to decline and wage growth is picking up further. A spike in electricity prices over the summer, due to low rainfall reducing hydroelectric generation, pushed up the consumer price index, but underlying inflation remains low. Housing construction activity has continued to contract, reflecting a cooling of the housing market. The resurgence in house prices appears to have ended, the stock of unsold houses is high and properties are taking longer to sell.

Fiscal and monetary support is being reduced

Government budget proposals for 2019 entail a welcome retention of a neutral fiscal stance, reflecting solid output growth and the fiscal rule, which requires the structural deficit over time to equal 3% of the value of the oil fund (the Government Pension Fund

Norway



Source: OECD Economic Outlook 104 database; Statistics Norway; and Real Estate Norway (Eiendom Norge).

StatLink  <http://dx.doi.org/10.1787/888933877107>

Norway: Demand, output and prices

	2015	2016	2017	2018	2019	2020
	Current prices NOK billion	Percentage changes, volume (2016 prices)				
Mainland GDP at market prices¹	2 621.0	1.1	2.0	2.3	2.2	2.0
Total GDP at market prices	3 118.1	1.2	2.0	1.6	1.9	2.3
Private consumption	1 353.7	1.3	2.2	2.0	2.3	1.9
Government consumption	729.3	2.1	2.5	1.9	1.8	2.0
Gross fixed capital formation	741.4	5.2	3.6	-0.3	2.7	2.5
Final domestic demand	2 824.4	2.5	2.6	1.4	2.3	2.1
Stockbuilding ²	118.3	-0.5	0.1	0.6	-0.3	0.0
Total domestic demand	2 942.7	2.0	2.6	1.9	1.9	2.0
Exports of goods and services	1 176.1	1.1	-0.2	0.3	2.5	3.9
Imports of goods and services	1 000.7	3.3	1.6	1.4	2.5	3.3
Net exports ²	175.4	-0.7	-0.6	-0.4	0.1	0.5
<i>Memorandum items</i>						
GDP deflator	—	-1.1	3.9	5.9	3.3	2.2
Consumer price index	—	3.6	1.9	2.7	2.3	2.1
Core inflation index ³	—	3.3	1.7	1.1	1.8	2.1
Unemployment rate (% of labour force)	—	4.7	4.2	3.7	3.5	3.3
Household saving ratio, net (% of disposable income)	—	7.3	7.0	7.3	6.8	6.5
General government financial balance (% of GDP)	—	4.0	5.1	5.3	5.4	5.5
General government gross debt (% of GDP)	—	42.5	43.0	59.1	62.9	75.1
Current account balance (% of GDP)	—	4.0	5.6	9.0	10.0	10.4

1. GDP excluding oil and shipping.

2. Contributions to changes in real GDP, actual amount in the first column.

3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 104 database.

StatLink  <http://dx.doi.org/10.1787/888933878038>

Global). Given solid growth, Norges Bank raised its policy rate from 0.5% to 0.75% in September and its policy rate forecast signals a gradual increase to 2% by end-2021.

Tax measures are prominent in the budget and include further reducing the tax rate on “ordinary income” that applies to both households and businesses. Increased spending includes measures to reduce greenhouse gas emissions, such as support for rail transport and additional co-financing of investment in emission-reduction technology. Retaining fiscal neutrality, while accommodating tax cuts and spending increases, underscores the importance of improving value-for-money in Norway’s public spending, an issue stressed in *OECD Economic Surveys*.

The trend decline in labour-force participation is bringing skills and labour supply issues to the fore. A reform to public sector pensions was agreed in 2018 that will reduce early-retirement incentives. The 2019 budget proposals include measures to support labour-market participation, including of non-EEA immigrants, those with disabilities, and those affected by substance abuse. The continuing priority on strengthening the education system, including vocational education, is also welcome.

Output growth will ease

Mainland output growth will moderate over the next two years. This reflects a tail-off in the income and activity boost from recent oil price increases, weak housing construction activity and tightening capacity constraints in the wider economy, including from declining working-age population growth. Nevertheless, narrowing spare capacity, as suggested by the falling unemployment rate, will gradually increase consumer price inflation and wage growth. A key risk is that the cooling of the housing market may deepen, with substantial consequences for the economy. Meanwhile, there is upside risk in terms of investment activity, as sentiment indicators of investment are high and oil-related investment may pick up more rapidly than expected.