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This *Survey* is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.
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http://www.oecd.org/eco/surveys

Basic Statistics of Norway, 2018

(Numbers in parentheses refer to the OECD average)[1]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	5.3		Population density per km²	14.6	(37.8)
Under 15 (%)	17.5	(17.8)	Life expectancy (years, 2017)	82.5	(80.1)
Over 65 (%)	17.0	(17.1)	Men (2017)	80.9	(77.5)
Foreign born (%)	15.5		Women (2017)	84.2	(82.9)
Latest 5-year average growth (%)	0.9	(0.6)	Latest general election	september-2017	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	434.4		Primary sector	2.1	(2.4)
In current prices (billion NOK)	3 530.9		Industry including construction	35.3	(27.5)
Latest 5-year average real growth (%)	1.7	(2.3)	Services	62.6	(70.1)
Per capita (000 USD PPP)	65.5	(46.4)			
GENERAL GOVERNMENT					
Per cent of GDP					
Expenditure	48.8	(41.2)	Gross financial debt (OECD: 2017)	45.7	(112.4)
Revenue	56.1	(38.2)	Net financial debt (OECD: 2017)	-282.0	(69.6)
EXTERNAL ACCOUNTS					
Exchange rate (NOK per USD)	8.13		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	10.14		Mineral fuels, lubricants and related materials	62.0	
In per cent of GDP			Food and live animals	10.4	
Exports of goods and services	38.4	(56.2)	Machinery and transport equipment	8.2	
Imports of goods and services	32.6	(52.1)	Main imports (% of total merchandise imports)		
Current account balance	7.2	(0.3)	Machinery and transport equipment	38.4	
Net international investment position	186.6		Manufactured goods	15.0	
			Miscellaneous manufactured articles	14.3	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	74.8	(68.4)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	3.8	(5.3)
Men	76.9	(76.0)	Youth (aged 15-24, %)	9.7	(11.1)
Women	72.7	(60.9)	Long-term unemployed (1 year and over, %)	0.5	(1.5)
Participation rate for 15-64 year-olds (%)	78.0	(72.4)	Tertiary educational attainment (aged 25-64, %,	43.6	(36.9)
Average hours worked per year)	1 416	(1734)	Gross domestic expenditure on R&D (% of GDP, 2016)	2.0	(2.5)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2017)	5.1	(4.1)	CO2 emissions from fuel combustion per capita (tonnes, 2016)	6.8	(9.0)
Renewables (%, 2017)	52.8	(10.2)	Water abstractions per capita (1 000 m³, 2007)	0.6	
Exposure to air pollution (more than 10 g/m³ of PM 2.5, % of population, 2017)	3.8	(58.7)	Municipal waste per capita (tonnes, 2017)	0.7	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2017, OECD: 2016)	0.262	(0.310)	Education outcomes (PISA score, 2015)		
Relative poverty rate (%, 2017, OECD: 2016)	8.4	(11.6)	Reading	513	(492)
Median gross household income (000 USD PPP, 2017, OECD: 2016)	36.8	(23.6)	Mathematics	502	(490)
Public and private spending (% of GDP)			Science	498	(493)
Health care	10.2	(8.8)	Share of women in parliament (%)	41.4	(29.7)
Pensions (2015)	8.8	(8.5)	Net official development assistance (% of GNI, 2017)	1.0	(0.4)
Education (public, 2017)	6.4	(4.5)			

1. The year is indicated in parenthesis if it deviates from the year in the main title of this table.
2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, World Bank.

Executive Summary

Wellbeing is high, but must be sustained

Norway continues to enjoy among the highest living standards in the OECD area but faces challenges in sustaining them for the future.

OECD wellbeing indicators put Norway alongside the top-ranking countries. Reported well-being, jobs and earnings, work-life balance and the distribution of income are very favourable compared with most countries.

However, sustaining the high levels of economic output and comprehensive public services that are key to Norway's wellbeing is a challenge. There is no longer scope for rapid public spending growth from fast growth in the wealth fund. It is tougher to fund public services and develop new projects. Continued weak productivity growth, relatively high labour costs, plus weakening labour-force participation are lessening economic capacity to support good outcomes in wellbeing.

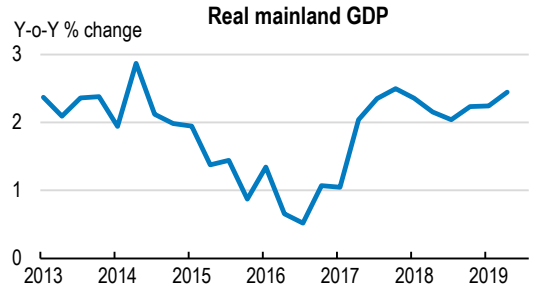
Norway will need to substantially reduce transport-related greenhouse-gas emissions to achieve targets. Thanks to extensive hydropower, Norway has comparatively low baseline emissions, but substantial emission reduction is needed to hit targets. Around half of emissions are outside the European Trading Scheme and a large share of these relate to transport. Wide differences in carbon pricing mean policy is inefficient.

The economy is vulnerable to trade and property-market risks

Growth in real mainland GDP has recovered from the 2014 oil-price shock and remains robust. However, external risks are substantial.

Mainland GDP growth remains sufficiently strong to drive further declines in unemployment. Also, wage growth has picked up. Mainland output growth is projected to ease over the projection horizon.

Figure 1. GDP growth is robust



Source: OECD Economic Outlook database.

StatLink https://doi.org/10.1787/888934071346

Monetary and fiscal policy stances are appropriate given current economic conditions. Following four hikes, the first in September 2018, the policy rate is now on hold, reflecting slowing output growth prospects and external risks. Government budgets have been aiming for a neutral stance.

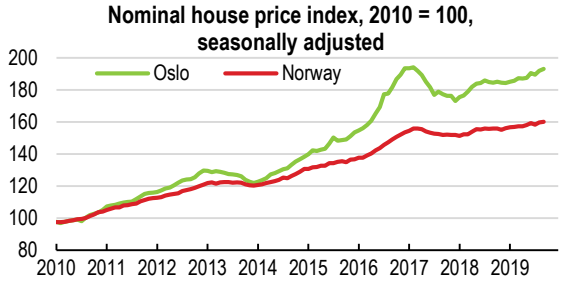
Table 1. Mainland GDP growth will be around 2% in 2020 and 2021

(Annual growth rates, unless specified)	2018	2019	2020	2021
Mainland GDP	2.2	2.5	2.0	1.7
Private consumption	1.9	1.8	1.9	1.9
Government consumption	1.4	2.2	1.9	1.8
Gross fixed capital formation	2.8	4.3	3.3	2.1
Exports of goods and services	-0.2	1.6	2.6	3.1
Imports of goods and services	1.9	5.45	1.	2.0
Unemployment rate (% of labour force)	3.8	3.4	3.2	3.2
Consumer price index	2.7	2.3	2.0	2.2

Source: OECD Economic Outlook 106 database.

External-demand risks remain elevated. The global slowdown in trade and investment, together with faltering business and consumer confidence in the euro area, is a risk to Norway's predominantly European trade.

Figure 2. House prices remain elevated



Source: Calculations based on Real Estate Norway (Eiendom Norge) data.

StatLink https://doi.org/10.1787/888934071365

Property markets and related credit appear to be heading for a soft landing but risks remain. House-price growth has resumed at a subdued rate following some downward correction, suggesting demand for housing remains robust. Household debt continues to increase faster than disposable incomes, signalling a continued build-up of risk. Estimated selling prices of commercial real estate have been rising rapidly, which has previously foreshadowed wider economic difficulties.

The impact from any further housing market correction is most likely to come via consumption. Debt servicing remains high, implying a greater cutback in consumption in the event of an economic downturn. Thanks to mortgage-lending regulation, the quality of credit is sound and direct risks to banks via mortgage default appear well contained by their strong capitalisation.

The high share of wholesale bank funding is a concern. The scale of this funding, which is largely through covered bonds, is equivalent to just under 70% of GDP. Substantial cross holding of these bonds within the Norwegian financial sector increases inter-connectedness risks.

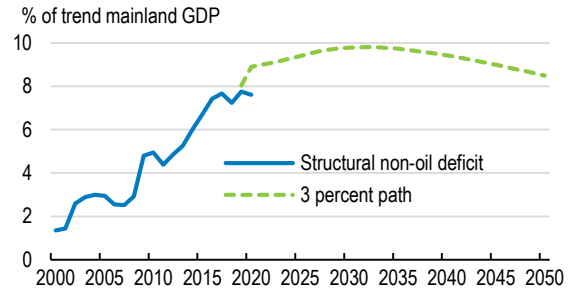
Fiscal space is set to increase more slowly in the coming years

Due to a likely slowdown in wealth-fund growth, fiscal non-oil deficits in the coming years will only be able to increase marginally under the fiscal rule.

Fiscal pressures will also come from additional spending commitments. These commitments are estimated to cost at least 0.3 percentage points of GDP each year on average. Rising health care and pension costs from population ageing are a significant component. A proposal in early 2019 to fund some public spending through an off-budget channel has illustrated the strong temptation to circumvent the fiscal rule; such proposals should be avoided.

Figure 3. Non-oil deficits can no longer increase rapidly

Non-oil deficit under 3% rule for wealth fund spending



Source: Ministry of Finance, 2020 budget.

StatLink https://doi.org/10.1787/888934071384

Managing public finances within the fiscal rule should be achieved primarily through higher labour supply and increased value for money in public spending. There is scope for better public spending in many areas, as identified in the current, and past, *Surveys*, including through greater influence of cost-benefit analysis on investment decisions. Meanwhile, the tax burden is among the highest in the OECD.

Reforms to eliminate tax distortions and reduce burdens have been a central pillar of economic policy and good progress has been made. The headline rate of corporate-income tax has been reduced, value-added tax is now more uniform and efforts to tackle base erosion and profit shifting (BEPS) continue. However, tax concessions for owner-occupied property remain too generous and some revenue-raising policies have been reversed. For instance, the government reduced road tolls in response to popular protests.

Productivity growth is low and labour force participation has been slipping

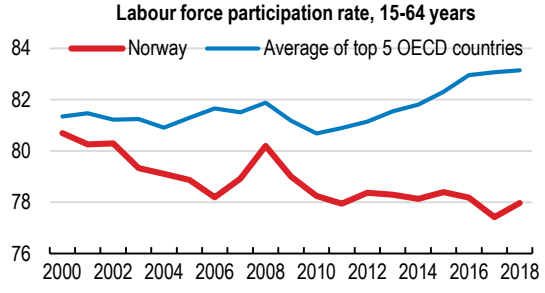
The "Nordic" socio-economic model requires a high productivity business sector and high labour-force participation.

Sustaining high levels of wellbeing requires a high-productivity business sector, which is competitive in a high-wage, high-tax environment. Norway is generally well placed to harness the next generation of digital technology and research and development (R&D) activity is picking up pace. However, policy improvements are still needed, including in insolvency arrangements and sectoral support, notably the extensive support for agriculture.

Norway's labour market achieves low unemployment, high incomes and good job quality. A narrow wage distribution and high labour-force participation of women are primary drivers of the low levels of income inequality. The system of coordinated annual wage negotiations generally delivers wage awards consistent with macroeconomic conditions.

However, labour-force participation has been declining and Norway is no longer among the top-ranking countries. This is weakening its good record on economic inclusiveness and raises concerns for future growth as the population ages. Employment is a central focus of this *Survey's* in-depth examination of labour markets.

Figure 4. Labour force participation has been falling



Source: OECD Employment database, www.oecd.org/employment/database

StatLink https://doi.org/10.1787/888934071403

High rates of sickness absence among workers and large numbers on disability benefits remain problems that are not yet fully addressed. A government-appointed commission has made promising proposals for reform. These head in the direction of OECD recommendations, in particular proposing to strengthen employee and employer incentives for a return to work, including on a part-time basis.

Old-age pension reform is improving retirement choices but issues remain. Recent reforms have made retirement incentives more balanced for public-sector employees. However, reform of special retirement schemes for those working in areas such as police and defence is overdue, pension arrangements for those on disability benefits need adjusting and there is scope for more life-expectancy adjustment in the mainstream pension system. Introduction of the "sliterordningen" (early retirement scheme) is a sign of some backtracking on earlier reform.

The labour-market integration of low-skilled immigrants requires further attention. Migrants with low education and skills are now more numerous, partly due to an increased share of refugees. This has deepened the challenges for labour-market integration policy, especially as demand for low-skill workers is limited in Norway.

Improving education and training is part of the solution to the productivity-growth slowdown and weakening labour-force participation.

Norway's education system provides substantial support and encouragement for learning. Yet, PISA scores of secondary-school student skills are only around the OECD average and boys' academic performance in school has been declining relative to girls. In post-secondary education, non-completion of vocational courses is high and many students in higher education do not graduate until their mid-to-late 20s.

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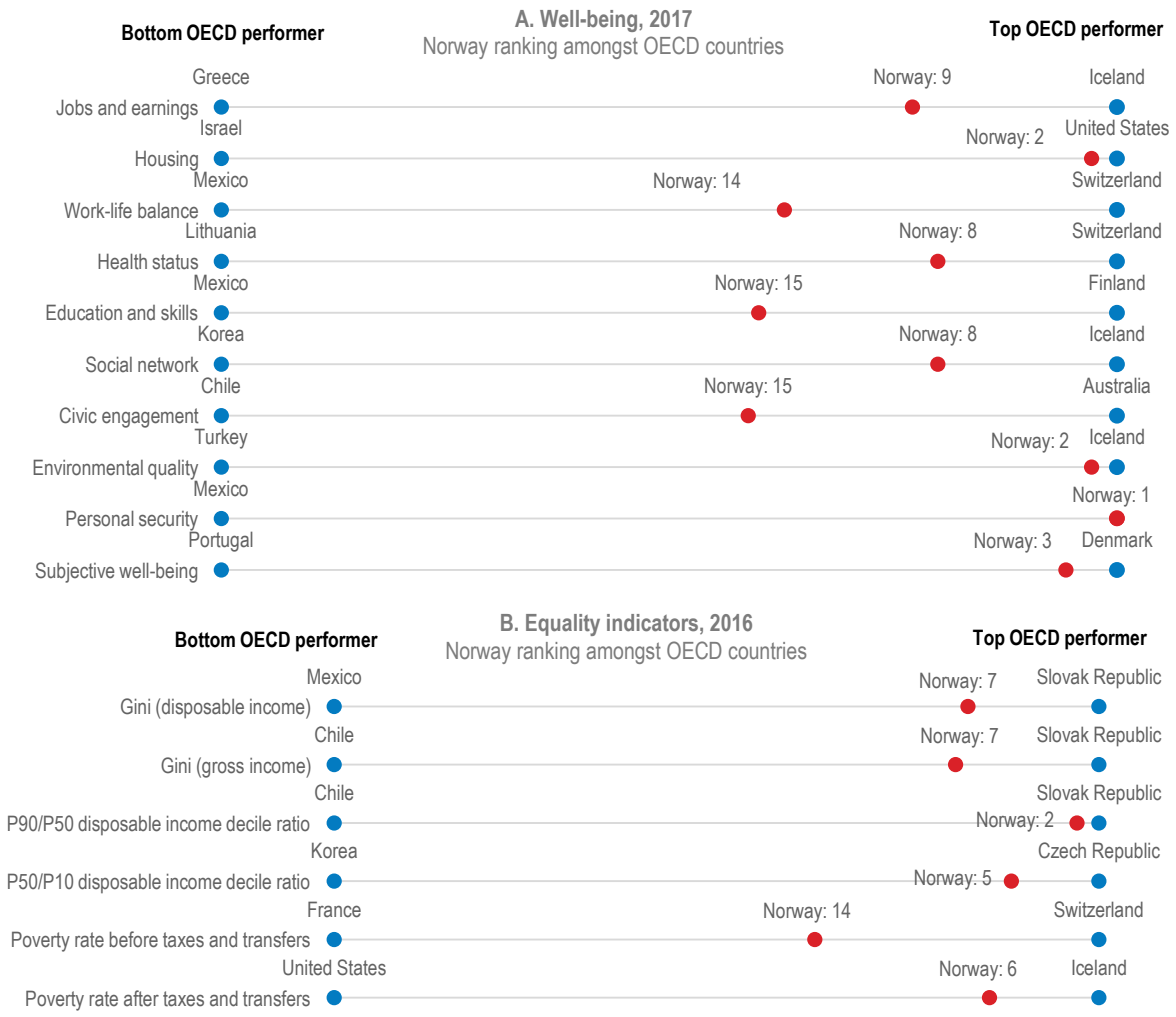
MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic stability and managing property-market risks	
External demand risks remain elevated, output-growth prospects have diminished. Vulnerabilities stemming from property markets remain a risk, despite some correction in the housing market.	Keep the policy rate on hold, while remaining vigilant to changing circumstances. Maintain close monitoring of financial market and housing risks, renew macroprudential mortgage regulations when they expire, consider removing time limitations. Reduce tax concessions on homeownership. Either gradually phase out mortgage-interest relief or introduce implicit rental income while paying attention to symmetries in the tax system.
Fair access to resource wealth across generations, value for money in public spending	
Slower expected growth in the wealth fund implies a substantial narrowing of fiscal space for the foreseeable future.	Apply the fiscal rule conservatively over the longer term, keeping structural deficits below the 3% path in the near term. Strengthen value for money in public spending. Improve outcomes and lower costs through more extensive use of cost-benefit analysis and productivity enhancing measures in public services.
Diversification to non-oil activities, seizing opportunities from globalisation and digitalization	
The rapid growth in research and development activity suggest stronger engagement at the frontiers of technology and know-how. However, policy improvements are still needed. Low productivity growth remains a concern for future living standards.	Strengthen business dynamics through better routes to recovery for businesses in difficulty, including lighter penalties for failed entrepreneurs. Continue to tackle weak points in business efficiency, including by paring back the extensive support for the agricultural sector.
Raising employment levels and skills	
Sick leave absence is high and numbers on disability benefits remain elevated.	Strengthen incentives to contain sick-leave absences, including through lowering sick-leave compensation and by extending employers' participation in funding. Intensify management efforts to address sick leave in sectors facing elevated levels of absence due to illness, in particular in the public sector. In disability benefits, strengthen treatment and rehabilitation requirements and apply eligibility rules in general more strictly. Make early interventions that encourage and facilitate return to work a strong theme of future reforms to sickness leave compensation and disability benefits. Tighten medical assessment for both sick leave and disability benefit systems.
Early retirement remains common.	Align special pension provisions for certain occupational groups such as nurses, national defence and the police with the mainstream pension system. Index age-dimensions of the pension system to life expectancy, such as the retirement-age range of 62 to 75 years. Diminish the financial attractiveness of early retirement via disability benefits by putting the compensation for life-expectancy adjustment in pensions on hold.
In education, PISA test results are only around the OECD average, many vocational upper-secondary students fail to complete courses, apprenticeship places are in short supply and students taking degree-level courses graduate comparatively late.	Press ahead with primary- and secondary-school curriculum reforms. Reduce apprentice remuneration to make it more attractive for employers to offer additional places. Link part of the employer subsidy to course completion by apprentices. Strengthen higher-education students' incentives for timely course completion. Ensure that higher education institutions provide comprehensive study guidance and support services.
Some immigrant groups struggle to get and keep jobs.	Introduce subsidised apprenticeship-like programmes as part of efforts to raise immigrants' skills and work experience.
Moving towards green growth	
Under current policies, programmed measures for reducing domestic non-ETS emissions will need to be combined with non-ETS reductions purchased from EU-countries for goals to be met.	Pursue cost efficiency across sectors and borders in fulfilling Norway's Paris 2030-goal within the EU climate framework. Intensify greenhouse-gas reduction measures in particular in transport and agriculture. Review and reform road pricing and vehicle taxation, giving weight to social, fiscal and environmental considerations.

1 Key policy insights

Norway has among the highest standards of living in the world. Scores across most indicators of wellbeing rank well compared with other countries (Figure 1.1, Panel A). The high rankings in subjective wellbeing along with jobs and earnings, and low inequality (Figure 1.1, Panel B) reflect broad success in achieving Nordic-model societal goals. GDP per capita, at around USD 65 000 annually (Figure 1.2), exceeds that in most other advanced countries. However, education and skills outcomes notably falls short of top performers and this is among the issues tackled in this *Survey's* in-depth chapter on labour market issues.

Figure 1.1. Norway scores highly on many dimensions of wellbeing

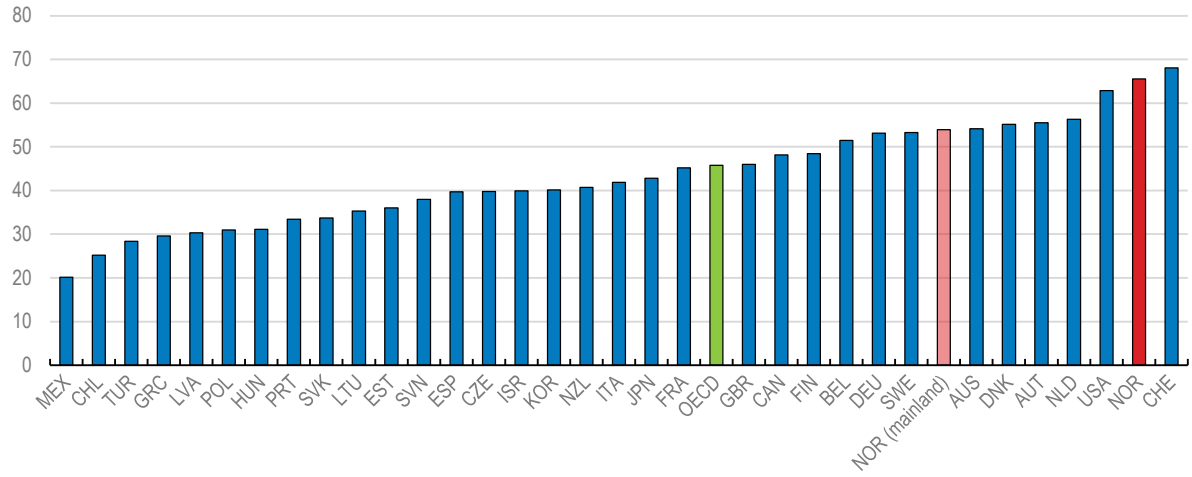


Source: OECD Better Life Index 2017; and OECD Income and Distribution database.

StatLink https://doi.org/10.1787/888934071422

Figure 1.2. GDP per capita is among the highest in the OECD

2018, thousand USD PPP



Source: OECD National Accounts (database) and OECD Economic Outlook (database).

StatLink https://doi.org/10.1787/888934071441

Economic growth remains robust. In addition, there has been welcome downward adjustment in house prices, after several years of rapid growth, though modest increases have resumed in recent quarters (Figure 1.3). There have been four central-bank policy rate increases since September 2018. Comparatively low global oil prices since 2014 have been a key influence on the economy, including via impact on the exchange rate.

Future wealth-fund developments, including diminishing oil- and gas-related inflows, are likely to mean there is no longer scope for ever-wider structural deficits, marking a substantial change for government budgeting. Tax reform, including reducing rates and eliminating distortions, is a key element in the government's economic policies (Box 1.1). Ensuring value for money in spending on the comprehensive public services and investment that are integral to Norway's socio-economic model is of increased prominence given emerging fiscal constraints. Health care and pension spending pressures continue to mount with population aging, and revenue shrinkage from taxation on cars is sizeable.

Box 1.1. The current government's economic policies

Parliamentary elections in September 2017 resulted in a coalition government initially comprising the Conservative Party (*Hoyre*, *H)*) and Progress Party (*Fremskrittspartiet*, *Frp)*. The Liberal Party (*Venstre, V)* joined the coalition in January 2018 and the Christian Democratic Party (*Kristelig Folkeparti, KrF*) joined in 2019. As of October 2019 the coalition had 87 seats in the 169-seat parliament. The next parliamentary election is in September 2021.

In fiscal policy the governing coalition's budgets have put a strong emphasis on a prudent application of Norway's fiscal rule, which in practice means aiming for fiscal neutrality. The budget proposal for 2020 aims for a small reduction in the structural budget deficit.

Fiscal policy priorities have been emphasising: tax reform towards more business-friendly settings, and reallocation towards infrastructure and education and research. Tax reform has included a series of cuts in the rate of tax on corporate income, for instance. Road and rail allocations have been increased substantially as has spending on research and education. Increased allocations have been accompanied by structural reform, for instance road and rail sectors have been restructured.

Efforts to increase public-sector efficiency have included the pruning of expenditure through "efficiency dividends" (see main text), and reforms in specific areas, including: reduction in the number of municipalities and reforms to the police service, university sector and the tax authorities.

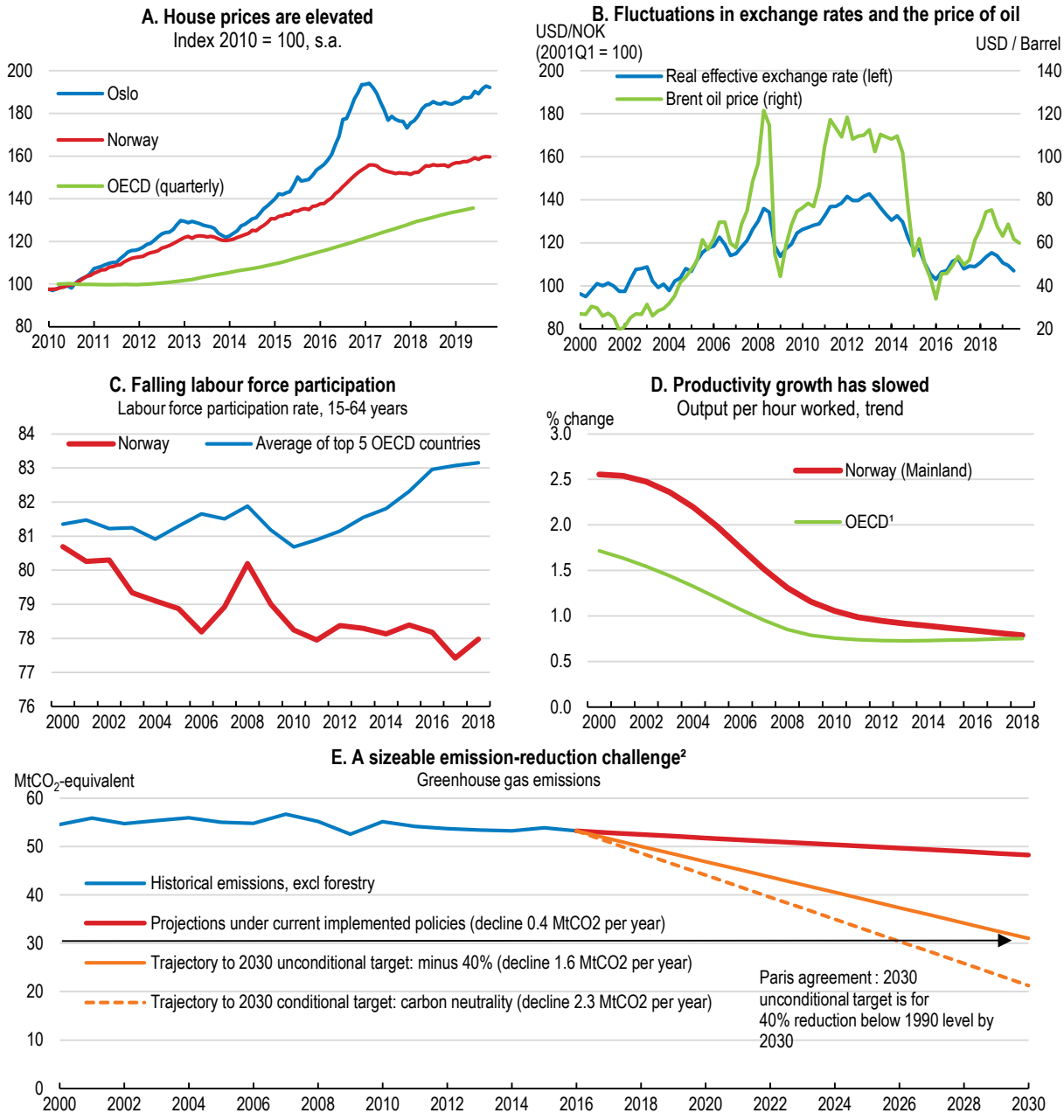
Increasing employment has also been a theme of policy. Labour-market reforms are aimed at strengthening work incentives and a better inclusion of groups at the margins of the labour markets, as immigrants, youngsters, and low-skilled workers. A major reform of occupational pensions for public employees has been agreed, which strengthens incentives to stay in work longer. An Employment Commission is looking how to improve Norway's sick leave compensation and disability benefit system.

Low productivity growth (Figure 1.3) and maintaining cost competitiveness remain concerns for the economy and future living standards. In addition, the business sector's capacity to adjust to changing circumstances is of increased importance given the opportunities and challenges of digitalisation and the need for economic diversification away from resource-related activity, as oil and gas production opportunities diminish.

There are challenges for social and labour-market policies that need to be addressed if high levels of wellbeing are to be sustained. Labour-force participation has been declining (Figure 1.3). This partly links to a longstanding problem of early retirement via disability benefit, which is itself connected to high rates of sickness absence. Other influences on labour-force participation include education and skills. This *Survey*'s examination of the labour market in the light of the OECD *Jobs Strategy* (Chapter 2) covers these issues.

Norway's greenhouse-gas emissions are comparatively low, largely due to extensive hydropower, yet achieving abatement targets will be challenging. It is estimated that under current implemented policies, emissions of carbon-dioxide-equivalent greenhouse gases will fall by 0.4 million tonnes each year (Figure 1.3), while the most ambitious target (close-to carbon-neutrality by 2050, see environment section below) requires annual declines averaging 2.3 million tonnes. Given that climate policy should be cost effective, fulfilling the targets implies that domestic measures must be complemented by cooperation with the EU on emission reductions.

Figure 1.3. Norway is facing a number of important challenges



1. Labour productivity per worker.
2. Projections under current implemented policies do not include reductions that are intended via participation in the EU-ETS.
Source: *Calculations based on Real Estate Norway (Eiendom Norge) data; OECD Economic Outlook (database); OECD Employment database, www.oecd.org/employment/database; and Climate Action Tracker, Country Assessments 2018* - http://climateactiontracker.org.

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The main messages of this *Survey* are:

- Macroeconomic policy faces uncertainty on oil prices and other external influences due to geopolitical and economic developments globally, including risks to the Norwegian economy from Brexit, along with risks from the housing market and related household borrowing.
- Managing narrower fiscal space requires better value for money in public spending across the board, including spending on supporting business, welfare payments, pensions and health care, as well as on climate-change policy. Increasing value for money can also create space for reducing tax burdens on households and businesses. Furthermore, greater focus on value for money can help with necessary reforms that involve spending reductions.
- Policy needs to better facilitate and motivate employment among those with weak labour-market attachment so as to increase inclusiveness and economic potential.

Macroeconomic prospects, risks and policy responses

In recent years, Norway's economic activity has principally reflected the impact and subsequent recovery from the 2014 oil-price decline, when the price fell sharply from around USD 110 to less than 40 per barrel (Figure 1.3). Mainland GDP growth subsequently slowed to around 1% and the rate of unemployment increased (Figure 1.4). By late 2016, recovery was underway. Elevated house prices and related borrowing remain a source of risk, as forewarned in the previous *Survey*, and external risks have been growing.

Robust, but slowing, output growth is projected

Mainland GDP volume growth has remained robust in recent quarters at around 2.5% per year (Figure 1.4), which is sufficient to drive further narrowing of capacity constraints. Continuing rebound in oil-sector investment (Box 1.2), strong growth in non-oil business investment and a return to growth in housing investment have supported GDP in particular. Continued momentum in the labour market is helping the economy, with further decline in the unemployment rate and pick up in wage growth. However, monthly data point to little growth in mainland export volumes in recent months. Headline inflation has been heading downwards and is just below the 2% target, however this trend may be reversed in light of recent currency depreciation. The currency depreciation observed in recent months has been somewhat surprising given tightening monetary policy; one possible explanation is that demand has shifted away from smaller currencies in light of the increased uncertainty in the global economy.

OECD projections envisage mainland output growth remaining above potential but easing from 2.5% in 2019 to around 2% in 2020 and 1.7% 2021 (Table 1.1). Diminishing growth in investment and mainland exports will drive output growth slowdown. As supply constraints will still bind, wage growth will continue to strengthen somewhat and there will be some mild inflationary pressure on consumer prices.

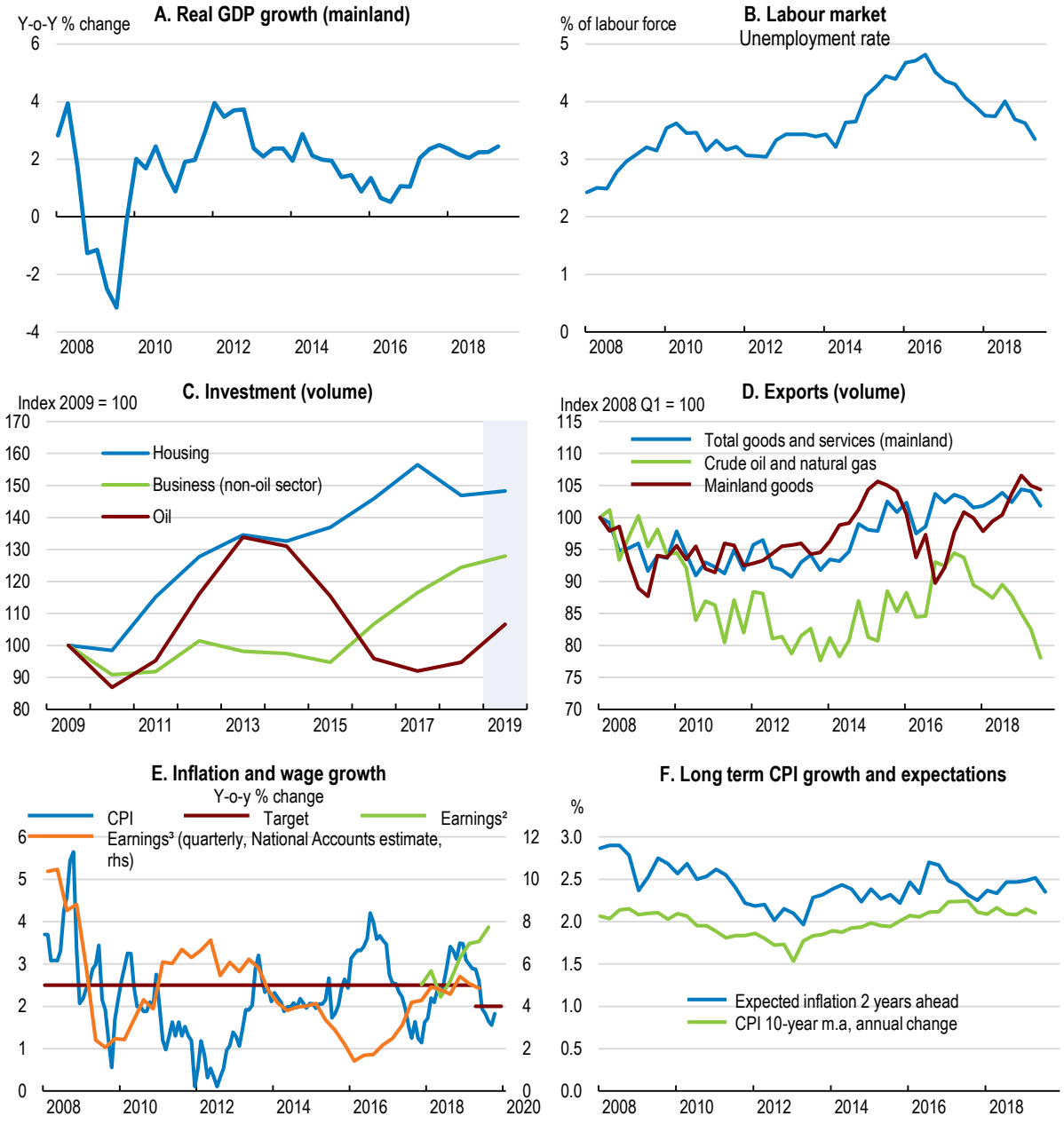
Box 1.2. Norway's petroleum sector: its role in the economy

Oil-dependency in the Norwegian economy has come down significantly in recent years. Norway's petroleum sector ("petroleum" covers both oil and natural gas) comprises offshore production facilities, and exploration activities plus supply services, which account for most of the sector's employment. Growth in petroleum investment and employment was particularly strong from the mid-1970s to mid-1980s and from 2005 to 2013, prior to the 2014 global-oil price fall. The supply sector is not solely linked to Norway's offshore fields, providing services to other North Sea fields and elsewhere in the world. Offshore activity according to the national accounts definition (this covers oil and gas extraction, transport via pipelines and ocean transport) is around 15% of total economic activity. In recent years, demand from the petroleum sector economy has declined substantially, with a reduction from 14% of mainland GDP in 2013 to 8% in 2018. Direct employment in petroleum production only accounts for about 1% of employment but, according to Statistics Norway, 6% of total employment in 2017 was directly or indirectly associated with the petroleum sector, a reduction from 9 % before the oil-price drop. Norway's south-west coast is particularly dependent on petroleum-related activity.

The petroleum sector makes a sizeable contribution to fiscal revenues. Net extraction revenues from production largely accrue to the state due to resource taxation and state ownership in production (the government has a 67% stake in the oil company Equinor). In addition, corporate tax revenues are generated by the petroleum supply industry.

The prospects for petroleum-related activity depend on several factors. A renewed increase in production in Norwegian fields is expected in the coming years as the Johan Svedrup and Johan Castberg fields come on stream. However, the long-term trend in production is clearly downward. Even so, estimates based on current knowledge of output and developments in reserves suggest production will continue well into the latter part of this century. New large finds are possible. In addition, as the sector is not solely dependent on Norwegian offshore production, developments in global production and exploration will also influence how the petroleum sector evolves in the coming years. Norway is also involved in decommissioning activity, which tends to run countercyclically to developments in production and exploration.

Figure 1.4. Recent macroeconomic developments: economic growth remains robust



1. Share of contacts reporting that output is constrained by labour supply.
2. Average monthly earnings, quarterly figures.
3. Earnings per employee based on dividing aggregate earnings by the total number of employees. Trends in part-time and full-time employment, overtime etc. therefore affect the outcome.
Source: OECD Economic Outlook database; Norges Bank; and Statistics Norway.

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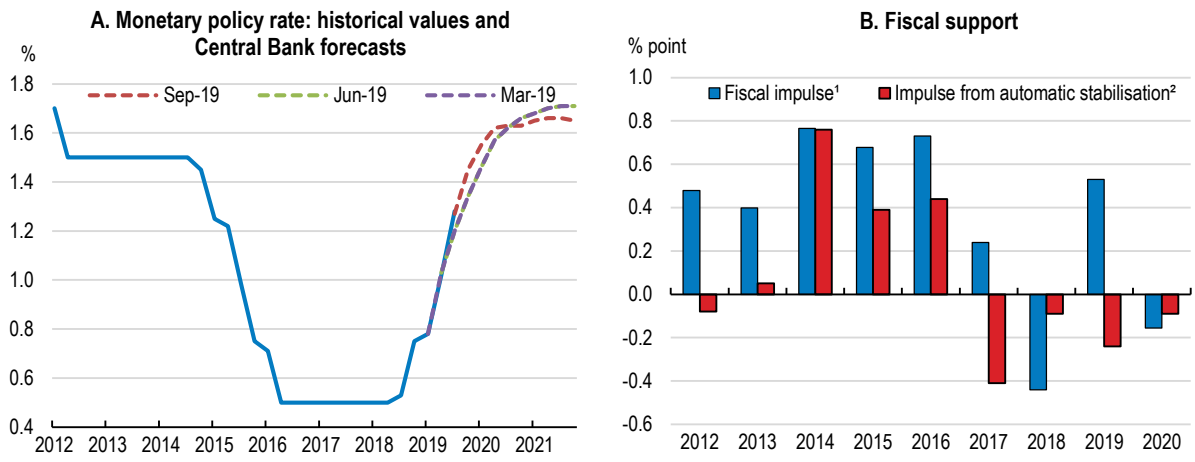
Monetary policy is tightening and fiscal policy is broadly neutral

Monetary and fiscal policies responded to the 2014 oil-price shock with interest-rate cuts, and active tax and spending measures to support the economy ("fiscal impulse") (Figure 1.5). In addition, automatic stabilisers supported the economy further, via weakened tax revenues and rising benefit payouts. Fiscal policy has endeavoured to maintain a neutral fiscal stance, i.e. constant structural deficits as a percentage

of GDP, in recent years. This is appropriate given the cyclical position of the economy and the evolution of the deficit path according to the fiscal rule (discussed further below).

Figure 1.5. Reflecting the upturn, monetary and fiscal support are being reduced



1. Annual change in the structural non-oil deficit.
2. Automatic stabilisation data are calculations supplied by the Ministry of Finance.
Source: Central Bank of Norway; and Ministry of Finance.

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In monetary policy, four rate hikes, the first in September 2018 and the last in September 2019 brought the policy rate to 1.5% (Figure 1.5, Norges Bank, 2019). This tightening appropriately reflected the context of above-potential output growth and narrowing output gap and the need to ensure that price inflation remains on target, which has been centred on 2% inflation since March 2018 (Box 1.3). Norges Bank has signaled that the policy rate is most likely to remain on hold for the coming quarters. Inflation expectations remain well-anchored (Figure 1.4, Panels F). The introduction of a separate monetary policy committee following the new central bank act should further ensure sound rate-setting decisions.

Box 1.3. Changes to the inflation targeting regime and in Norges Bank's legislation and structure

In March 2018, the authorities lowered the inflation target for annual consumer price inflation over time from 2.5% to 2%. This brought the target closer to those elsewhere, notably that for the euro Area, which aims for "inflation rates of below, but close to 2% over the medium term". The authorities' reasoning was that the case for the 2.5% target had dwindled because the phase-in of oil and gas revenue into the economy is now largely over, and therefore no longer a source of upward pressure on prices. Inflation targeting is forward-looking and flexible so that it can contribute to high and stable output and employment and counteract the build-up of financial imbalances.

The reduction in the inflation target was accompanied by a renewal of monetary policy legislation with a view to clarification and alignment with monetary policy practice (for an overview of the inflation targeting regime, see Norges Bank, 2017). In addition, a re-structuring of Norges Bank is planned following a decision that it should retain management of the main wealth fund (Government Pension Fund Global, GPFG). In particular, a separate policy committee will be established, whose duties will include policy-rate decisions. This move aims to allow Norges Bank's Board greater focus on other tasks, including management of the Fund (Ministry of Finance, 2018a).

Table 1.1. Macroeconomic indicators and projections (autumn 2019 Economic Outlook)

Annual percentage change (unless otherwise indicated), volume (2017 prices)

	2016 Current prices (billion NOK)	2017	2018	2019	2020	2021
GDP volume (A)	**3,076**	**2.3**	**1.3**	**1.0**	**2.4**	**2.3**
Potential GDP		1.8	1.7	1.6	1.5	1.5
Output gap (% of potential GDP)		-1.9	-1.5	-0.6	-0.1	0.1
GDP volume, mainland (B)	**2,423**	**2.0**	**2.2**	**2.5**	**2.0**	**1.7**
Petroleum-production contribution to GDP volume growth (A minus B)		**0.3**	**-0.9**	**-1.4**	**0.3**	**0.6**
GDP volume components						
Private consumption	**1,234**	2.2	1.9	1.8	1.9	1.9
Government consumption	**652**	1.9	1.4	2.2	1.9	1.8
Gross fixed capital formation	**724**	2.6	2.8	4.3	3.3	2.1
Housing	**152**	7.3	-6.2	0.9	2.0	1.6
Business[1]	**440**	0.7	5.1	6.0	3.7	2.3
Non-oil sector	**219**	9.2	6.8	2.8	2.0	2.0
Oil sector[2]	**226**	-4.0	3.0	12.6	4.1	0.7
Government	**132**	2.6	7.5	3.7	3.6	2.0
Final domestic demand	**2,611**	2.3	2.0	2.6	2.3	1.9
Stockbuilding (percentage-point contribution to GDP volume growth)	**133**	0.2	0.1	0.0	-0.1	0.0
Total domestic demand	**2,744**	2.4	2.1	2.4	2.1	1.9
Exports of goods and services	**1,204**	1.7	-0.2	1.6	2.6	3.1
of which crude oil and natural gas	**374**	5.1	-4.8	..	..	..
Imports of goods and services	**872**	1.9	1.9	5.4	1.9	2.0
Net exports (percentage-point contribution to GDP volume growth)	**332**	0.0	-0.7	-1.2	0.3	0.5
Labour-market and households						
Employment		0.2	1.6	0.9	0.7	0.4
Unemployment rate, %		4.2	3.8	3.4	3.2	3.2
Household saving ratio, net (% of disposable household income)		6.7	6.5	6.7	6.8	7.0
Deflators, prices						
GDP deflator		4.0	5.8	-0.6	1.5	2.2
Consumer price index		1.9	2.7	2.3	2.0	2.2
Core consumer prices		1.7	1.2	2.5	2.0	2.2
Trade and current account balances						
Trade balance (% of GDP)		6.2	8.7	. .	. .	. .
Current account balance (% of GDP)		4.7	7.2	4.2	4.3	4.8
Money market rates and bond yields						
Three-month money market rate, average, %		0.9	1.1	1.6	1.9	1.9
Ten-year government bond yield, average, %		1.6	1.9	1.5	1.7	2.0
General-government fiscal indicators (OECD)						
General government financial balance (% of GDP) [3]		5.0	8.1	8.8	9.1	9.0

General government net debt(% of GDP)		-309.0	-282.0	-289.5	-287.8	-284.2
Central-government fiscal indicators (Ministry of Finance)[4]						
Structural non-oil balance [5, 6]		-7.7	-7.2	-7.8	-7.6	..
Non-oil balance [5]		-7.8	-7.4	-7.6	-7.5	..
Government Pension Fund Global (% of GDP)		256.9	233.4	288.7	..	..
Structural non-oil balance (as a % GPFG)		-2.9	-2.5	-2.9	-2.6	..
Memorandum items						
Non-mainland GDP (petroleum and shipping)	652	4.6	-3.6	-4.9	-0.5	0.0

1. Also includes shipping sector.
2. Following the approach taken by the Norwegian authorities, oil-sector investment is included in mainland GDP as most of the investment activity takes place on the mainland.
3. Norway's general-government account notably incorporates offshore-sector tax revenues and income from the Government Pension Fund Global.
4. Figures published in the government's latest budget proposals.
5. The central-government non-oil balances notably exclude offshore-sector tax revenues and income from the Government Pension Fund Global. These balances are percentage of trend mainland GDP.
6. The "Structural Non-oil Balance" is the focus of government budgeting. "Structural" refers to adjustment for the business cycle made by the Ministry of Finance.
Source: OECD Economic Outlook 106 database ; Statistics Norway; Norwegian Ministry of Finance; and Norwegian Ministry of Petroleum and Energy.

External risks to the economic outlook are on the downside

Norway's chief external risks generally stem from fluctuation in oil prices and the state of play in its markets for non-oil goods and services exports ("external demand"). Exchange-rate movement typically provides a sizeable offset to the impact of shocks. Oil prices react to a range of economic and political influences, often rapidly, making for a high degree of uncertainty (Table 1.2). Norway's vulnerability to downward price shocks has diminished as, following the 2014 oil-price fall, producers have considerably reduced costs in exploration. For instance, the current back-stop price in the Castberg field is less than half what it was before the 2014 oil-price drop. Meanwhile, however, with increased action on climate-change globally, including through advances in substitute technologies, uncertainties in demand and prices for fossil fuels are mounting. The expected returns on long-term projects requiring heavy investment are more uncertain, with the prospect of "stranded assets" if, for instance, there is accelerated decline in demand for fossil fuels, including crude oil (for a general discussion, see OECD, 2015).

In the current conjuncture the external-demand risks have become more weighed on the downside. As underscored in the autumn 2019 *Economic Outlook*, policy developments undermining international trade have already had some material effects on the global economy, including Europe, with sharp slowdown in trade and investment and faltering business and consumer confidence. While such developments are not yet echoed strongly in the Norwegian economy, the substantial trade with the rest of Europe means developments in the region are a source of risk. Furthermore, tail-risk scenarios could develop should trade tensions rise further (Table 1.2). Norway is exposed to Brexit risks largely via demand from other European countries. Global financial shocks also potentially have strong effects in Norway through stock-market valuations of the oil fund. This can influence the size of the "allowable" government deficit under the fiscal rule (see below), though offsetting exchange-rate movement may limit this effect. Hold-ups in oil supply from the middle east and consequent oil-price hikes in autumn 2019 have illustrated the potential for upside surprises for the Norwegian economy via the oil sector.

Property markets remain the principal domestic vulnerability

As underscored in the previous *Survey,* house prices and related borrowing have increased substantially in recent years (Box 1.4). Norway is not alone in this regard. Among the other Nordic countries, Sweden

has experienced rapid house-price growth (Figure 1.6), and household indebtedness is elevated in both Sweden and Denmark. While Norway's housing-market developments to date mainly suggest an orderly correction, risk of a disorderly unwinding of the market remains. As interest rates remain comparatively low, there is risk prices continue to be propelled upwards, raising the prospect of a more dramatic correction later on. Furthermore, the scale of household credit remains a concern (Figure 1.6). Household credit predominantly comprises mortgage borrowing, and is an important driver of banks' funding requirements. The latter are partially met through a wholesale funding market in which there are substantial cross-holdings between financial institutions (discussed further below).

Box 1.4. Influences on Norway's house prices

Persistent rises in house prices, do not necessarily imply a house bubble. House prices are determined by numerous demand and supply factors, including income, demographics, macroeconomic conditions and institutional features. The pace at which supply of housing responds to demand pressures also determines how quickly and strongly prices react. An empirical paper accompanying this *Survey* (Sila, 2020) uses a cross-country panel framework to assess what influences Norway's house prices.

The results show that high and rising house prices in Norway are principally driven by market fundamentals – high household incomes, wealth, low interest rates and growing population. For instance, the results suggest that a 1% rise in household disposable income per capita raises house prices by 1.0-1.3 %. Likewise, a one-percentage point increase in population growth increases house prices by 0.4-0.6%. Yet, despite strong fundamentals, by comparing predicted house prices as estimated by the model and observed house prices, Sila (2020) notes that house prices in Norway seem to have been overvalued to a degree.

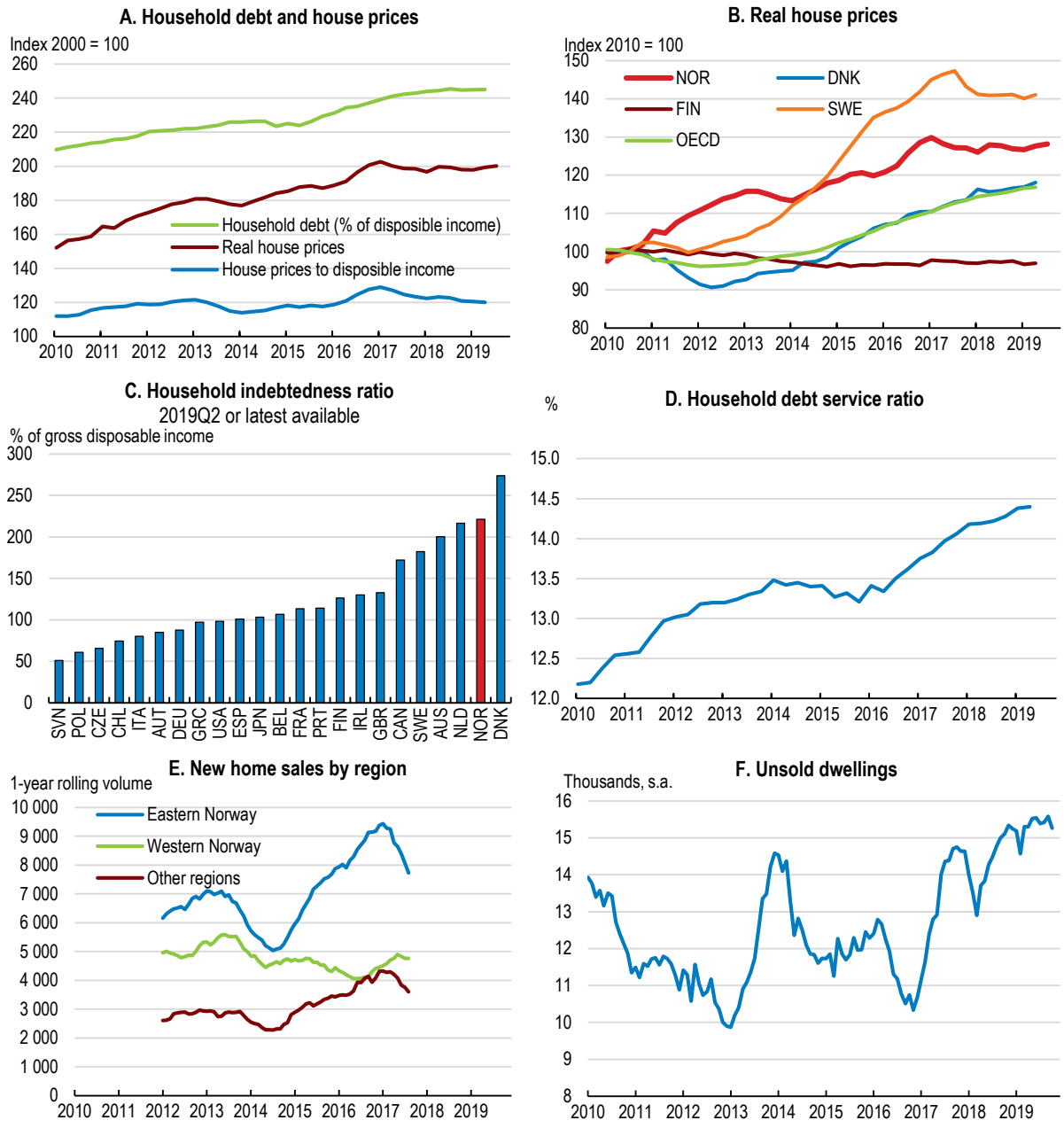
Some structural and regulatory features of the Norwegian housing market also put upward pressure on prices: the favourable tax treatment of home ownership and relatively rigid housing supply. Sila (2020) argues that regulations on rent increases and tenant-landlord regulations are also playing a role. Norway could therefore help take some steam from the housing market by structural reform, as discussed in the main text.

The resumption of nominal house-price growth at a subdued pace, (Figure 1.3), essentially flat prices in real terms (Figure 1.6), a moderate unwinding fall off in new home sales from peak levels (Figure 1.6) and a bottoming out of dwelling construction activity suggest a "soft landing" so far. However, the comparatively large stock of unsold houses compared with previous years points to remaining tensions (Figure 1.6). Although the growth of credit to households is easing, it is still greater than increase in disposable income, so the household debt ratio continues to grow.

In the event of renewed downward correction in house prices, any wider economic impact would most likely occur via household consumption. Similar to a number of other OECD countries with high rates of home ownership, house-price correction would directly damp consumption through negative wealth effects, precautionary saving responses and reduced expenditures related to the purchase and sale of housing (such as spending on renovation and interior decoration) (OECD, 2019a). Negative impact on business of weakening household consumption could, inter alia, prompt business-loan losses for banks and an increase in mortgage borrowers encountering financial difficulty in the event of reduced income (for instance through redundancy).

The elevated level of household debt amplifies the risks from an economic downturn, whether stemming from house-price correction or otherwise. Direct risk to banks via mortgage default appear reasonably well contained in Norway by their capitalisation and safeguards in mortgage lending (see below). However, debt-servicing commitments remain high, implying a greater cutback in consumption in the event of downturn. Interest-rate increases have widespread impact on households debt servicing costs as most mortgages are variable-rate and have more impact when debt levels are high.

Figure 1.6. Some housing-market cooling but household debt burdens remain elevated



Source: Central Bank of Norway; OECD Economic Outlook database; OECD dashboard of household statistics; and Refinitiv Datastream database.

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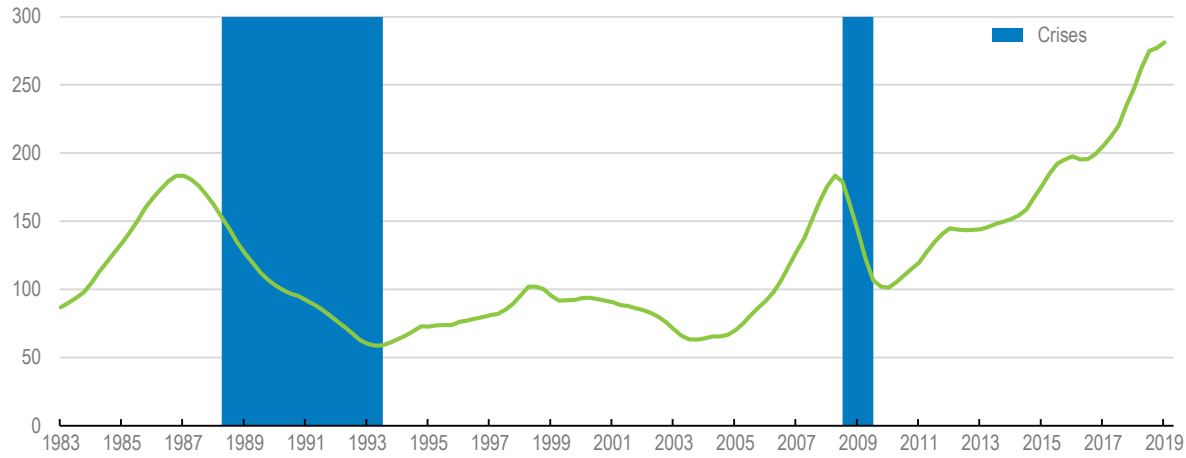
Developments in commercial real estate are also a potential source of financial vulnerability (Norges Bank, 2018). Estimated selling prices of commercial real estate have been rising rapidly (Figure 1.7). Sharp rises in the past have been a prelude to substantial corrections and wider economic difficulties, in part because about half of banks' exposures to the Norwegian corporate sector are in commercial real estate. Given the importance of the commercial real estate sector, additional data collection for a more detailed assessment of selling prices would be welcome.

Figure 1.7. Commercial real estate prices have reached new highs

Estimated real selling prices per square metre for prime office space in Oslo
Index 1998 = 100



Note: Deflated by GDP deflator for mainland Norway. Average selling price for the previous four quarters.
Source: CBRE, Dagens Næringsliv, OPAK, Statistics Norway and Norges Bank.

Table 1.2. Events that could lead to major changes in the outlook

Vulnerability	Possible outcome	Policy response options
Large (and sustained) upward or downward oil-price shift.	Low price scenario (e.g. because of breakthrough in substitute technologies or significantly lower world demand). Collapse of petroleum-related activities. Large job losses and falls in income and output, particularly in certain regions.*	Monetary and fiscal support, especially the latter. Targeted support for regions.
	High-price scenario. Increased wealth and incomes but a deepening of the challenges in managing oil wealth.*	Intensified efforts to improve the environment for non-oil business.
	*Oil-price fluctuation (in either direction) generally prompts an automatic fiscal response and countervailing exchange-rate movement due to the wealth fund and fiscal rule.	
External (non-oil) demand shocks, e.g. accelerated weakening of growth in Europe due to trade tensions.	Downside: weak demand for non-oil goods and services exports, aquaculture sector in particular could be affected. Upside: surge in non-oil exports.	Macroeconomic support, targeted assistance for sectors most affected, efforts to ease underlying problems (e.g. trade tensions).
Global equity price correction.	A global stock market collapse would reduce the wealth fund's value*, inter alia implying smaller fiscal deficits than may be inappropriate if the economy is in downturn. * Exchange-rate depreciation may dilute this effect.	Leeway in the fiscal rule means inappropriate tightening (or loosening) brought, for instance, by global stock market developments can be avoided.
Large house-price correction and household debt deleveraging.	Large house-price falls (a "hard landing") could lead to falling household consumption and rising non-performing loans.	Monetary and fiscal support, targeted support to those most affected by the housing downturn. Support to the financial sector, as appropriate.

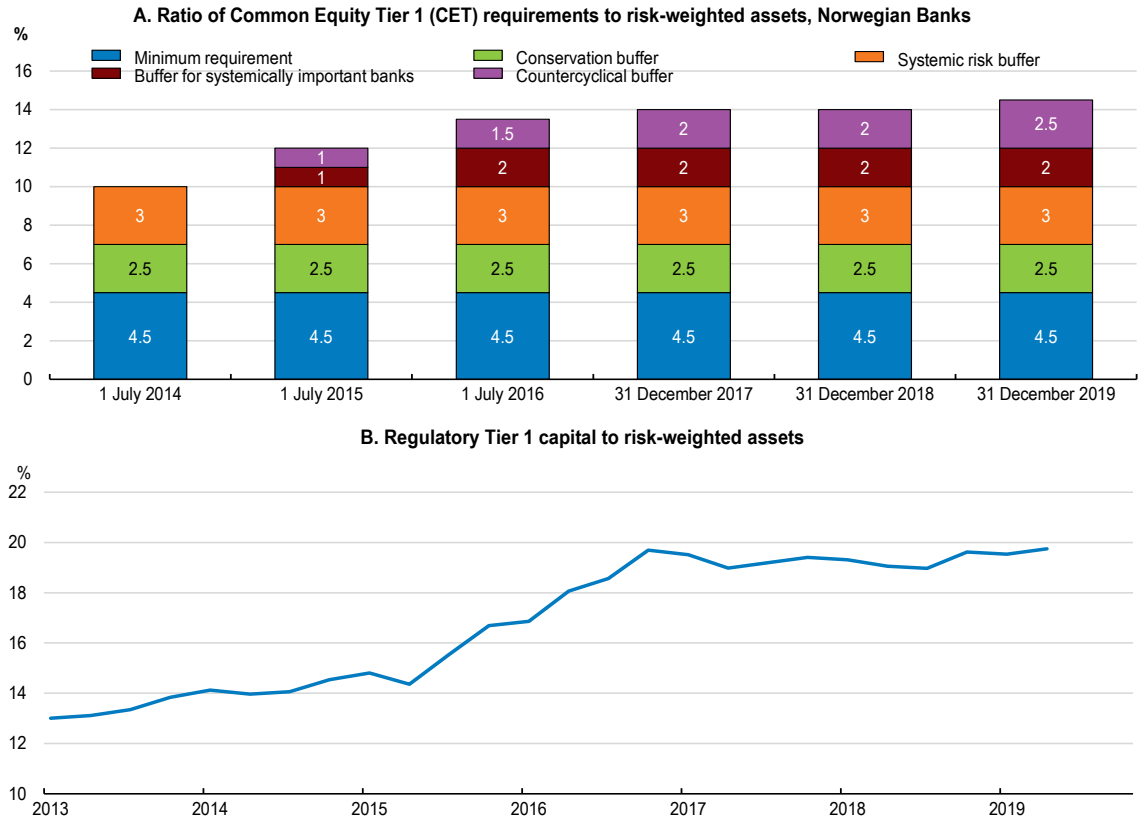
Financial stability: vigilance by financial-market regulators is still required

The substantial increase in house prices and credit growth in recent years has received considerable policy attention, including the increase in the small but rapidly growing consumer credit segment. In general however, Norway's financial system appears in good shape to address tensions and handle shocks should they occur. Nevertheless, continued vigilance is required.

Banking-sector resilience has been shored-up by stronger capital requirements following the Global Financial Crisis (Figure 1.8), including a countercyclical capital buffer operating since 2013. Stronger requirements have been echoed in actual capital adequacy, including the ratio of capital to the unweighted value of assets (leverage ratio, Figure 1.8). In the housing-loan segment, "full recourse" mortgages, where banks have rights to collect assets and pursue legal action in the event of non-payment, help protect banks in a stressed situation. Recent prudential measures include new rules regarding deposit guarantees rules, as well as bank recovery and resolution as part of adoption of an EU directive, and a tightening of consumer credit rules (Table 1.3).

The strong presence of foreign banks in the mortgage market means the impact of a shock may be widely spread and without critical consequences. However, a strong foreign presence entails policy challenges as branches of foreign banks are partially governed by the regulation of their country of origin. Efforts to strengthen reciprocal regulatory agreements and harmonise regulation with foreign banks' domicile countries should continue. The European capital adequacy framework (CRR/CRD IV) and memorandums of understanding signed by Nordic authorities facilitate reciprocity for national macro-prudential measures. A recent draft proposal from the Ministry of Finance is in part intended to achieve reciprocity from other European Economic Area members with regard to an adjusted systemic risk buffer requirement and temporary risk weight floors for real estate exposures.

Figure 1.8. Further increase in the counter-cyclical buffer in bank capital requirements



Source: Norges Bank (2018), Norway's financial system 2018 , Ministry of Finance; and OECD Resilience database.

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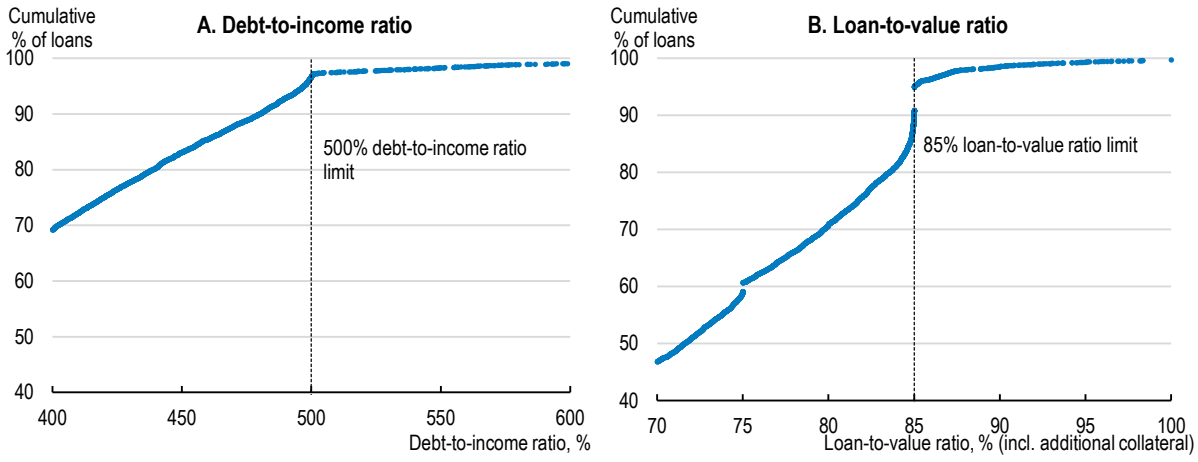
As in a number of countries, macroprudential measures have been introduced to help cool the housing and mortgage markets and limit their risk to the financial sector and wider economy. Concern about growth in interest-only loans several years ago was addressed by minimum down-payment requirements in 2015.

Measures introduced also include a limit on a borrower's total debt to five times annual gross income and changes to loan-to-value ratios. The regulations also feature some regional differentiation and special regulations for secondary homes (see previous *Survey*). The standard loan-to-value ratio is currently 85%, which is similar to those elsewhere (OECD, 2019a). Figure 1.9 shows that both these measures are having impact. The macroprudential rules allow a small share of lending outside the limits, so some data points are beyond the boundaries in Figure 1.9. This aside, many data points in Figure 1.9 are on, or just below the limits, implying that they are indeed having impact. The mortgage regulation is time-limited (18 months). The next renewal is due in end-December 2019. The regulation should be renewed, with parametric adjustment as required. Furthermore, an end to time limits on the regulation should be considered.

Figure 1.9. Debt-to-income and loan-to-value limits are having impact

Distribution of around 8 000 new loans according to debt-to-income and loan-to-value ratios



Note: Some loans exceed the limits because for a small share of mortgage lending (8% in the Oslo area, 10% elsewhere) banks do not have to adhere to the limits (referred to as a "speed limit").
Source: Finanstilsynet (2018), Risk Outlook December 2018.Distribution of around 8 000 new loans according to debt-to-income and loan-to-value ratios.

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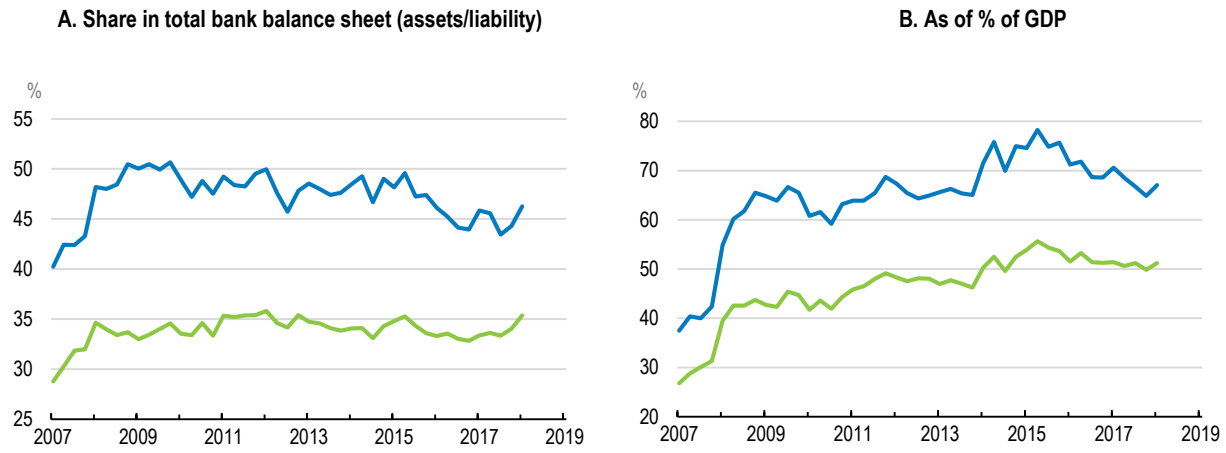
Elevated household debt has raised banks' funding requirements, including a substantial increase in wholesale funding. While the share of this funding in banks' balance sheets, and as a percentage of GDP, has declined slightly in recent years, it remains elevated (Figure 1.10). Much of the wholesale funding is via "covered bonds", bonds collateralised against mortgages. Covered bonds help provide cheap and stable funding through sharing risk, but potentially bring rollover risk and make balance sheets less flexible. There is substantial cross holding of these bonds within the Norwegian financial sector; over half the value of covered bonds is held by banks and mortgage institutions. This interconnectedness increases risks. For instance, a liquidity problem could amplify if banks simultaneously sell off covered bond holdings (Norges Bank 2018, IMF 2018). As these bonds and their regulatory framework were introduced in 2007, and Norway's economy did not suffer a huge shock in the 2008-9 crisis, the resilience of the covered bond market is yet to be strongly tested.

Figure 1.10. Bank wholesale funding has increased substantially alongside bank balance sheets



Source: Norges Bank.

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Structural changes to the housing market that lessen price tensions should continue. As flagged in previous *Surveys*, tax advantages for home ownership stoke housing demand and facilitation of housing supply through lighter planning regulation and procedures is needed. With low mortgage interest rates it is an opportune moment to start phasing out mortgage interest relief or to introduce implicit rental income to the tax system. However, any lightening of planning needs to dovetail with other policies, in particular the encouragement for the construction of a more environmentally friendly housing stock, for instance via the government's subsidy scheme for municipal climate measures, Klimasats.

Table 1.3. Past recommendations on macroeconomic and financial stability

Recommendations	Action taken since the previous *Survey (January 2018)*
Should house-price growth remain uncomfortably high, consider additional macroprudential measures while closely monitoring and reviewing their effectiveness.	Implementation of the EU's Bank Recovery and Resolution Directive (in force from January 2019). These rules, for instance, mean that if capital adequacy is threatened, investors in bank bonds can be forced to accept conversion of part of their debt claim to shares or equity certificates (bail-in). The counter-cyclical capital buffer rate will be increased to 2.5% as of December 2019. Mortgage regulations were renewed for a further 18 months in June 2018 (next renewal decision, December 2019). The regulation applies to both Norwegian and foreign banks operating in Norway. New consumer credit regulation includes: *i)* collection and distribution of information on borrowers' unsecured debt ("credit registries", legislation adopted in November 2017, information services operational in July 2019); *ii*) higher deposit-guarantee fees for riskier banks (effective from 2019); *iii*) a new regulation on consumer lending practices modelled on the mortgage regulation including a debt-to-income limit, a debt service and amortization requirements (in force from May 2019); *iv)* higher capital requirements (Pillar 2 add-ons) for most consumer-credit banks (set by the FSA as part of regular reviews of individual banks' risks and capital needs). Other relevant measures: New regulation clarifying the monetary policy mandate was adopted March 2018. A new central bank act that includes establishment of a separate committee for monetary policy decisions will enter into force January 2020. Improvements in banks' reporting on corporate lending is under consideration.
Facilitate more responsive housing supply. In particular, lighten rules on release of land for development.	No major reform.However, the government introduced a revised Housing Market Strategy in June 2018.

Fiscal policy, tax and public spending reform

Norway's public spending and the taxation to fund it are comparatively high, reflecting commitment to comprehensive public services and welfare support that are integral to the socio-economic approach of Nordic countries (Figure 1.11). Central-government non-oil deficits are guided by a fiscal rule based on the expected real rate of return to the fund (Box 1.5) that allows a sizeable non-oil deficit, currently around 8% of mainland GDP (Box 1.5, Figure 1.12). The oil wealth in effect means that households and business benefit from lighter taxation and more public spending on services and investment than would otherwise be the case. If the rule is followed, future generations also benefit. This guarantee to future generations is further strengthened if projection of the value of the wealth fund is made on a prudent basis, especially in light of the heightened uncertainties in the current climate for investment globally.

Box 1.5. Norway's fiscal system and the shift to the "3% rule"

Revenues from offshore petroleum production have enabled Norway to accumulate a large wealth fund (the Government Pension Fund Global, GPFG) while also financing fiscal deficits in the mainland economy. Inflows to the fund comprise: *i*) net cash flow from the petroleum sector (i.e. revenue from the state's direct financial interest plus tax revenues); *ii)* net financial transactions related to the petroleum sector; and, *iii*) returns on the fund's assets. Under the fiscal framework, withdrawal from the fund covers the non-oil budget deficit. The fund is invested entirely in foreign assets, which helps offset the currency appreciation arising from petroleum exports.

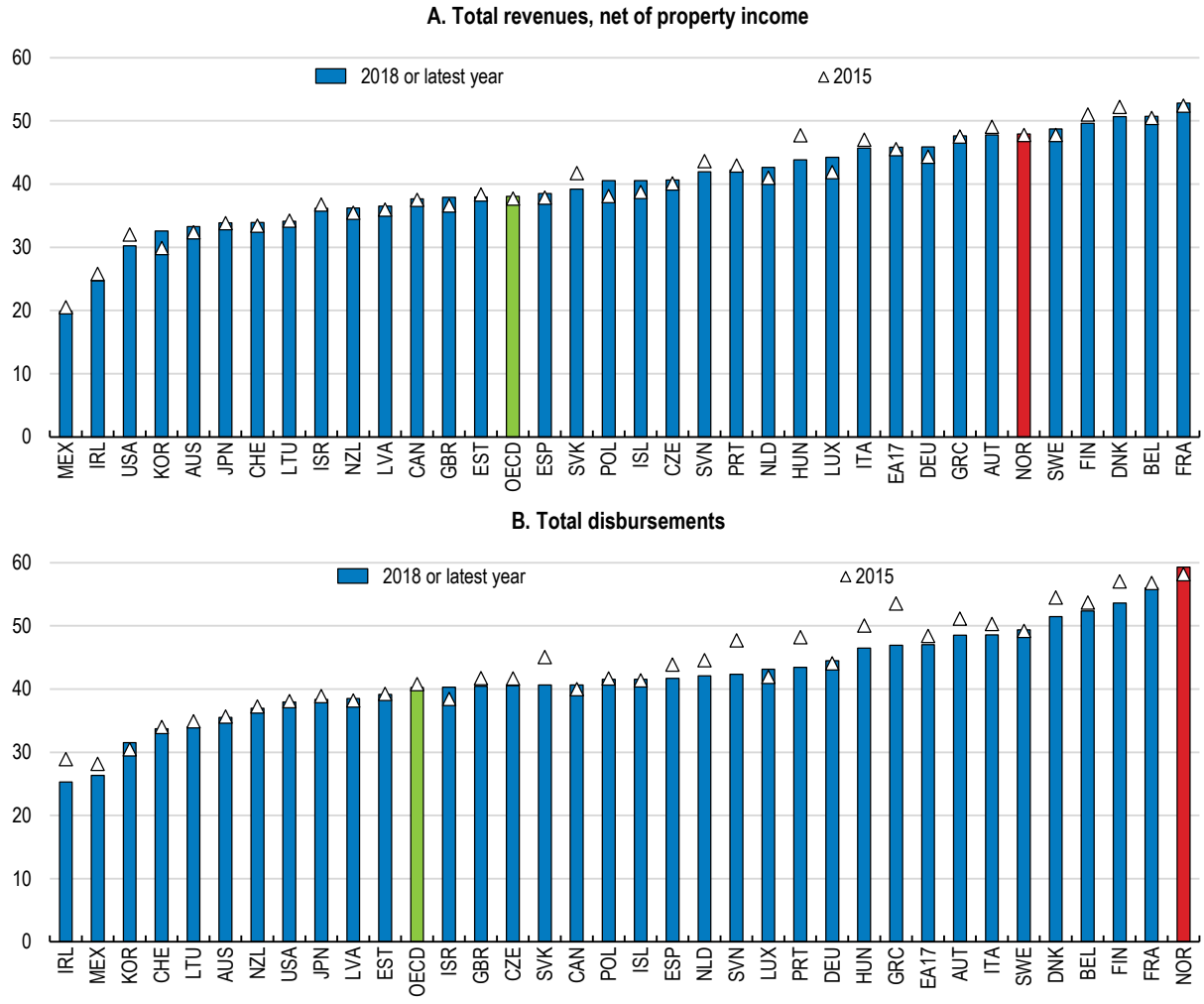
Norway's fiscal rule states that the cyclically adjusted non-oil deficit (the "structural non-oil deficit") should, over time, be equal to the expected real return on the Fund. The rule implies an intergenerationally fair use of oil wealth because spending the real returns implies leaving the real value of the Fund intact for future generations. The rule also accommodates counter cyclical fiscal stimulus. Actual deficits fluctuate around the structural deficit ("automatic stabilisation") and the structural deficit itself is allowed to move around the expected return over the business cycle, reflected in the "over time" wording of the rule.

In 2017, the government announced that budgeting would be based on a 3% expected return instead of 4%. The "3% rule" more strongly assures intergenerational equity in the wealth fund, as the fund's returns are likely to be lower looking forward. Global rates of return have declined, especially fixed-income yields, and are expected to remain low. Under these circumstances, it was unrealistic to expect that the Fund would keep on generating 4% returns. The rule alteration was also timely given the cyclical situation. Under the "4% rule" and with rapid growth in the wealth fund (Figure 1.12, Panel A), the target deficits had become expansionary. Expansionary budgets were welcome in the wake of the 2008-9 crisis and the 2014 oil-price shock but became an issue once the need for fiscal support waned. In the decade 2007-2016, the structural non-oil deficit increased by 0.5 percentage points of GDP each year on average (Figure 1.12, Panel B).

Ministry of Finance projections of the Fund's value, which are based on prudent estimates of future oil revenues, imply that substantial expansion of structural non-oil budget deficits will no longer be feasible. The projections indicate scope for only modest deficit increases until 2030, and decline thereafter (Figure 1.12, Panel C). This marks a substantial shift for government budgeting, which had become accustomed to the extra fiscal space afforded by expanding structural deficits.

Figure 1.11. Government spending remains substantial and similar to other Nordic countries

% of GDP



Note: Norway total general government mainland receipts minus mainland property income received, as % of mainland GDP; and total general government disbursements as % of mainland GDP.
Source: OECD Economic Outlook database.

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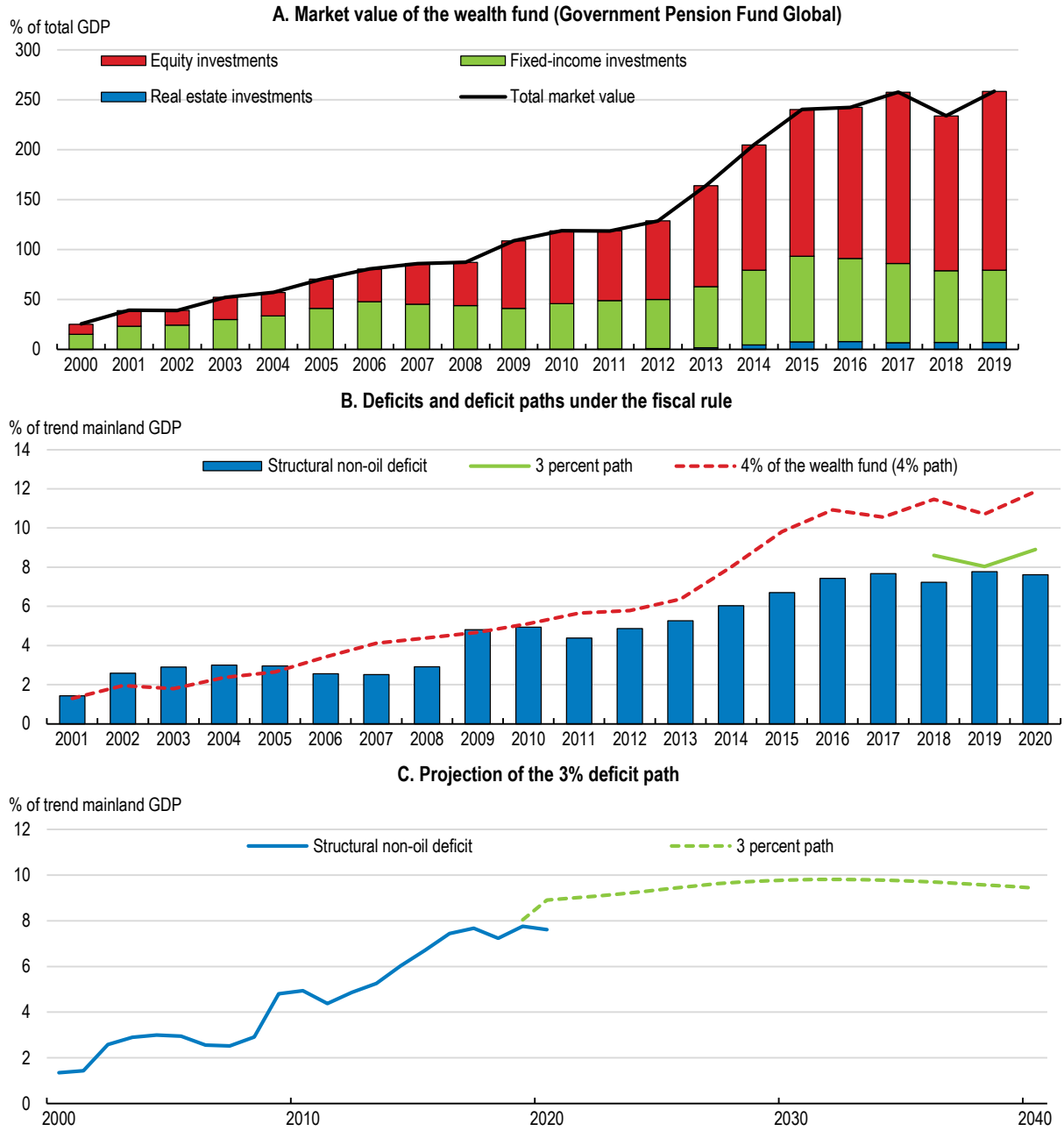
Figure 1.12. Slowing growth in the value of the wealth fund and structural non-oil deficits



Note: "3% deficit path", 3% of projected wealth-fund as a percentage of trend mainland GDP.
Source: Norges Bank Investment Management (MBIM); and Ministry of Finance, 2020 budget.

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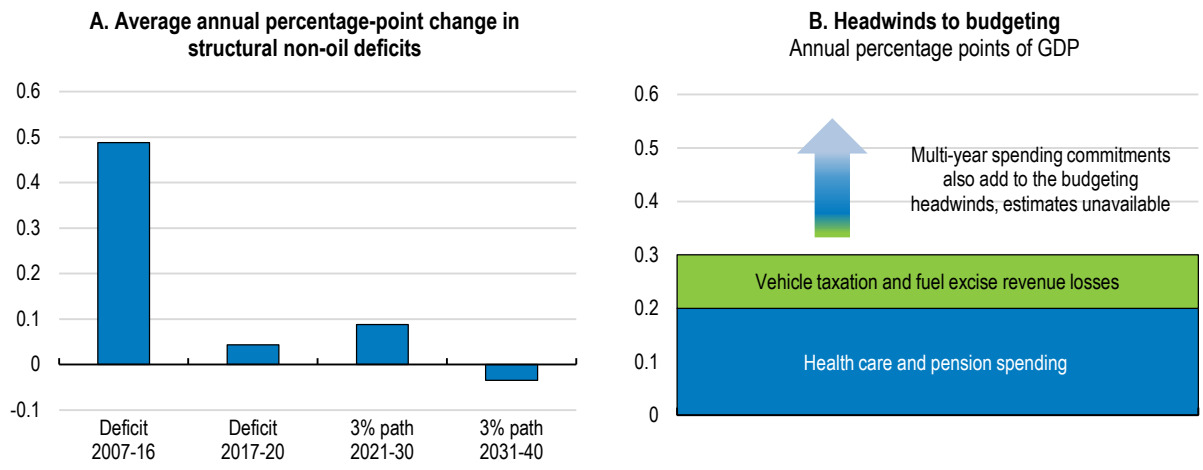
Government budgeting: coping with less favourable fiscal conditions

Though in an advantageous fiscal position compared with many economies, Norway has entered a challenging phase for government budgeting. Shifting to the 3% rule, coupled with an expected slowdown in wealth-fund growth, has significantly narrowed fiscal space for the foreseeable future (Box 1.5 and Figures 1.12 and 1.13). Deficit-widening processes and commitments that must be absorbed under this more constrained fiscal environment notably include:

- Continuing population-ageing effects. OECD estimates of Norway's future health care and pension spending suggest an increase of about 7.5 percentage points of GDP by 2060, which is equivalent to around 0.2 percentage points of GDP each year (Figure 1.14). The demographics of population aging also means comparatively slow growth in the working-age population, with implications for revenues.
- Ongoing revenue weakening from car taxes as the shift to more environmentally friendly vehicles continues. To date, data suggest the revenue losses are equivalent to about 0.1 percentage points of GDP each year and this is likely to continue for the coming years.
- Multi-year spending commitments. For instance, in the next few years, commitments to expand defense spending and investment in transport may add sizeable expenditures to the government budget (precise estimates of the scale of these expenditures are not available).

The shift to a tighter budget environment has already begun. For 2017 to 2020 (estimated outcomes for 2019 and 2020), the change in the structural non-oil deficit looks set to average well below 0.1 percentage points (Figure 1.13), substantially lower than the average of 0.5 percentage-points over 2007-2016 (Box 1.5). Technical items have largely explained variations in the budget over this three-year period. For instance, the increase in the deficit expected to occur between 2018 and 2019 is largely due to downward revision of the 2018 deficit outcome and from underestimation of the revenue costs from electric-vehicle tax concessions (Ministry of Finance, 2019). The 2020 Budget (Ministry of Finance, 2019) envisages a reduction in the structural non-oil deficit of 0.2 percentage points, therefore retaining the broadly neutral stance for the period 2017-2020 as a whole.

Figure 1.13. Deficit constraints and budgeting headwinds are sizeable



Note: Health care and pension spending headwind is based on an annual average of OECD estimated increase in spending as a share of GDP between 2020 and 2060.
Vehicle taxation and fuel excise revenue is declining in Norway. An increasing share of electric vehicles, which benefit from tax concessions and no fuel excise, plus increasing fuel efficiency among petrol and diesel fuelled vehicles are key drivers.
Source: Ministry of Finance, National Budget 2020.

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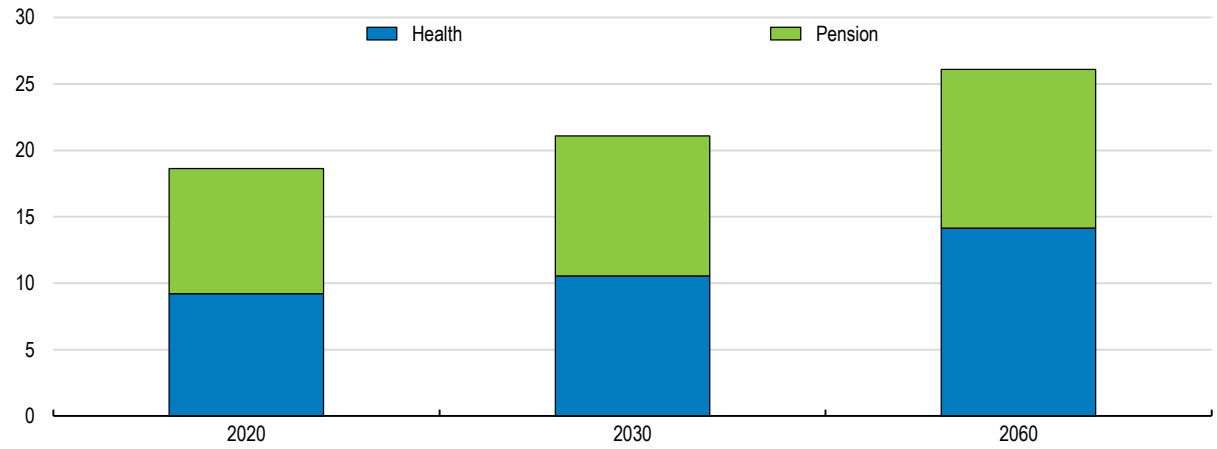
Figure 1.14. Steady rise in public pension and health-care costs lie ahead

Past and projected public spending, in % of GDP



Source: Simulations from OECD Economics Department long-term model.

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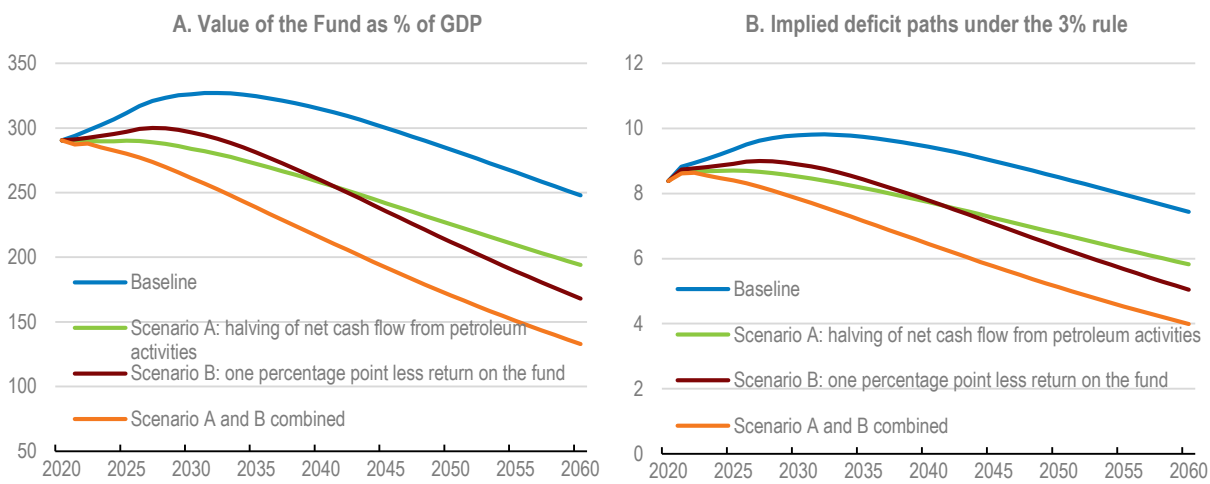
The presence of downside risks in the fund's growth rate further underscores the merits of a conservative application of the fiscal rule. Figure 1.15 illustrates paths the wealth fund and deficit could take if net cash inflow from petroleum activities were to halve (for instance due to a push to accelerate decarbonisation) or if the nominal return to the fund were one percentage point lower. In both cases, the near-term leeway for budget-deficit increase is curtailed and trend decline in deficits sets in earlier than in the baseline scenario.

Figure 1.15. Fiscal sustainability: illustrative scenarios



Note: The baseline scenario is from Ministry of Finance estimations. The same nominal GDP grow is assumed in all scenarios.
Source: Calculations based on Ministry of Finance data.

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Special "off-rule" funding arrangements should not be employed

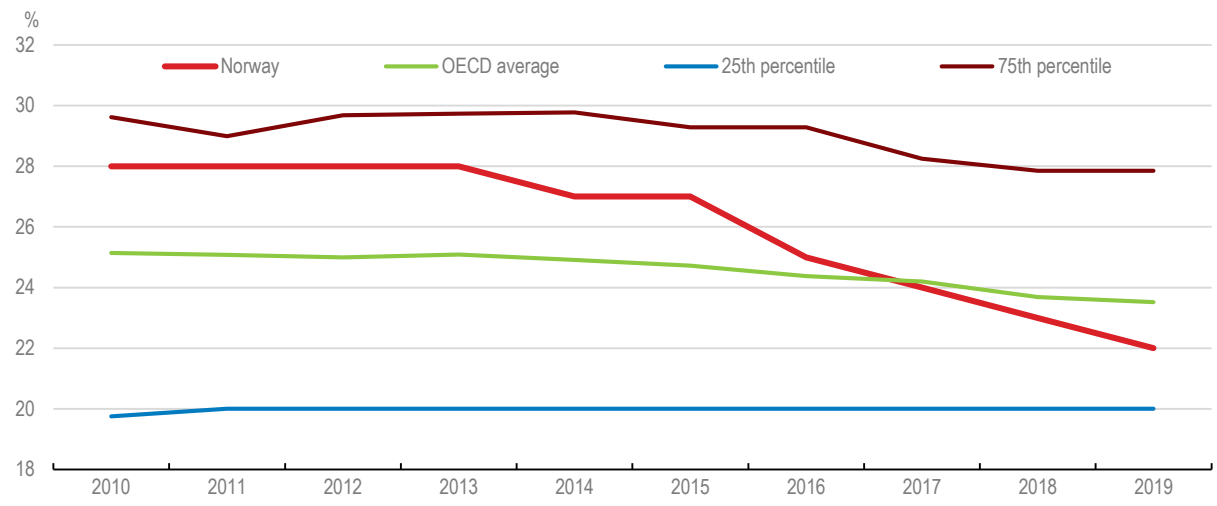
Keeping budgeting within the rules and intentions of the fiscal framework is especially critical in Norway given the size of the wealth fund. Upholding this requires policymakers to resist the temptation to create special channels for public spending that are outside the fiscal rules. Illustrating this issue, in 2019 the government considered funding the rebuilding of government headquarters in Oslo and a new warship through an off-budget expenditure channel funded by public borrowing. In this instance, the scheme was not pursued, which is welcome. Interestingly, the majority of the press were highly critical of the government's proposed funding approach, an encouraging sign that key influencers and the public at large understand the importance of maintaining the integrity of the fiscal system.

Tax reform remains a central pillar of economic policy

Recent tax reform in Norway has been geared, rightly, towards more growth friendly policies, while retaining a high priority on inclusiveness. As in other Nordic countries, taxation is high to fund the comprehensive public services that are integral to the socio-economic model. Redistribution through taxation also helps achieve low levels of inequality. However, there is scope in Norway for tax reform that reduces distortions and lowers burdens in ways that improve the environment for economic growth, without undermining the funding of public services, raising income inequality or compromising the high levels of inclusivity.

The rate of "ordinary tax", which applies to most forms of income -- including corporate income -- has been reduced from 27% to 22%. For employees this has mostly been offset through increases in the progressive tax that applies to wage earnings, so the cuts principally apply to businesses (Ministry of Finance, 2018b). The reductions mean the corporate tax rate is now below the OECD average (Figure 1.16). A reduction in the net wealth tax may, in principle, also have encouraged investment. Recent OECD work (OECD, 2018a) finds cross-country evidence that wealth-tax reduction brings gains across the income distribution. However, the gains are greater for better-off households, confirming that such wealth-tax reduction generally makes tax systems less progressive. Aside from the question of the overall burden of the tax, there remain wide differences in the valuation of assets. As these distort investment decisions, more uniform valuation should be considered.

Figure 1.16. Norway's statutory corporate tax rate now compares more favourably



Note: Combined statutory corporate tax rate, ie includes surtax and sub-national tax as well as central-government corporate tax rates.
Source: OECD Tax Database.

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Other tax reforms have included increasing the low VAT rate, which applies notably to transport, from 8% to 12%, helping consolidate the VAT tax base (the standard rate of VAT is 25%). An expert committee appointed by the Ministry of Finance has considered how the VAT system could be simplified with fewer rates. In the 2020 Budget, the government stated that it will present its considerations of the proposals from the committee in later budgets. Introduction of a financial activity tax has helped address the lack of VAT on financial services due to challenges in measuring value added in the sector. The tax, introduced in 2017 imposes an extra 5% payroll tax and the rate of corporate income taxation applied to financial-sector enterprises has been left unchanged at 25%.

As regards other areas of taxation, efforts to tackle base erosion and profit shifting (BEPS) continue. Limitations on interest deductibility have been extended (Table 1.3) and amendments to corporate-tax rules have been proposed to widen the definition of tax-residency. On other fronts, a report from a commission on taxation of fish farming was presented in November 2019. Substantial profits in the aquaculture sector in recent years and increasing awareness of negative environmental impacts from aquaculture have raised interest in such a tax, not only in Norway (KPMG, 2019).

Some useful policies that improve sustainability and efficiency of the revenue system have been reversed in the face of political pushback. For instance, the government reduced road tolls in response to popular protests. In addition, ceilings on the property tax rates that municipalities can impose have been lowered. This limits leeway for raising revenues through this channel and potentially reduces tax progressivity. It also adds to the overly favourable tax treatment of home-ownership, which, as underlined in previous *Surve*ys, is a prominent weak spot in economic policy. The core problem is that household taxation allows tax relief on mortgage-interest payments without, in parallel, the inclusion of imputed rent in taxable income. This unhelpfully adds to the demand for housing and a contributory factor to high house prices.

Making public spending more efficient

Given the already high tax burden, the narrowing fiscal space due to slower wealth-fund growth implies that value for money in public spending will be increasingly important to support stronger growth and inclusion. Despite mechanisms aiming to ensure sound public spending, more expensive options tend to be chosen and reform to existing systems is often slow. Past *Surveys* have for instance identified scope to improve spending in higher education (OECD, 2016) and agricultural support (OECD, 2016). Cost-benefit analysis is extensively undertaken in transport-infrastructure spending, but has not been given sufficient priority in investment selection decisions (OECD, 2018b). This *Survey* examines the longstanding issues in sick-leave compensation and disability benefits (see Chapter 2).

Policymakers recognise the need for better value for money in public spending, and action has been taken, albeit often skirting around tougher issues. Recent reforms in transport services, policing, higher education and local/regional government will – at least in principle - generate some efficiency gains. In addition, a series of spending reviews using a flexible project-based approach continues (Table 1.4).

Public procurement is also receiving welcome policy attention. Spending amounts to around NOK 500 billion each year (equivalent to around 20% of mainland GDP). As elsewhere, procurement is a complex area. There are an estimated 3 000 contracting agencies and departments in national and sub-national government. Furthermore, procurement is increasingly an instrument in structural policy objectives, for instance regarding social inclusion, green growth and support for small-and-medium enterprises (SMEs), so the policy objectives have become more complex. A simplified procurement regulation was introduced in 2017 and a recent government white paper identifies measures to ensure good implementation, in particular by increasing the capacities and competencies of contracting agencies and departments (Government of Norway, 2018).

Mechanisms embedded in the budget process can be effective in promoting better value for money in public spending. In Norway, these have notably included "efficiency dividends"; small reductions to baseline budget allocations (usually a 0.5% reduction on baseline in budget proposals) to ministries and agencies. The proceeds of the reductions are pooled to fund new policy reforms or high-priority tax or spending measures. The concept is that the allocation reductions prompt public-sector management to exploit headroom for efficiency gains, while also providing fiscal room for new spending measures. In a similar vein, past *Surveys* have suggested introduction of medium-term expenditure frameworks (MTEFs) and/or a cap on aggregate growth in public spending. The authorities have given these detailed consideration but, as yet, have not seen them as suitable. A commonly expressed concern is that in the Norwegian context multi-year spending paths for ministries and agencies or a path for aggregate public spending growth may in practice act as floors, rather than ceilings on expenditure.

Table 1.4. Past recommendations on fiscal policy, public spending and taxation

Recommendations	Action taken since the previous *Survey (January 2016)*
Public spending	
Restrain government spending and improve public-service efficiency to tackle the narrowing fiscal space. Intensify regular spending reviews. For transport-infrastructure investment, strengthen the influence of cost-benefit analysis in project selection and improve checks against cost inflation after projects are selected.	"Efficiency dividends" continue to feature in budgeting. Spending reviews continue, the latest cover public property construction and property management, support schemes to promote business and administration relating to identity. Mergers of municipalities are nearing completion that will reduce the number of municipalities from 428 to 356 and the number of regions from 19 to 11.
Taxation	
Complete the programme of income-tax cuts, and consider further reductions. Reduce the tax distortions in housing. Either phase out mortgage-interest relief or increase property taxes on housing as a proxy for implicit rental income. Consider further wealth tax reduction given its substantial impact on the returns to saving in the current low-return environment, while paying attention to inequalities.	Reductions in the "ordinary income" tax have continued. This tax, which covers most forms of income, has been reduced further in 2018 to 22%. No progress in reforming tax treatment of housing in personal income tax. Concessional VAT rate (items covered include transport) was raised once again in 2018, the rate is now 12%. This narrows the gap with other rate categories, which are 15% (foodstuffs) and 25% (standard rate). BEPS measures include an extension in 2019 of limitations on interest deductibility that reduce incentives to create intra-group debt to exploit deductibility rules to also cover profit shifting involving third-party debt. .

Box 1.6. Quantifying the fiscal impact of structural reforms

The following estimates roughly quantify the fiscal impact of ambitious medium-term reforms and are illustrative.

Table 1.5. Illustrative fiscal impact of recommended reforms

Policy	Scenario	Additional fiscal space, long-run, percentage points of GDP
Reforming sick leave and disabilty	Halving disabilty benefit recipients, from 10% of working age population to 5% and halving of sickness absence from around 22 to 11 days per employee per year: • assumes *i*) no first-round fiscal gain from sick-leave reform (cost neutrality) ; *ii*) only half of those leaving disability benefit go into work (the rest are assumed to move into retirement or similar; and, *iii)* the potential impact of the sick leave reduction is halved because employment among those vulnerable to sick leave is reduced. • most of fiscal saving arises from the increase in labour supply boosting tax savings (model-based calculation).	3.75 ppts
Public-spending efficiency improvements	10% productivity gain in the provision of public goods and services: • implies a direct impact of about 2.8 percentage points of GDP in extra fiscal space. • fiscal gains also arise via the implied boost to economy-wide productivity from the increase in public-sector efficiency but these are comparatively small.	3 ppts
Improved education	Half-year additional increase in average years of schooling by 2060 compared to the baseline scenario (equivalent to fully catching up with the best performing country in 2060).	0.5 ppts

Note: The calculations of impact are based on a long-run, production-function based model.
Source: OECD calculations.

Box 1.7. Potential impact of structural reforms on per capita GDP

The following estimates roughly quantify the fiscal impact of ambitious medium-term reforms scenarios and are illustrative.

Table 1.6. Illustrative GDP impact of recommended reforms

Policy	Scenario	Long-run Impact on per capita GDP, %
Reforming sick leave and disability Rebalancing taxation	Halving disability benefit recipients from 10% of working age population to 5% and halving of sickness absence from around 22 to 11 days per employee per year • assumes: *i*) only half of those leaving disability benefit go into work (the rest are assumed to move into retirement or similar and *ii)* the potential impact of the sick leave reduction is halved because employment among those vulnerable to sick leave is reduced. • the boost to GDP per capita arises from the boost the labour supply (around 2 percentage-point boost to employment-population ratio from sick leave reduction and 2.5 percentage-points for disability-benefit reduction, this is equivalent to around 6% increase the *level* of employment, hence the substantial impact on GDP).	7%
Public-spending efficiency improvements	10% productivity gain in the provision of public goods and services • implies the equivalent of 2.8% boost to economy-wide productivity • calculation assumes introduced over 5 years, much of the impact is within this period.	2.5%
Improved education	Half-year additional increase in average years of schooling by 2060 compared to the baseline scenario (equivalent to fully catching up with the best performing country in 2060)	5%

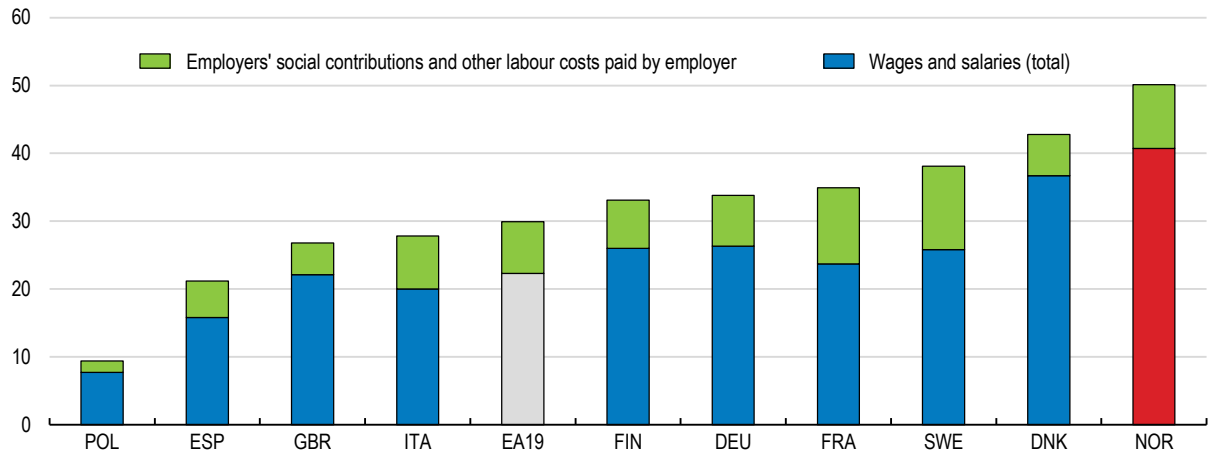
Notes: The calculations of impact are based on a long-run, production-function based model
Source: OECD calculations.

Towards higher productivity in the business sector

The Nordic socio-economic model requires a business sector that is economically viable and internationally competitive, in a comparatively high-wage, high-tax environment (Figure 1.11, Figure 1.17). For Norway, this challenge is complicated by the large role of the resource-sector in the economy (Figure 1.18). As well as helping the country benefit from the broad trends in globalisation and technological change, policy must also facilitate evolution away from oil-sector activity as the scope for economically and environmentally viable exploration, development and production of Norwegian-owned fields diminishes. Evolution away from oil sector will most likely be gradual, but as flagged above, it could accelerate if there are rapid developments in decarbonisation ("stranded assets" risk).

Figure 1.17. Norwegian business faces high labour costs

Hourly labour costs, 2018, EUR



Note: Industry, construction and services (except public administration, defence, compulsory social security). A measure that also takes account of productivity differences, such as unit labour costs, would in principle better focus on cost differences. However comparison of aggregate unit labour costs in level terms using national accounts data is problematic, typically only indexed time series are available.
Source: Eurostat.

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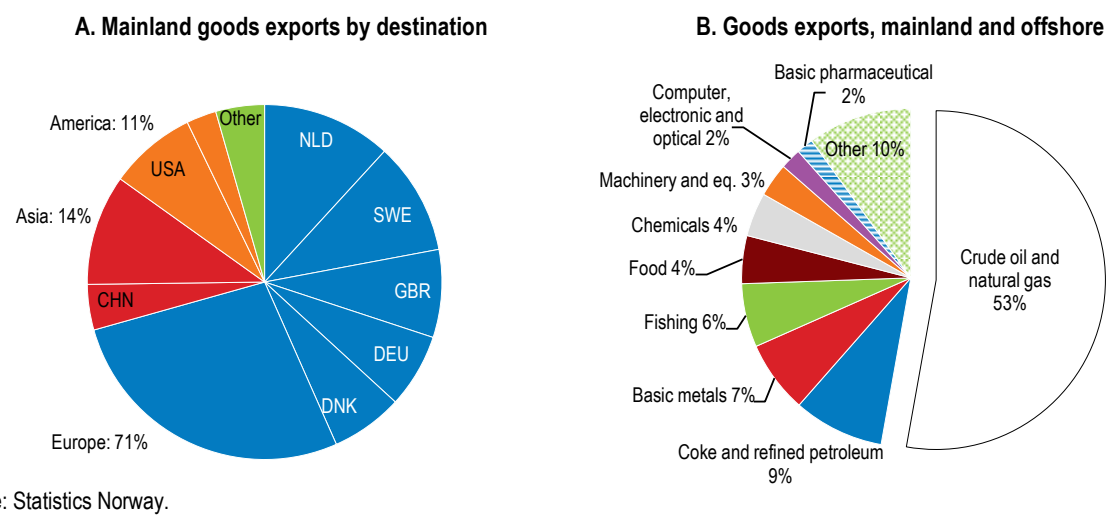
Figure 1.18. Around 70% of goods exports are bound for other European countries

2018



Source: Statistics Norway.

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Norway's regulatory landscape for business is good in most dimensions. Much regulation is derived from EU policy as Norway either adopts regulation voluntarily or is obliged to do so as a member of the European Economic Area. Norway's overall score in the OECD's Product Market Regulation (PMR) index is better than the OECD average and close to the average of the top five countries (Figure 1.19). According to the OECD's *Going Digital* project (OECD, 2018c), digital access is good in Norway for most households and businesses, implying that in this dimension the country is well placed to embrace the next generation of digitalisation. However, broadband access in remote areas is an issue.

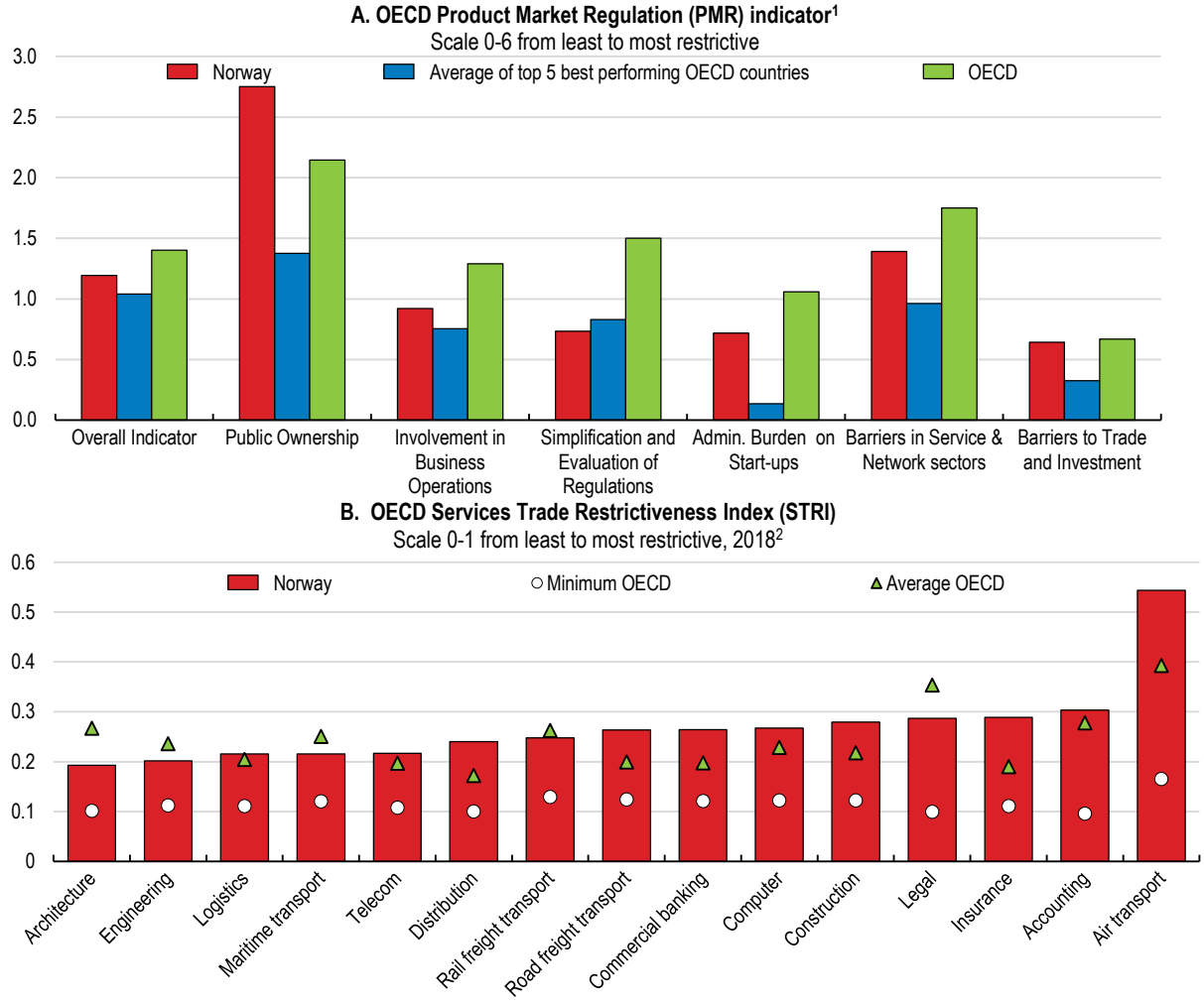
Norway continues to have greater state ownership than is the OECD norm. Indeed, the PMR indicator on public ownership is the only sub component above the OECD average. There are instances of significant ownership outside the network sectors, notably a 67% state stake in the oil and gas conglomerate, Equinor ASA (Ministry of Trade, Industry and Fisheries, 2017). As underscored in the 2018 *Survey*, frameworks for administering state-ownership are in many respects exemplary, aligning with good practice in governance. Nevertheless, the case for continued state ownership should be considered, especially in companies operating in markets that are competitive and are well-functioning in other respects and where evidence of inefficiencies arises.

The creation of new firms, the expansion and contraction of existing ones ("firm dynamics") is an important process for driving competition and aggregate productivity. In general, Norway's policies influencing firm dynamics are in reasonable shape. As in many countries, red-tape burdens for establishing a business are now low—Norway has a score of 0.75 on the 0 to 6 scale of administrative burdens for start-ups in the PMR indicator (Figure 1.19). Nevertheless, Norway's score remains a margin above the lowest scoring countries, suggesting scope for even lower administrative burdens. Business insolvency arrangements need better routes to recovery for business in difficulty. As detailed in the 2018 *Survey*, OECD data capturing the efficiency of insolvency processes indicates room for improvement. Time to discharge (i.e. the number of years a bankrupt person must wait until they are discharged from pre-bankruptcy indebtedness) is relatively long. Also, there are shortfalls in tools for prevention and restructuring. So far, measures have focused on increasing the efficiency of processes.

The OECD's Services Trade Restrictiveness Index, points to marginally worse scores for Norway across a number of services sectors (also echoed in the less than favourable score in Barriers in Service and Network sectors in the PMR index). As discussed in the 2018 *Survey*, state stakes (discussed above) partly account for this, along with some technical items. For instance at least half of company boards must be residents of Norway or the European Economic Area (EEA).

The agriculture sector remains tightly protected and restricted. According to OECD (2019b), Norwegian agricultural producers receive the highest rate of support among OECD countries (61% of farm receipts in 2016-18). As detailed in the 2016 *Survey,* substantial protection remains through numerous import tariffs on raw ingredients and processed food and cash subsidies for farmers. There are around 100 cash support mechanisms, many providing payments directly linked to output or inputs. A welcome phase-out of export subsidies is underway (Table 1.7), but financial support remains substantial. Also, legislation gives farmer-controlled processing and distribution co-operatives (for instance a single co-operative dominates dairy-product distribution) special powers in market regulation. The agricultural sector is exempt from standard competition legislation.

Figure 1.19. Generally good settings in product-market regulation but with some room for improvement



1. These values are based on the methodology 2018 and cannot be compared with previous vintages. The United States and Estonia have not completed the data collection; hence, these two OECD member countries are not included in the PMR database.
2. The index includes regulatory transparency, barriers to competition, other discriminatory measures, restrictions on movement of people and restrictions on foreign entry. The STRI methodology takes into account different market and trade cost structures across sectors to ensure that they reflect the relative restrictiveness of each sector. Nevertheless, the indices may not be perfectly comparable across sectors. The indicators are for 2016 or the most recent year available.
Source: OECD 2018 PMR database; and OECD Services Trade Restrictiveness Index (STRI).

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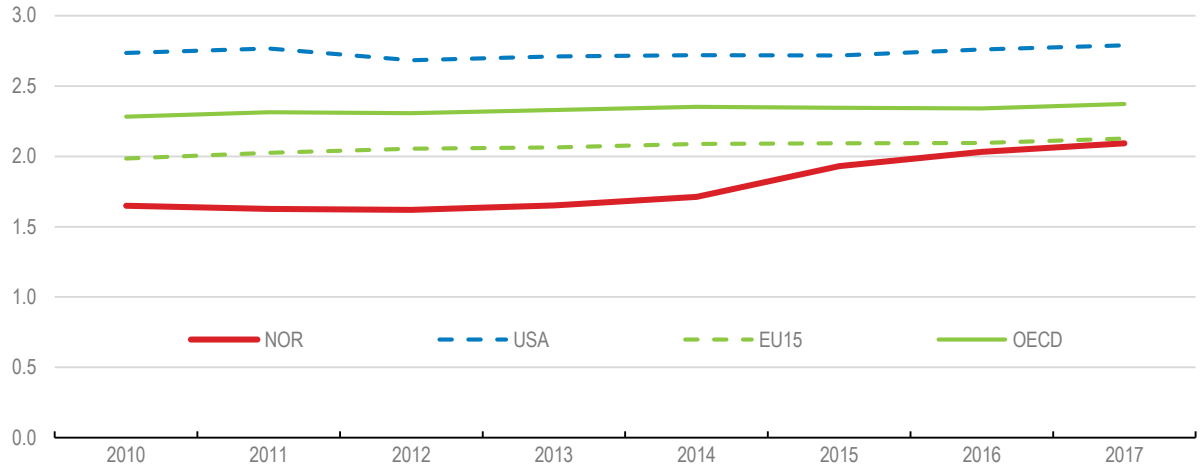
Much of Norway's technology-driven productivity increase is "imported" from global advances, yet domestic innovation is important, as it strengthens absorptive capacity for global knowledge (see 2018 *Survey*). Norway has long been below par in R&D spending compared with other countries with much of it concentrated in the petroleum sector. However, R&D activity is picking up pace. Since 2014, R&D expenditure as a share of GDP has risen substantially: it now equals the EU-15 average (Figure 1.20). However,this is still some way below other Nordic countries and the United States and some of the upswing may be due to weak GDP growth in the wake of the 2014 oil-price fall.

Figure 1.20. Expenditure on R&D has risen

Gross expenditure in R&D, in percentage of GDP



Source: OECD Main Science and Technology Indicators (database).

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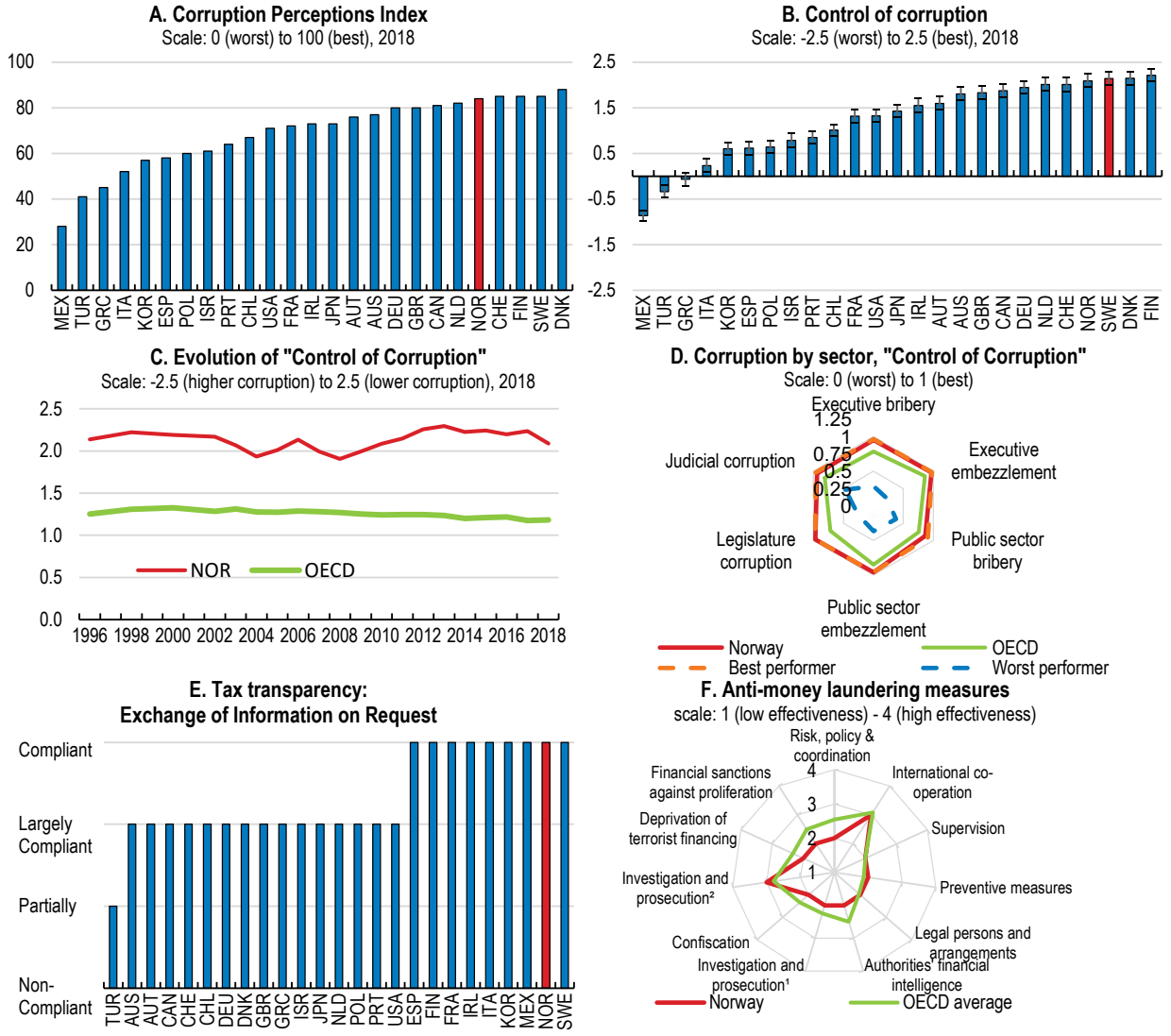
A tax break on R&D activity (Skattefunn) is a key element of Norway's innovation policy, along with more targeted innovation programmes and support for teaching and research in the higher education system (see 2018 *Survey*). Ensuring impact on R&D activity from tax breaks can be challenging as they are less targeted than subsidies. A recent review of Skattefunn commissioned by the Ministry of Finance (Samfunnsøkonomisk Analyse, 2018) is generally positive about Skattefunn's effectiveness. For instance, it estimates that R&D expenditures increases by more than NOK 2 for every 1 NOK of R&D tax credit. However, the review does suggest various adjustments to the scheme, including a welcome proposal to remove the remaining differences in the tax credit between large and small firms (an issue discussed in the 2018 *Survey*). Following the review, the government has proposed adjustments to the scheme as part of the 2020 Budget, including setting the tax credit to 19 per cent irrespective of firm size.

A very good record on corruption but not without challenges

Norway scores favourably on indicators of domestic corruption. It ranked 6th best in the 2018 edition of Transparency International's Corruption Perceptions Index, and scores well in the World Economic Forum's Executive Opinion Survey (Figure 1.21). However, Norway is not without corruption risk. According to an annual survey (the Norwegian Crime and Security Survey, KRISINO), around 10% of respondents state they are aware of corruption within their industry over the course of the previous 12 months. Interestingly, the recent threat risk assessment by the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM, 2018) flags the corruption risk in local administrations, particularly as regards procurement and planning permissions.

Figure 1.21. Corruption is well controlled and viewed as very low compared with other countries



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project. Panel E summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co operate with other tax administrations in accordance with the internationally agreed standard. Panel F shows ratings from the FATF peer reviews (the latest update for Norway was in 2019) of each member to assess levels of implementationof the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes.

Source: *Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame; Panels E & F*: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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Norway has an export-oriented economy, with companies operating in corruption-exposed jurisdictions and sectors, such as oil and gas, shipping, and telecommunications. Media focus on corruption, as well as recent foreign-bribery enforcement actions by ØKOKRIM have reportedly deterred corruption and encouraged companies to develop anti-corruption compliance programs. The Working Group on Bribery's latest evaluation of Norway's progress in implementing the OECD Anti-Bribery Convention (OECD, 2018d)

underscores several areas of good practice: proactive pursuit of foreign bribery investigations, ØKOKRIM's integrated approach to law enforcement, a robust framework for whistle-blower protection and corruption-risk management in official development assistance. However, the report finds scope for greater clarity regarding corporate liability for offences committed within the operations of related entities (e.g. subsidiaries or joint ventures) and calls for more transparency when foreign bribery matters are resolved out of court. Shortfalls in clarity hinder the business community's understanding of the law and may dissuade prosecution. The report also concludes the new Penal Code's jurisdictional provisions could unduly limit Norway's ability to prosecute foreign bribery committed abroad. As regards anti-money laundering measures, Financial Action Task Force (FATF) follow-up reports have pointed to improvement, however indicators continue to suggest Norway is below par on some fronts (Figure 1.21, Panel F).

Table 1.7. Past recommendations on improving business conditions

Recommendations	Action taken since the previous *Survey (January 2018)*
Improve framework conditions for business activity	
Address innovation and technology issues, including through: promotion of entrepreneurial skills and STEM skills encouraging Technology Transfer Offices in universities stronger evaluations of business-support programmes (notably innovation and R&D schemes).	
Strengthen routes to recovery in the insolvency regime for businesses in difficulty including though lighter penalties for failed entrepreneurs, better prevention and streaming mechanisms and more restructuring tools.	Efficiency improvements are underway through further digitalisation of process, instruments to rapidly freeze assets and collect information from banks, automated process using public registries.
Improve transport services by more focus on selecting the most profitable projects.	No major reform since reforms in 2016-17 that included establishment of a new road and rail infrastructure companies.
Ensure strong market competition	
Adjust competition legislation and enforcement, including through increasing the competition authority's regulatory power. Strengthen competition in network industries (especially postal and rail services). Reduce barriers to entry in the retail sector. Replace the taxi-licensing system with less restrictive regulation to address availability and consumer protection.	No major reform of competition legislation. No major recent initiative in network industries. Major reform in the rail sector continues. Taxi licencing is due to change in July 2020 following legislative changes. Notable changes include: • No upper limit on the number amount of licenses that can be issued. Everyone satisfying certain criteria can apply for licences. However, exceptionally county authories may issue exclusive rights to drive taxis in municipalities with less than 20 000 inhabitants and a population density of less than 80 inhabitants per square kilometre (these criteria apply to of 384 out of 422 municipalities). • Taxis are no longer obliged to be connected to a taxi central. • Lighter critieria for getting a taxi licence but more criteria for driving a taxi (e.g. a test in first aid).
Regarding state stakes in business: reduce the scope and size of stakes improve state–owned activities governance.	
Reduce state aid and subsidies	
Reduce support for agriculture, including through: reduced import tariffs and direct subsidies to farmers removal of legislative biases that favour agriculture encouraging diversification of economic activity in rural areas by improving general framework conditions.	Phase out export subsidies for agricultural products is due by 2020 under WTO-regulations.

Employment levels need strengthening

Norway's labour market achieves high levels of employment and wage income and good job quality. High employment among women and comparatively narrow gender wage gaps are key factors in low income inequality across households that has high priority in the Nordic socio-economic model. The system of collective bargaining based on coordinated annual wage increases works well, providing top-level guidance on wage increases that is anchored in macroeconomic realities. Evidence suggests the resulting

wage compression does not undermine the ability of high-performing firms to attract workers (Hijzen et al., forthcoming). However, policy approaches in some other areas prompt many in older cohorts to either take up pensions early, or effectively retire early through sickness and disability benefit. In addition, Norway's record on employment among young and middle-aged cohorts has been slipping. Labour-force participation has trended down and is no longer among the top-ranking countries. This flagging employment performance is taking the edge off Norway's good record on inclusiveness and raises concern for future economic growth as the population ages.

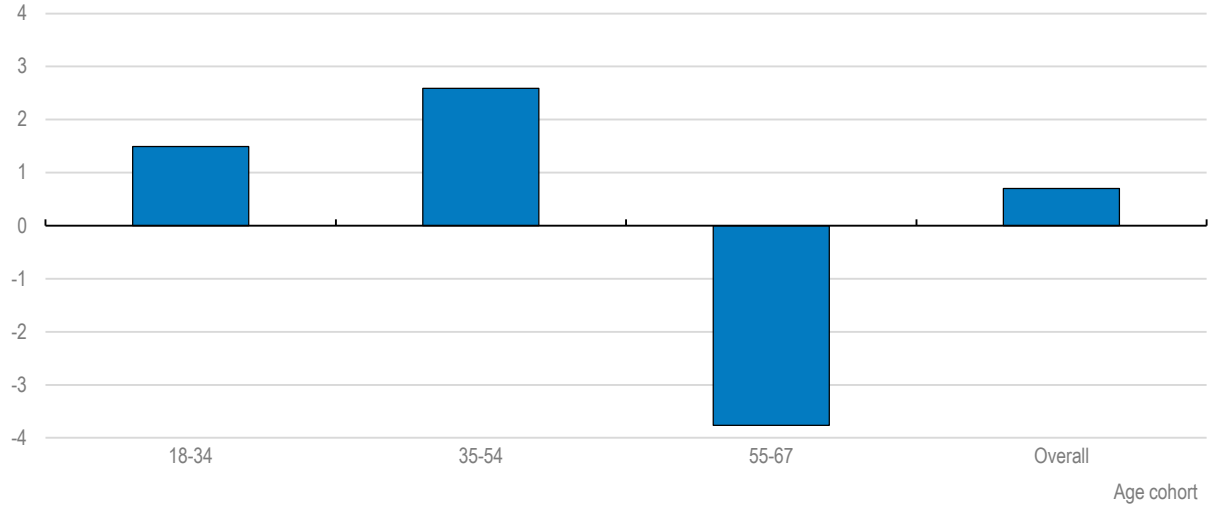
Need to reverse this deteriorating employment performance has been recognized by policymakers. In 2018, the government appointed a commission to conduct an investigation of employment levels and related policies (the Employment Commission). An initial report was released in March 2019 with recommendations that aim for a more work-oriented social security system, improved health-related benefits and stronger demand for workers from vulnerable groups. A follow-up report will be released in June 2020. This review process provides a welcome opportunity for substantive reform.

Sick-leave compensation and disability: major reform is required

Norway's system of sick-leave compensation and disability benefits has long been a significant route to early retirement among older cohorts, compromising labour supply and economic inclusivness. While there has been welcome progress in reducing the number of claimants (Figure 1.22), nearly one quarter of 55 to 67 year-olds are on the permanent disability benefit. Furthermore, increasing numbers of young and middle-age people are receiving permanent disability benefits (Figure 1.22), (Chapter 2). Among these cohorts, a significant proportion of claims for disability benefit are based on mental health issues. On the other hand, partly due to reforms, the number of people receiving the temporary benefit for those with disabilities, the Work Assessment Allowance (AAP), has declined substantially. The government has proposed changes in the AAP for young people to encourage labour force participation (Ministry of Finance, 2019) .The problems in the sick leave and disability system are also relevant for Norway's challenges in public expenditure because much of the compensation is publicly funded. In addition, the substantial numbers retiring via health related benefits undermines the efforts of pension reforms to encourage people to work longer as life expectancy increases.

Figure 1.22. Disability benefit rates are falling in pre-retirement cohorts, but rising for younger people

Change between 2010 and 2019 in the share of recipients of Disability Benefit in the population, percentage point



Source: Norwegian Labour and Welfare Administration (NAV).

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A major reform effort is required. Changes to the system have endeavoured make it better facilitate and encourage return to work. There has been a degree of success, but there is need for much more. Little progress has been made on reducing sick leave via a series of agreements struck between the government, employers and unions (the Inclusive Working Life (IA) Agreements). In particular, the sick-leave system has seen no substantial change to the financial incentives for workers and employers. Employees continue to receive full salary throughout the duration leave (which can extend up to one year). Employers are only involved in compensating the first two weeks of sick leave, which limits incentives take preventative measures or facilitate return to work (though some make top-up payments, which implies some longer term incentive). Other countries, such as the Netherlands, Sweden and Switzerland, have demonstrated that reforms incorporating a toughening of incentives are achievable and have shown some successes in reducing sick leave absence and disability-benefit recipiency impact (Chapter 2 and Hemmings and Prinz, 2019).

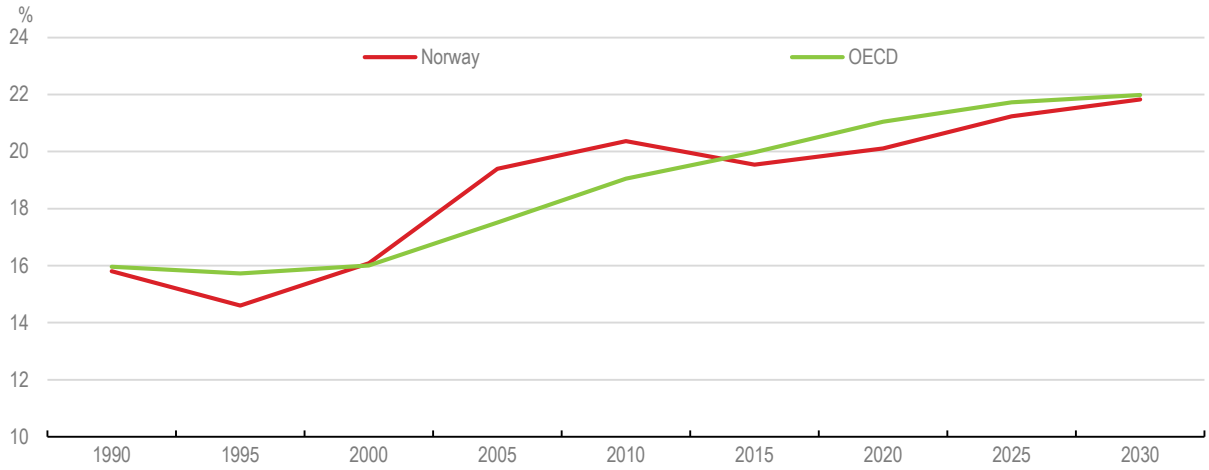
The on-going Employment Commission provides an opportunity for major reform. The initial report puts welcome emphasis on reducing the generosity of benefits and extending employer contributions in sick-leave compensation, which have also been key recommendations in past OECD assessment (for instance, OECD, 2018b). Such reform is necessary but unlikely to be sufficient. In particular, a focus on those sectors with comparatively high sick leave is needed, particularly in the public sector where government can have more influence on management incentives to address sick leave. In disability benefit there is a case for strengthening treatment and rehabilitation requirements. Eligibility rules in general could be applied more strictly. For both sick leave and disability benefit, medical assessment remains predominately carried out by the claimant's own practitioner. The absence of other medical opinion implies only weak checks against instances where claimants favour remaining on benefit as long as possible. Also, additional steps to address mental illness will be required. Past in-depth OECD assessment has recommended that more preventative mental health services are provided by the Employment Support Services of the NAV, and that these are well integrated with other supports needed to overcome employment barriers (OECD, 2013).

Old-age pensions and the age of retirement: sound public-sector pension reform but issues remain

Population ageing has brought increasing numbers heading for retirement. For instance, those aged 55 to 64, a critical time for retirement decisions, currently represent around one fifth of the working age population (Figure 1.23). Ensuring decisions on what age to retire are well informed and that financial incentives embedded in pensions systems are not biasing decisions is all the more important.

Figure 1.23. Numbers heading for retirement continue to increase

Share of 55-64 year-olds in the population aged 20-64



Source: Calculations based on United Nations/DESA (2019), World Population Prospects 2019.

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Biases favouring early retirement and inflexibilities in retirement-age rules have been a core concern of Norway's old-age pension system; they have a bearing on employment levels, and the economic impacts of population ageing. Public-sector pension reform was agreed on in 2018 (similar to one finalized in 2011 for the private sector), representing the final major step towards a more actuarially neutral pension system. Under this new system, individuals with an occupational pension can retire from age 62 up to 75 years with pension payouts adjusted on an actuarial basis, including adjustment over time as life expectancy increases (the age-range for retirement will remain fixed). A guaranteed basic pension from age 67 years remains in place. The new system thus brings a flexible approach to retirement, without strong financial biases on the choice of retirement age.

Although the reform marks substantial improvement, challenges remain:

- Implicit regressivity, risk of poverty in old age among low-earners who retire early, and risk of substantial differences in pension incomes arise from the wide range of possible retirement-age and because high-earners are concentrated in occupations where working longer is feasible and have higher life expectancy. Increasing the age-dimensions of the pension system, such as the retirement-age range, to reflect increases in life expectance would help; limiting the risk of poverty in old age and more generally ensuring the system remains in step with increasing health and longevity. In 2018, unions and employers agreed on a scheme that tops-up the incomes of low-earners taking early retirement to address this issue. Though a small scheme, it brings back bias towards early retirement.
- Co-ordination with other benefits. In particular, pension payout arrangements for those on disability benefits contribute to making early retirement via health-related benefits financially more attractive than via the pension system. This financial incentive could be eroded by putting on hold a scheme that compensates disability-benefit retirees for about half of the effect of life-expectancy adjustment (the case for compensation arises because, unlike other retirees, those transitioning from disability benefit to pension, have no option to compensate for life-expectancy adjustment by retiring later).
- Little progress on reforming the job-specific mandatory retirement-age arrangements that apply to groups such as police, national defence and nurses. These arrangements originate, at least in part,

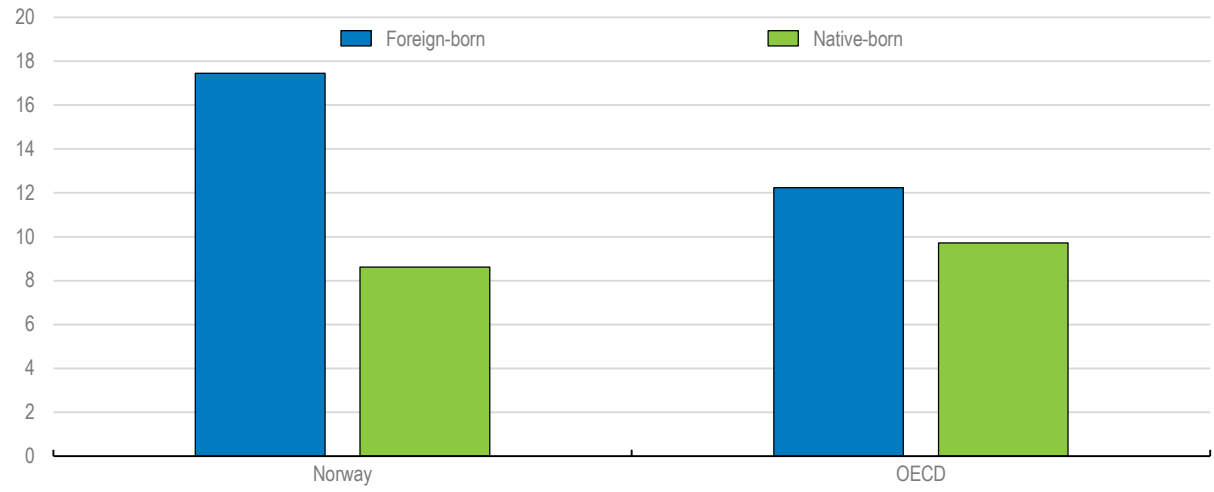
because of heavy physical demands. Norway has yet to reform these arrangements in light of these professions now having fewer roles where physical capacity is an issue. Across-the-board statutory retirement ages still apply, for instance.

Raising the labour-market integration of immigrants

Norway has long been a net immigration country and this process has intensified over the last two decades, notably after enlargement of the common European labour market in 2007. In addition, refugee intakes rose sharply in 2015 with the humanitarian refugee crisis that saw large number of migrants arriving in Europe, many with low skills as regards European labour markets. This poses challenges for labour-market integration, especially as Norway's market for low-skill jobs is limited due to comparatively high wages. An absence of Norwegian language skills among many new arrivals compounds the barriers to accessing the labour market. The consequences of these disadvantages are seen in the data. Employment rates among immigrants – especially those from outside Europe - are significantly lower than those of natives, and unemployment rates higher (Figure 1.24). Moreover, those with jobs tend to be in lower quality firms and are more prone to lay-offs. The chances of finding a new employment following job loss are lower. Over time, many end up out of the workforce and reliant on social benefits (Bratsberg et al., 2018).

Figure 1.24. The unemployment rate of low-education immigrants is high

Unemployment rates of 15-64-year-olds having less than primary and lower secondary education level, % of labour force, 2017



Source: OECD (2018), Indicators of Immigrant Integration 2018: Settling In.

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Considerable policy effort has gone into immigrant integration in Norway, at both the state and local-government level. In particular, language and culture courses, run by municipal governments and funded by central government, are mandatory for some groups of immigrants. However, immigrant integration is a policy area where comprehensive success in outcomes is difficult to achieve, even if considerable resources are devoted to it (Nordic Council of Ministers, 2019). In 2018, the government launched a new integration strategy for 2019-2022, "Integration through education and competence". It aims to accelerate labour-market integration through occupational training for trades with strong labour demand and through more attention to Norwegian language skills. A new immigrant integration law aiming to strengthen labour-force attachment is currently progressing through parliament.

Current policy focuses on skills and employment in the first two years following arrival in Norway, which is welcome and necessary, but attention to the longer-term is also required. The framework for integration needs to align financial incentives (for immigrants, employers and with respect to social benefits), education and training, and societal integration for the whole immigrant family so that employment is sustained for the longer term. Chapter 2 recommends expanding subsidised apprenticeship-type programs for immigrants to ensure work experience leads to qualification.

Improving education and skills

Improving education and training is part of the solution to slow productivity growth and to tapping into the opportunities from digitalization. Strengthening skills among those vulnerable to intermittent, low-wage employment, or complete disengagement from employment is important for reversing Norway's weakening employment levels. Furthermore, as education absorbs a substantial share of public spending, ensuring a better correspondence between inputs and outcomes is important for government efficiency.

Norway's education system provides substantial support and encouragement for learning. Participation and educational attainment are high. Norway has close-to universal enrolment of 3-year olds in early childhood education and care (ECEC), and students are strongly encouraged to pursue post-secondary education, whether degree-level or otherwise. For most tertiary-education courses, Norway remains among the few countries where students are not generally charged tuition fees and receive financial support for living expenses. Moreover, participation in adult learning courses is high, including among those with low education and skills. Skills to harness digitalization are in reasonable shape. The OECD's PIACC data show strong proficiency in technology rich environments, uptake of government digital services is high and firm-based training is common (OECD, 2018b).

Despite education spending that is among the highest in the OECD, the emphasis on employment and need for high-value-adding jobs to support high wages, there are sizeable weaknesses in Norway's educational outcomes. As underscored in Chapter 2, Norway remains around the OECD average in the PISA tests of student skills, while PIACC tests of adult skills are above the OECD average but lag behind top performers. Although most students begin post-secondary education, a large proportion do not complete their courses, typically those in Vocational education and training (VET). Meanwhile, many students in higher education do not graduate until their mid-to-late 20s; only around 65% of degree-level courses are completed within 5 years (2016 *Survey*). Thus, new graduates typically start on career paths at an older age compared with other countries, which could imply somewhat reduced lifetime earnings and less high-skill capacity in the workforce overall.

Reform efforts currently underway in primary and secondary education aim to improve in-depth learning, the quality of teaching and to bring more systematic curriculum renewal to ensure the relevance of skills learned. These policy measures should help equip students with the flexible skills that are important for today's labour markets. Norway was among the first countries to see a decline in boys' academic performance in primary and secondary education relative to girls. This will likely have negative consequences for boys' later success in the labour market. Research has yet to identify with certainty the reasons for this development, but it is very likely the solution partly lies in changing teaching methods and better early intervention for underperforming students.

VET is key for providing job-relevant skills to those vulnerable to low-wage, intermittent employment. Shortages in apprenticeship places are one reason for the high dropout from courses. In Norway, apprentice pay is set through wage bargaining, and includes a substantial, and largely unconditional, pay increase from the first to the second year of apprenticeship (Chapter 2). Subsidies to employers that offer apprenticeships are quite generous, but government could link part of the subsidy to successful completion of courses by apprentices.

In tertiary education, motivation for timely and successful completion of studies should be strengthened. There is little appetite to introduce tuition fees in Norway. However, living-expenses support could be altered further to incentivise course completion. Policy could also increase providers' incentives by, for example, putting greater weight on graduation rates into the formulas that determine public funding of higher education. As more and more students with varying performance in prior learning enter higher education, the higher education institutions should strengthen student support services, including the monitoring of student progress and early intervention for struggling students.

Table 1.8. Past recommendations on human capital, jobs and welfare

Recommendations	Action taken since the previous *Survey (January 2018)*
Improve education	
In primary and secondary education reform, consider: • reduction in the number of schools • making more data on school performance publically available • reform of the teaching profession including: stricter selection and graduation criteria, more training, better structured career paths and wider use of performance-related pay.	Roll out of a programme to improve the status and quality of teachers continues. This includes increased support for teachers' continued education and the introduction of 5-year master's-level degree for new entrants to the profession. Curriculum overhaul is underway in primary and secondary schooling. The reform, inter alia, aims to clarify values, expectations and school responsibilities, and facilitate in-depth learning. School-management reform is underway. A white paper, sanctioned by parliament, includes recommendations for a system of in-service teacher training, stronger support for underperforming schools and enhanced early intervention for pupils.
In vocational education raise the number of apprenticeship places.	No major reform, however there are continuous efforts among social partners to increase the number of apprenticeship places.
In higher education: • continue to promote mergers among providers • include the graduation rates in the formula for performance-based provider funding • incentivise students to complete courses on time • steer student choices, for instance, via loan discounts for subjects with high demand.	Most of the intended mergers in higher education have been completed. A performance-agreement process continues: agreements were made in five institutions in 2017, a further five in 2018 and agreements in remaining institutions are due to be struck in 2019. Policy efforts to improve the quality of higher education teaching have intensified with publication of a white paper in early 2017. A skills campaign is underway, including launch of the Strategy for Skills Policy 2017-21 in early 2017, which has widespread support from ministries and stakeholders.
Encourage labour-market participation	
Reduce sick leave and tighten disability schemes including through an extension of employer-funded sick leave, less generous sick-leave pay out and reform of medical assessment.	Sickness leave: a new Inclusiveness Agreement covering 2019-2022 was struck in December 2018. Work Assessment Allowance (AAP): Changes implemented from January 2018 aimed to increase the transition back to work. Measures included shortening of the maximum period of receiving the benefit from four to three years and closer follow-up of recipients, shortening of the maximum duration on extension beyond the standard duration (two years) and stricter rules on extension beyond the standard duration. Changes to the Allowance for young people have been proposed in the 2020 Budget with a view to encouraging labour participation. Disability Benefit: no further reform since the major changes of 2015. The Employment Commission currently underway focuses sick leave compensation and disability benefit.
Remove biases favouring early retirement the old-age pension system.	Agreement for major public-sector pension reform was reached in 2018, the reform echoes past reform to private-sector pensions.

Norway should build on its relatively good policies for environmental sustainability

Norway's economy is less CO_2 intensive than the OECD average, thanks to lower energy intensity and substantial renewable energy supply from hydroelectric power (Figure 1.25, panels A to C). Also, it has made some progress in demand-based CO_2 intensity and energy efficiency. However, it has made little progress in production-based emission intensity. An agreement in co-operation with the EU is being developed on how to meet Paris Agreement commitment for 2030. In addition, Norway has a climate-neutral goal for 2030 and a low-emission goal for 2050 (Box 1.8).

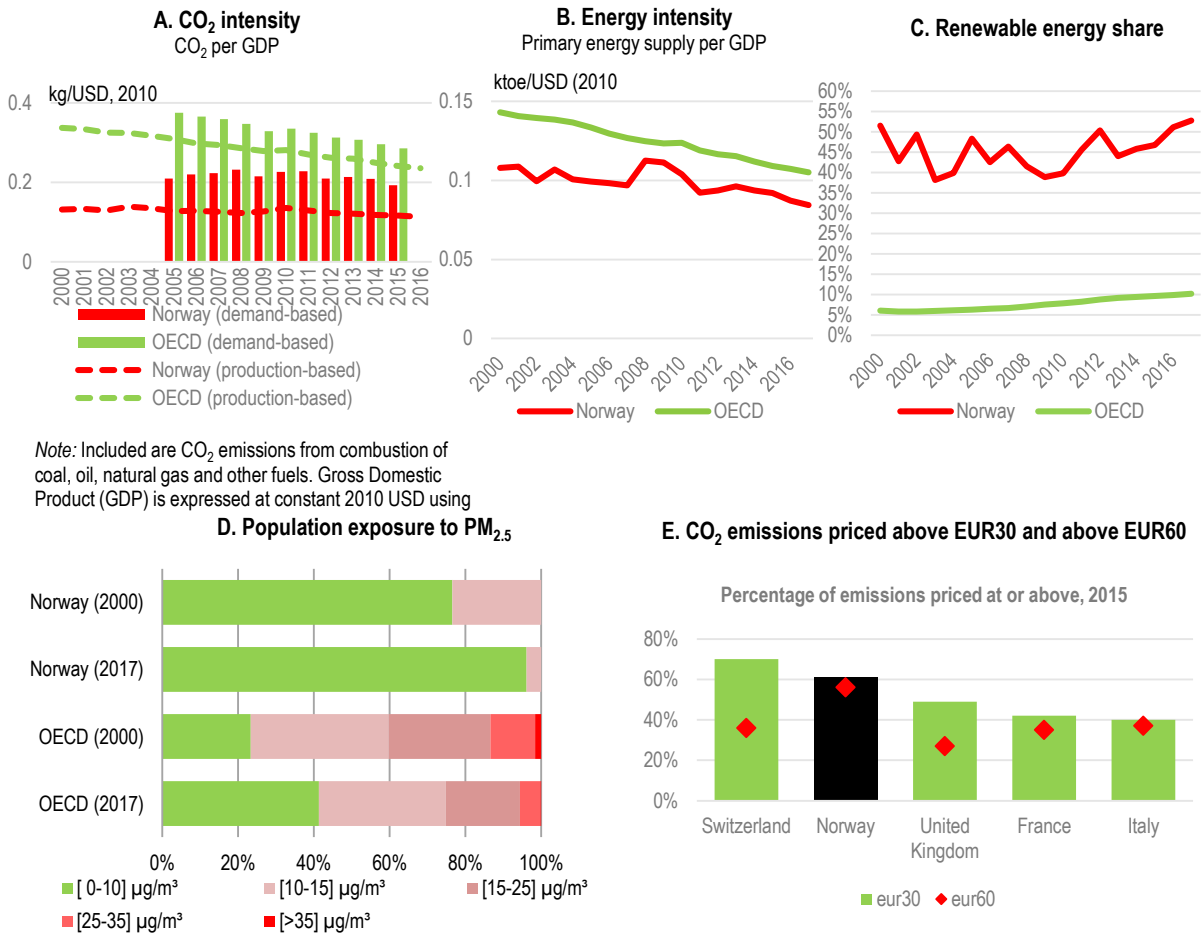
With comparatively high marginal costs of domestic greenhouse gas (GHG) reduction, it makes economic sense for Norway to contribute to emission reduction through the purchase of foreign emission credits. However, commitment to domestic GHG reduction is also required.

Box 1.8. Norway's greenhouse gas emission reduction targets

Norway's key commitments on climate change policy comprise:

- A conditional target of at least 40% GHG reduction from the 1990 level by 2030 under its nationally determined contribution (NDC) to the Paris Agreement; this is the same target as the European Union (EU). Norway will cooperate with the EU on fulfilling the commitment and already participates in the Emission Trading Scheme (EU-ETS). With an agreement, Norway will for the period 2021 to 2030, participate in the EU's Effort Sharing Regulation and the regulation on land use and forestry (LULUCF).
- "Climate neutrality" from 2030 was adopted in 2016 by the Norwegian parliament. Specifically, this implies that from 2030, Norwegian GHG emissions must be offset by climate action in other countries through Norway's engagement with the EU-ETS and through international cooperation on emission reduction, emission trading and project-based cooperation.
- "Low-emission society" by 2050, with provisions embodied in the Climate Change Act. The Act describes a low-emission society as one where, on the basis of scientific knowledge, global emission trends and national circumstances, GHG emission are reduced by 80% to 95% from 1990 levels. The effect of Norway's participation in the EU-ETS will be taken into account in assessing progress towards this target (Ministry for Climate and Environment, 2017).

Figure 1.25. Green growth indicators for Norway



Note: Included are CO_2 emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2010 USD using

Source: OECD Green Growth Indicators database; OECD Environment Statistics database; OECD National Accounts database; IEA World Energy Statistics and Balances database; OECD Exposure to air pollution database; and OECD Effective Carbon Rates database.

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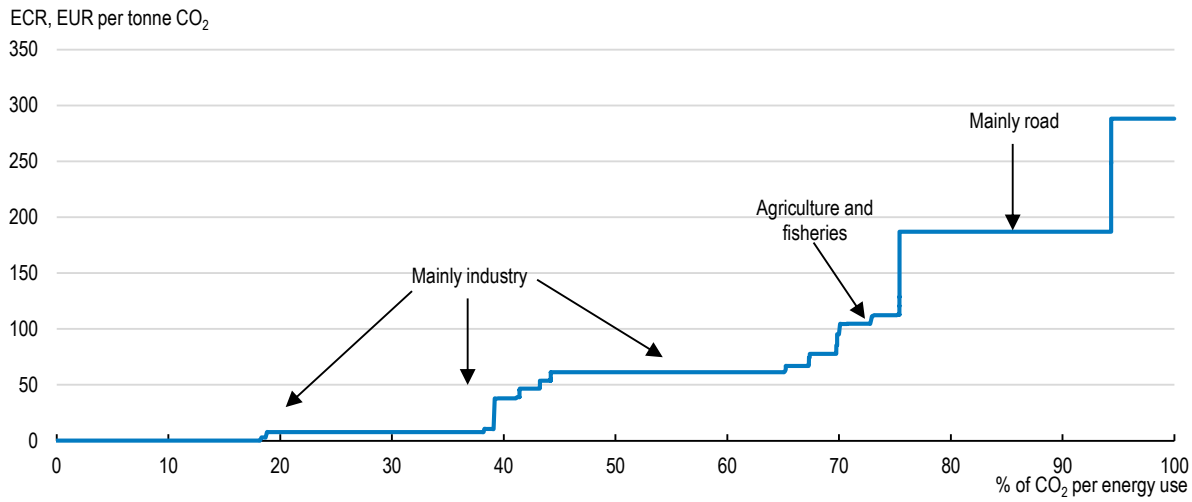
Norway has a stronger track record in pricing greenhouse-gas emissions than most OECD countries (Panel E), but there is room for improvement. Most emissions are priced above EUR 60 (EUR 60 is a mid-range estimate of the climate cost of CO_2 emissions in 2020). However, as previous *Surveys* have underscored, emission pricing and taxation could be more even (an issue faced by many countries). For instance, around 20% of emissions are not priced by tax or by ETS, notably emissions of methane and nitrous oxides in agriculture and emissions of methane and CO_2 from waste management (Ministry for Climate and Environment, 2017). Overall, as shown in Figure 1.26, carbon prices vary considerably. Proposals in the 2020 Budget make progress on carbon taxation, including an increase in the rate of tax and abolition of exemptions and concessions (see Table 1.9, below).

Figure 1.26. Effective carbon rates (ECR)

Proportion of CO_2 emissions from energy use subject to different levels of effective carbon rates in Norway in 2015



Note. The effective carbon rate in Norway consists of permit prices from the EU ETS, explicit carbon taxes on fossil fuels and specific taxes on energy. The figure includes emissions from the combustion of biomass in the emission base, and a substantial share of unpriced emissions in Norway are from the combustion of biomass, Some specific taxes on energy are targeted at other external costs than CO_2 emissions, like congestion, noise, accidents and local air pollution from the use of vehicles, explaining the higher taxes on motor fuels (to the right).
Source: OECD Center for Tax Policy and Administrations.

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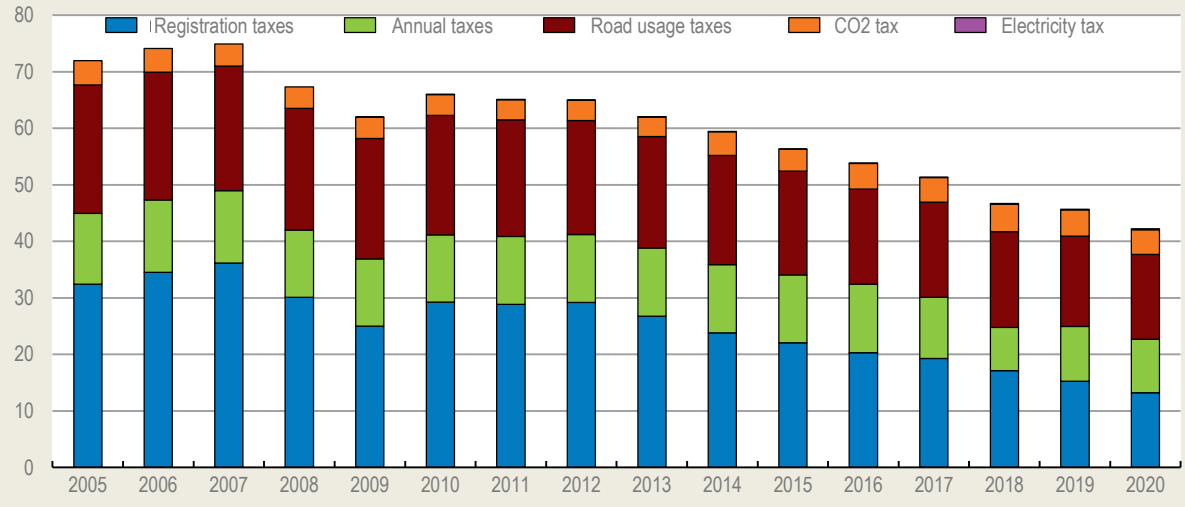
Much of Norway's non-ETS emission reduction (non-ETS emissions are about half of total emissions) must come from transport, nearly 60% of domestic non-ETS are from this sector, mostly road transport (Ministry for Climate and Environment, 2017). This should be achieved in a cost-efficient way. Norway intends to reduce emissions partly by curbing car use in urban areas, increasing the obligatory biofuel quota and quantitative targets for zero-emission vehicles. Norway has long been encouraging zero-emission vehicles (Box 1.9). In addition to futher development of public transport, innovative new approaches to transport should be considered. One option is massed ride sharing, in which most individual private car rides are replaced by rides in shared taxis or shared minibuses and faciltated by digital platforms. Modelling of such a system for Dublin shows promising results in terms of CO_2 emissions, congestion, electrification costs and public transport costs (ITF, 2018). Furthermore, ride sharing intensifies car use, which means the comparatively high purchase prices of electric vehicles is more strongly offset by the gains from low-marginal running cost (ITF, 2016). Policy actions to achieve massed ride sharing could include support for digital platforms, adaptations to metropolitan infrastructure, for example access routes for shared rides to rail stations, alongside demand-side measures to encourage and/or enforce shared rides replace individual car rides.

Box 1.9. Norway's experience with electric vehicle incentives

Policy lessons and challenges continue to emerge from Norway's wide-ranging electric-vehicle incentives. The incentives include exemptions from value-added tax and vehicle registration tax, along with cheaper access to toll roads and parking. Certainly, outcomes appear impressive. Norway has the highest number of electric vehicles per-capita in the world. As of September 2019, 45% of new passenger cars purchased were electric. However, the cost of CO_2 abatement implied by the incentives is very high. Bjertnæs (2016), for instance, estimates an abatement cost of NOK 5 000 (i.e. around EUR 500) per tonne based on the differences in taxation and emissions between an electric car and a fossil fuel car. Also, these policies have contributed to a sizeable revenue decline from car-related excise duties, from NOK 75 billion in 2007 to an estimated NOK 46 billion in 2019. This equates to an average revenue loss of about 0.1 percentage-points of mainland GDP each year. Losses of a similar magnitude will probably continue in the coming years. Norway's electric-vehicle policy experience illustrates the need to revise electric-vehicle support as adoption scales up, especially support that potentially worsens congestion and compromises other forms of transport. Provisions allowing free use of bus lanes have already been scaled back, for instance. Electrification of vehicles strengthens the case for moving towards distance, location and time-contingent road pricing, as this could help reframe vehicle taxation around congestion and related externalities. As elsewhere, there is a potentially compromising social dimension to electric-vehicle incentives; the comparatively high vehicle purchase price means the tax breaks and other benefits principally go to better-off households. Indeed, in Norway the advantages for electric-vehicle owners may have contributed to the popular protests around road tolls.

Figure 1.27. Revenue from car related taxation is declining

Vehicle-related tax revenue, billions NOK



Note: *Adjusted for inflation, estimated 2020 NOK values.*
Source: Ministry of Finance.

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Climate change and other environmental considerations are increasingly a factor in debate on licencing new offshore fields for oil and gas development. For instance, shifts in stance from the political parties mean it is now very unlikely oil exploration will be permitted off the Lofoten islands in northern Norway.

Norway has also recognised the need to halt biodiversity loss. Norway's large remote areas and extensive coastline present particular challenges in monitoring and tackling biodiversity loss. The 2009 Nature Diversity Act consolidated a new and innovative framework. However, aquaculture, land use planning and built-up coastal areas pose implementation challenges (OECD, 2011). Co-operation by Norway with other countries on maritime issues and the Arctic region has been substantial. For instance, this has resulted a global convention on mercury and more ambitious global targets on persistent organic pollutants. However, the extension of oil-sector exploration into fragile environments (including the Arctic region), raises biodiversity risks OECD (2011).

Norway's substantial aquaculture industry, which principally comprises salmon farming, also brings particular biodiversity issues. Wild fish populations are being diminished by lice infections, the concentration of which is increased by aquaculture. Efforts to tackle these issues are being made. A new system for regulating growth in the salmon farming industry was first introduced in 2015 and fully implemented in 2019. Production areas are evaluated biannually using environmental indicators (principally sea lice indicators) and regulated capacity allowances are increased or decreased accordingly. A natural resources rent tax for the aquaculture sector has been proposed and could help address these issues. Also, escapees of salmon from aquaculture can have a negative impact on wild salmon genetics, reducing overall fitness. Since 2016, Norway has increased the efforts of removing escaped farmed fish from the salmon rivers.

Table 1.9. Past recommendations on tackling environmental challenges

Recommendations	Action taken since the previous *Survey (January 2018)*
Reforms should include: • further limiting carbon-dioxide (CO_2) emissions, and greater uniformity in CO_2 taxation • more systematic inclusion of environmental considerations in cost-benefit analysis (e.g. by using an explicit shadow price for Greenhouse gas (GHG) emissions.	Climate change: a community inventory model (including LULUCEF) is being implemented with the aim of increasing awareness on land use. The 2020 Budget includes several proposals regarding climate change, including a 5% increase taxation on mineral products and taxes on other greenhouse-gas emissions, the abolition of reduced rates and excemptions from CO_2 tax, and increase in the biofuel sales requirement from 12 to 20%.

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2 Maintaining high employment

Introduction

Norway has a well-functioning labour market. It delivers high quality employment to many people. A majority of jobs in Norway are secure, workers are well remunerated, and job strain is low. Norway's socio-economic model, including highly coordinated wage bargaining, delivers a compressed wage distribution and low inequality in incomes and wealth. Continued prudent fiscal management, supported by oil wealth, will be able to fund high quality support and assistance to the less fortunate well into the future.

This favourable situation, however, faces some challenges. Norway has been experiencing a trend decline in employment rates among certain groups, in particular among the young and prime-age men. Immigrants and people with disabilities have poorer labour market outcomes than rest of the population. While Norway's workers are highly skilled, OECD PISA scores for educational attainment indicate relative weakness, in particular given very high education expenditures.

Norway still faces comparatively high sick-leave absence and, despite some falls in older cohorts, the share of the working-age population on disability support remains large. The rising number of young and middle-aged on long-term disability benefit, many with a low probability of re-entering the labour market, are particularly worrisome. Relatively high school dropout rates are also of concern, in particular as opportunities for workers with low educational attainment are limited in the Norwegian labour market. School dropouts face unstable low-skill low-wage paths, and many are not searching for jobs.

The government and social partners are aware of the challenges. High employment and labour participation are core to Norway's socio-economic model and its fiscal sustainability. Much policy effort has been focused on keeping them elevated. For instance, recent pension reform raised participation among older cohorts and many adjustments to sick-leave compensation and disability benefits have been made in an effort to facilitate return to work. Nevertheless, success in tackling the challenges in labour-market participation has only been partial, and further work is required.

Furthermore, Norway, as other OECD countries, faces the challenges brought by slowing productivity growth, new technologies, globalisation and the changing nature of work. Moreover, Norway faces challenges from the restructuring of the economy and impending fiscal restraint that the gradual decline in the importance of oil will bring. Successful structural shift will require workers to have the right incentives and the right skills for high levels of employment and job quality in the future.

The next section of this chapter describes the labour market and identifies its main strengths and weaknesses. The chapter then discusses the policy areas with substantial scope for gain from reforms: i) sick-leave compensation and disability support; ii) early retirement incentives in old-age pensions; iii) education and skills; and, iv) integration of immigrants.

Key aspects of Norway's labour market

The labour market is currently tightening and performs well overall

The labour market has tightened over the last two years, amid a strengthening mainland economy. After a period of stagnation in the wake of the 2014 oil-price shock, employment has started growing again, and the unemployment rate continues to fall (Figure 2.1). This recovery has occurred across all sectors of the economy and soft indicators suggest continuing solid employment growth in the immediate future (Norges Bank, 2019). Wage growth has picked up to above 3%, hours worked per employee are rising and more people are entering the labour market. The employment rate has risen too (Figure 2.1).

Figure 2.1. The labour market has tightened

Source: OECD Economic Outlook (database) and OECD Main Economic Indicators (database).

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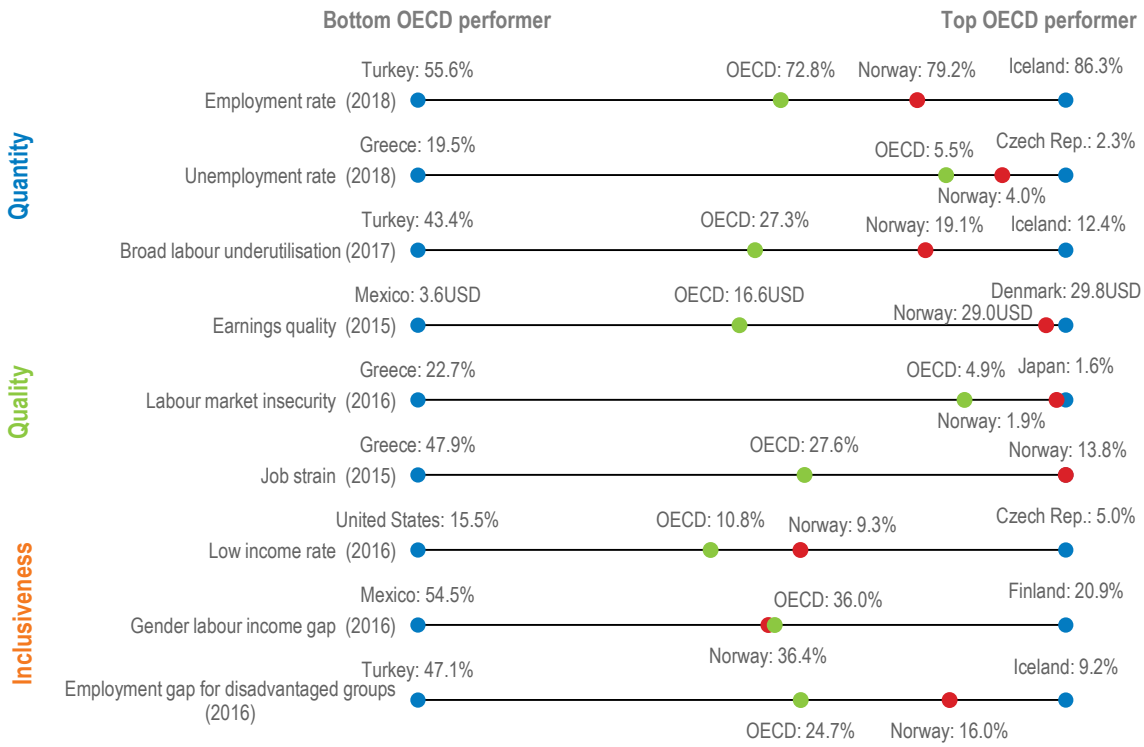
Based on the OECD Jobs Strategy dashboard, the Norwegian labour market is one of the best performing in the OECD (OECD, 2018a and 2018b; see also Box 2.1). Norway is among the top countries on most measures, and above the OECD average in all of them bar one (gender income gap) where it is very close to the average (Figure 2.2). The employment rate is relatively high, although now behind top performers,

and unemployment is low. Workers receive comparatively high wages and labour-market insecurity and job strain are very low. Furthermore, there is a high level of equality in incomes and opportunity, and disadvantaged groups have relatively easy access to jobs.

Figure 2.2. The labour market performs well in international comparison



Note: Employment rate: share of working age population (20-64 years) in employment (%). Broad labour underutilisation: Share of inactive, unemployed or involuntary part-timers (15-64) in population (%), excluding youth (15-29) in education and not in employment (%). Earnings quality: Gross hourly earnings in PPP-adjusted USD adjusted for inequality. Labour market insecurity: Expected monetary loss associated with the risk of becoming unemployed as a share of previous earnings. Job strain: Percentage of workers in jobs with a combination of high job demands and few job resources to meet those demands. Low income rate: Share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: Difference between per capita annual earnings of men and women (% of per capita earnings of men). Employment gap for disadvantaged groups: Average difference in the prime age men's employment rate and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities; % of the prime-age men's rate).
Source: OECD (2018), OECD Jobs Strategy https://www.oecd.org/employment/jobs-strategy/country/; OECD Employment database, www.oecd.org/employment/database; and OECD Income Distribution Database (IDD), http://oe.cd/idd.

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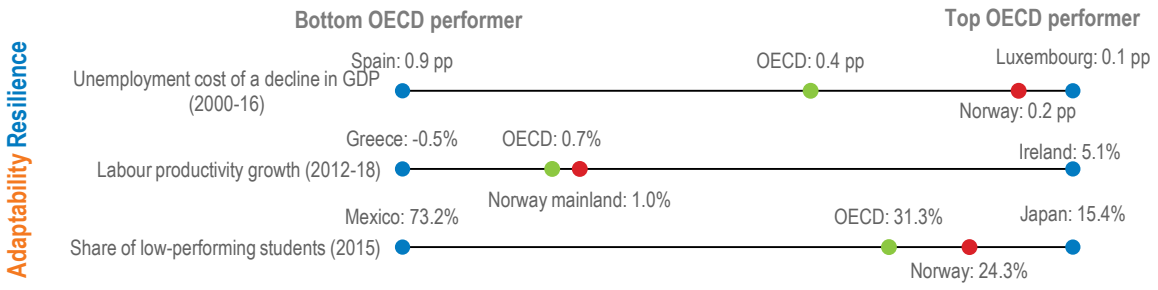
The Norwegian labour market is also resilient (Figure 2.3), with capacity to absorb and adjust to economic shocks without large costs in terms of unemployment. Extensive use of active labour market policies for facilitating return to work among the unemployed are a key component. Norway's workforce is highly skilled, strengthening adaptability to economic shocks as well as to structural shifts and technological change. Productivity growth has been close to the OECD average, and as in many other countries, it has undergone a marked slowdown (see Key Policy Insights). The *level* of output per worker (and GDP per capita), on the other hand, is very high in international comparison.

Figure 2.3. The labour market is resilient and reasonably adaptable



Notes: Resilience: average increase in unemployment rate over 3 years after a negative shock to GDP of 1% (2000-16); Labour productivity growth: annual average productivity growth (2012-18), measured in per worker terms. Share of low performing students: Share of 15-year-olds not in secondary school or scoring below Level 2 in PISA (%) (2015).
Source: OECD (2018), OECD Jobs Strategy https://www.oecd.org/employment/jobs-strategy/country/; OECD Productivity database and OECD Economic Outlook database.

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Box 2.1. The OECD's new Jobs Strategy

The digital revolution, globalisation and demographic change are transforming labour markets. These deep and rapid transformations raise new challenges for policy makers. The new OECD Jobs Strategy, endorsed by OECD Ministers at their annual meeting in May and launched in December 2018, provides a coherent framework of detailed recommendations in a wide range of policy areas to help countries addressing these challenges. The new Jobs Strategy, in particular, goes beyond job quantity and considers *job quality* and *inclusiveness* as central policy priorities, while stressing the importance of resilience and adaptability for good economic and labour market performance in a changing world of work. The key message is that flexibility-enhancing policies in product and labour markets are necessary but not sufficient. Policies and institutions that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing changes are needed to promote good and sustainable outcomes. The OECD Jobs Strategy makes use of a data dashboard to assess the strengths and weaknesses of labour markets.

Two Jobs Strategy Implementation Notes have been prepared to support Norway with the implementation of the Jobs Strategy. These notes contain additional analytical work that accompany the analysis in this chapter on employment barriers (Fernandez et al., forthcoming) and wage inequality, job mobility and reallocation (Hijzen et al., forthcoming). More information on the implementation of the OECD Jobs Strategy can be found here: http://www.oecd.org/employment/jobs-strategy

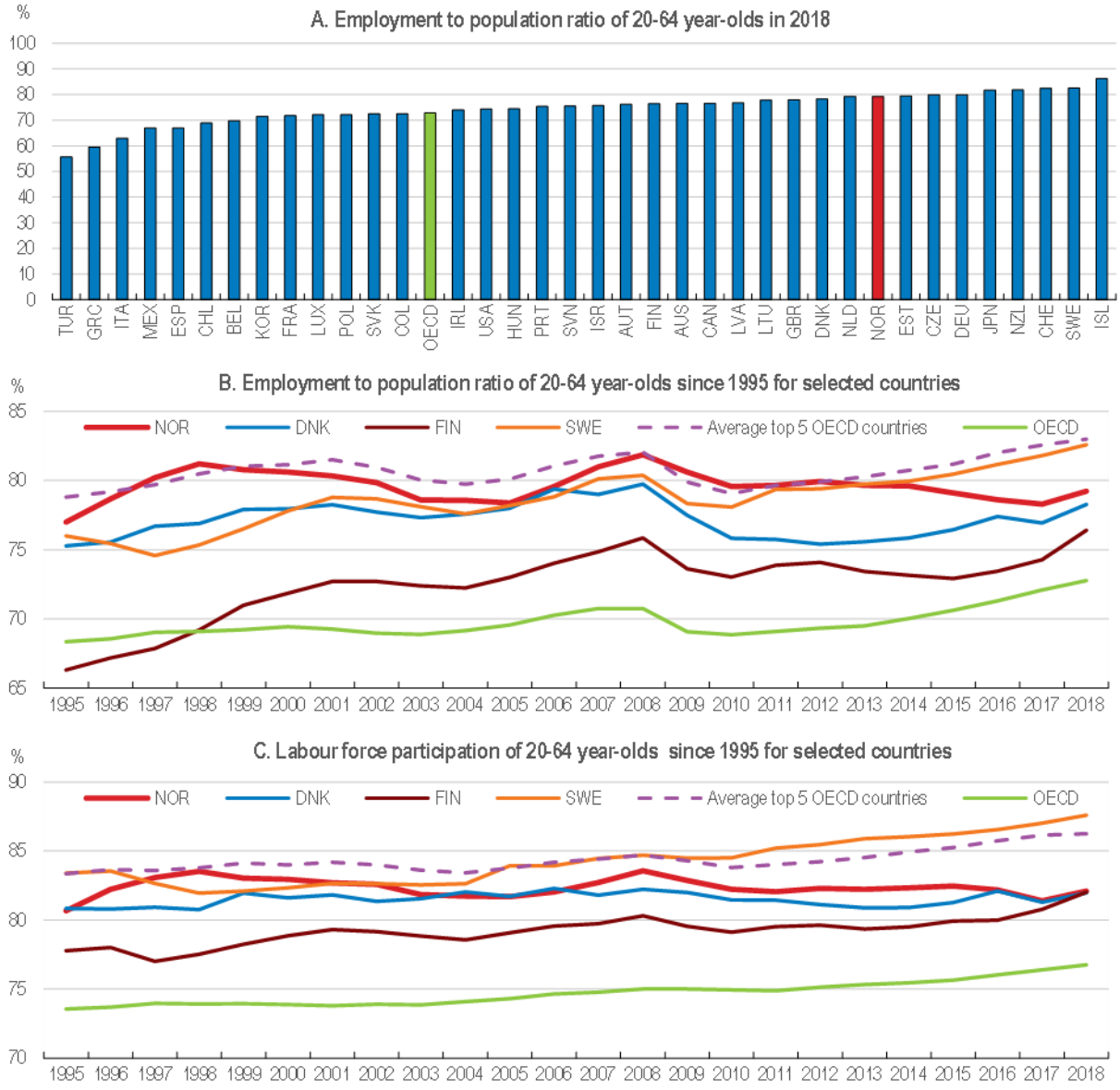
Despite Norway's overall impressive performance, there are areas of weakness and developments that pose challenges for the labour market and the "Nordic" model. The remainder of this section discusses these in more detail, following the structure of the OECD Jobs Strategy Dashboard.

Employment rates are high but have deteriorated over time

Norway has a high employment rate, more than 6 percentage points above the OECD average among those aged 20-64 years, but it used to be even higher. Some of the decrease in overall employment rates is due to population ageing and young people staying at school longer, but both the level and position relative to other countries have slid over the past decade (Figure 2.4). While Norway's employment rate of

20-64 year olds has declined, it has increased in many other countries and is now higher in several countries. The recent tightening in Norway's labour market has only brought a partial turnaround.

Figure 2.4. The employment rate is high, but has fallen over the past decade



Source: OECD Employment database, www.oecd.org/employment/database .

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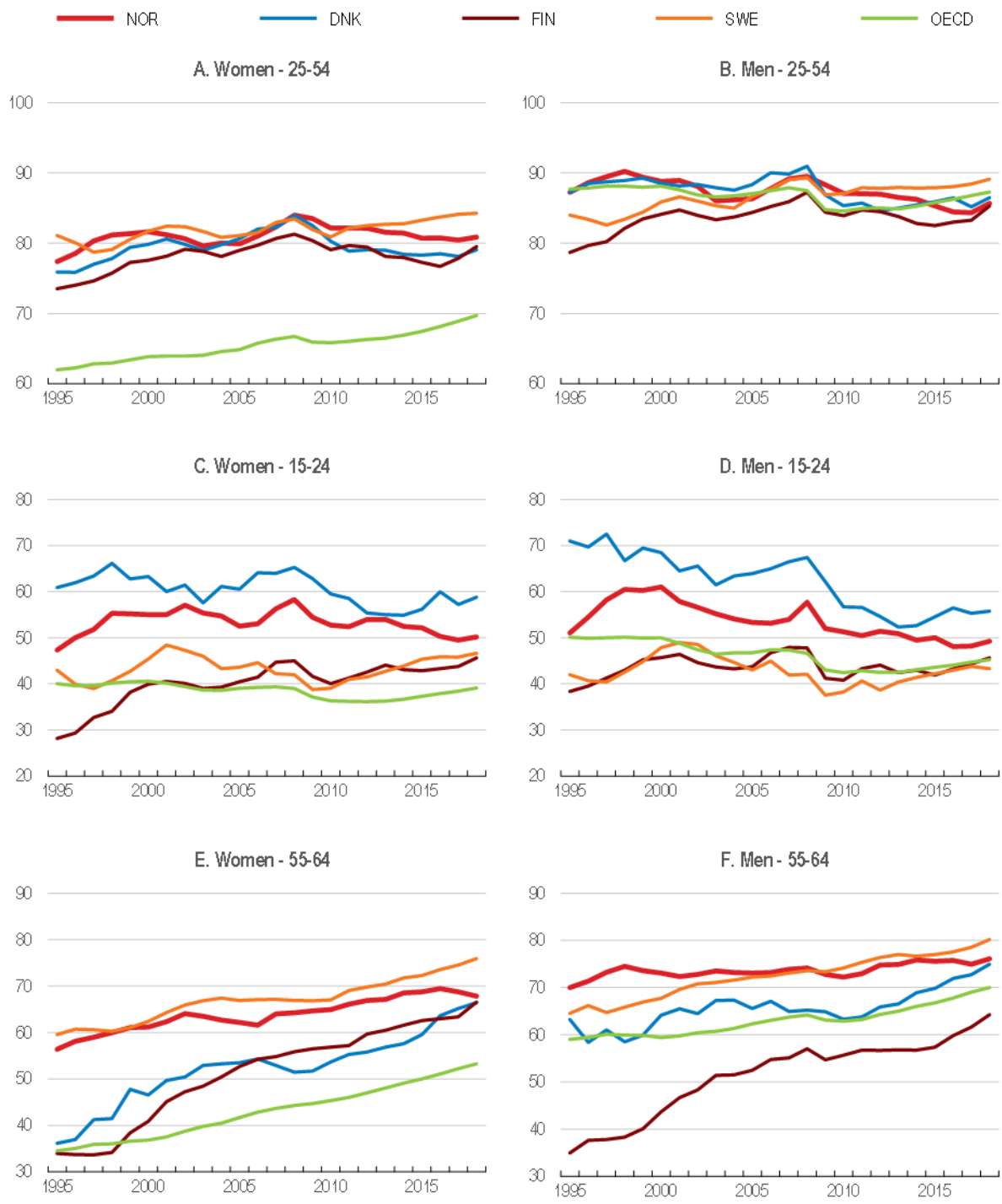
The relative slide in employment rates has been most pronounced in prime-age cohorts. The employment rates of men aged between 25 and 54 decreased by about four percentage points between the peak in 2008 and 2018, and is now below the OECD average. For prime-age women, the rate fell by three percentage points in the same period, albeit from a high level, while it kept rising in many other countries (Figure 2.5). Employment rates also declined among youth, reflecting, in part, more time spent in education. Older cohorts show comparatively high employment rates that have risen further. It is nevertheless striking that despite pension reform and efforts to tackle issues in disability support, progress is slower than in many other countries (Figure 2.5).

Figure 2.5. The drop in employment rates is concentrated among the prime-age group

Employment rate by age category, % of population of the age category



Source: OECD Employment database, www.oecd.org/employment/database .

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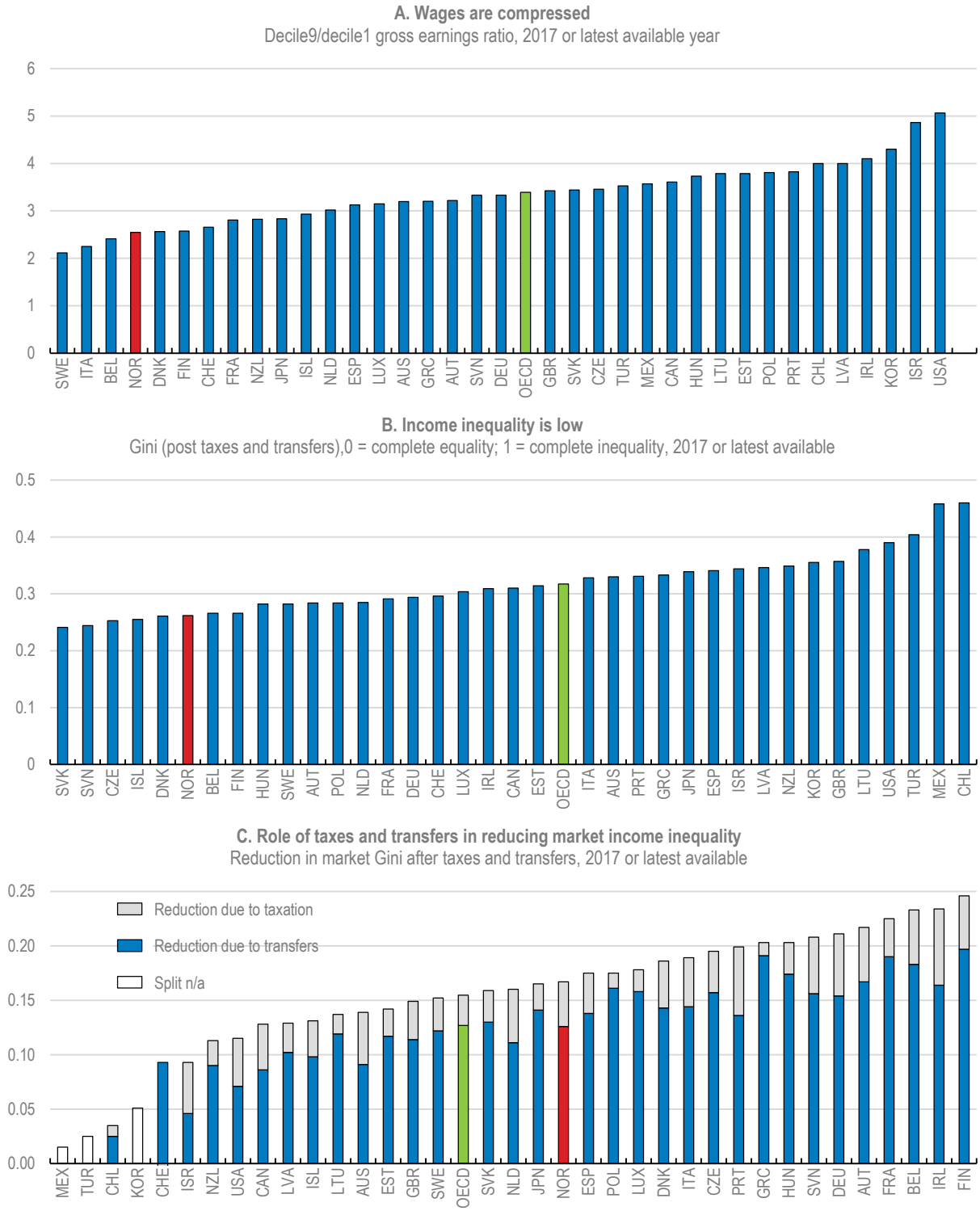
Good job quality and a compressed wage distribution make for an inclusive labour market

Job quality in Norway is among the best in the OECD (Figure 2.2). On earnings quality (as measured by gross hourly earnings in PPP, adjusted for inequality) and labour market insecurity (measured by expected monetary loss associated with the risk of becoming unemployed), Norway is among the top performers. Job strain (measured by the share of workers in jobs with a combination of high job demands and few job resources) is the lowest among OECD countries.

Norway's labour market is typical of the Nordic model, with a tradition of tripartite agreements and a strong role for trade unions, which help attain low income inequality, mostly by compressing the wage distribution (Figure 2.6). The role of taxes and transfers in lowering inequality is also significant, although closer to the OECD average; with high employment rates and low wage inequality there is less need for ex post redistribution to achieve low inequality in incomes. The level of skills in the population is high and skills are quite equally distributed, with disadvantaged students less likely than in most other countries to underperform. Norway's socio-economic model also delivers high equality of opportunity and income mobility – it is much more likely that someone from a low-income background reaches the average level of income than in most other OECD countries (OECD, 2018c).

Norway's poverty rate – measured as the share of population with incomes below half of the median income - is low (Figure 2.7). Poverty rates are among the lowest in the OECD among the elderly (66 years and above), children (0-17 years) and adults (26-65 years). Low poverty rates among children and the elderly are particularly notable as in many other OECD countries these groups experience significantly higher risk of poverty than the rest of the population. However, the young (18-25 years) have poverty rates substantially above the OECD average. One explanation is that in Norway (as in some other countries such as Denmark and the Netherlands) a large proportion of tertiary-education students move out of their parents' home into independent or shared accommodation, and are consequently included as separate households in census and survey data. Given that such students typically have above-average employment and earnings prospects, and often the financial support of parents, there may not be a substantive socio-economic problem.

Figure 2.6. Wages are compressed and income inequality is low



Note: Income inequality measures are based on the distribution of the equivalised disposable household income. Income refer to cash income (excluding imputed components such as home production and imputed rents) regularly received over the year.
Source: OECD Employment database, www.oecd.org/employment/database; and OECD Income Distribution Database (IDD), http://oe.cd/idd .

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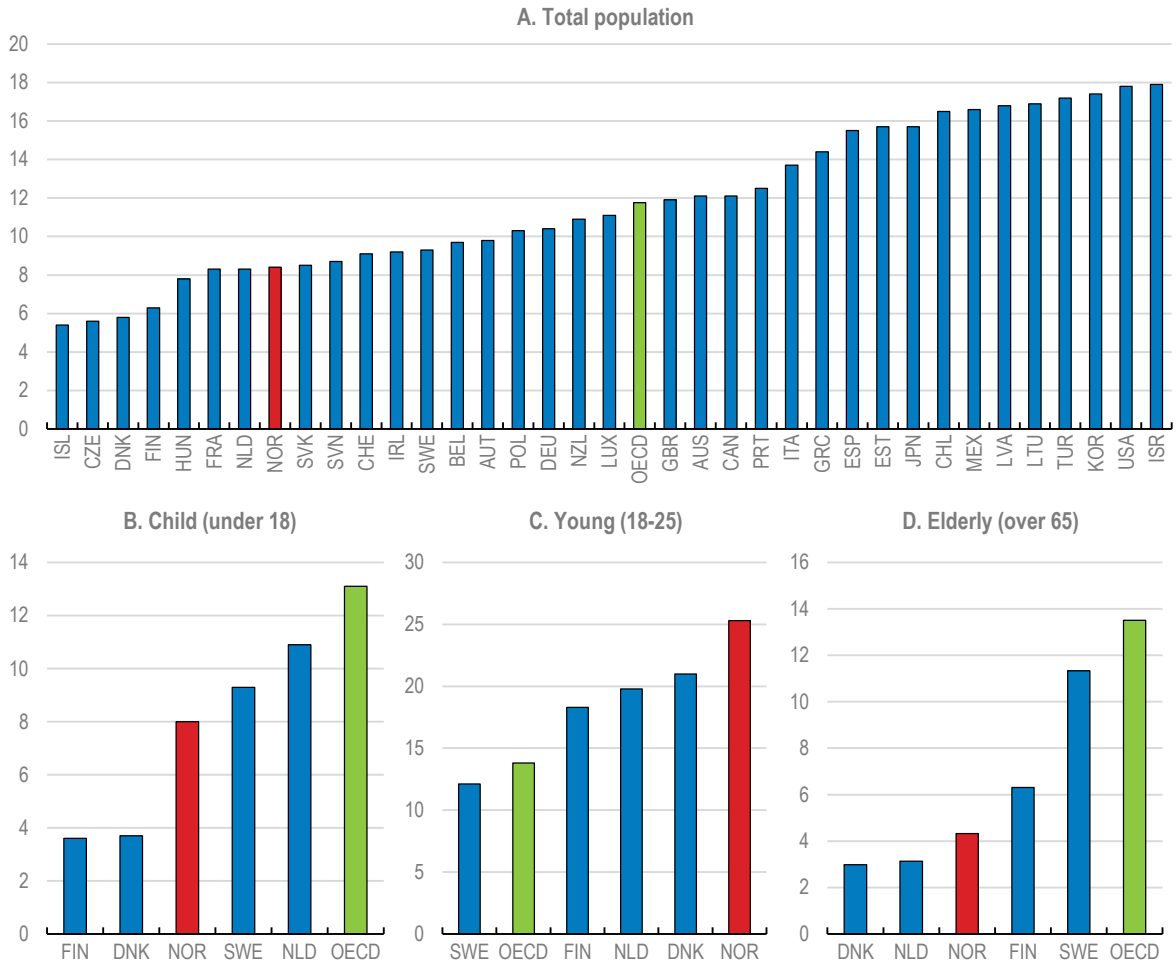
Figure 2.7. Poverty is low

Percentage of persons living with less than 50% of median disposable income (equivalised), by age group, in 2017 (or nearest year)



Source: OECD Income Distribution Database (http://oe.cd/idd).

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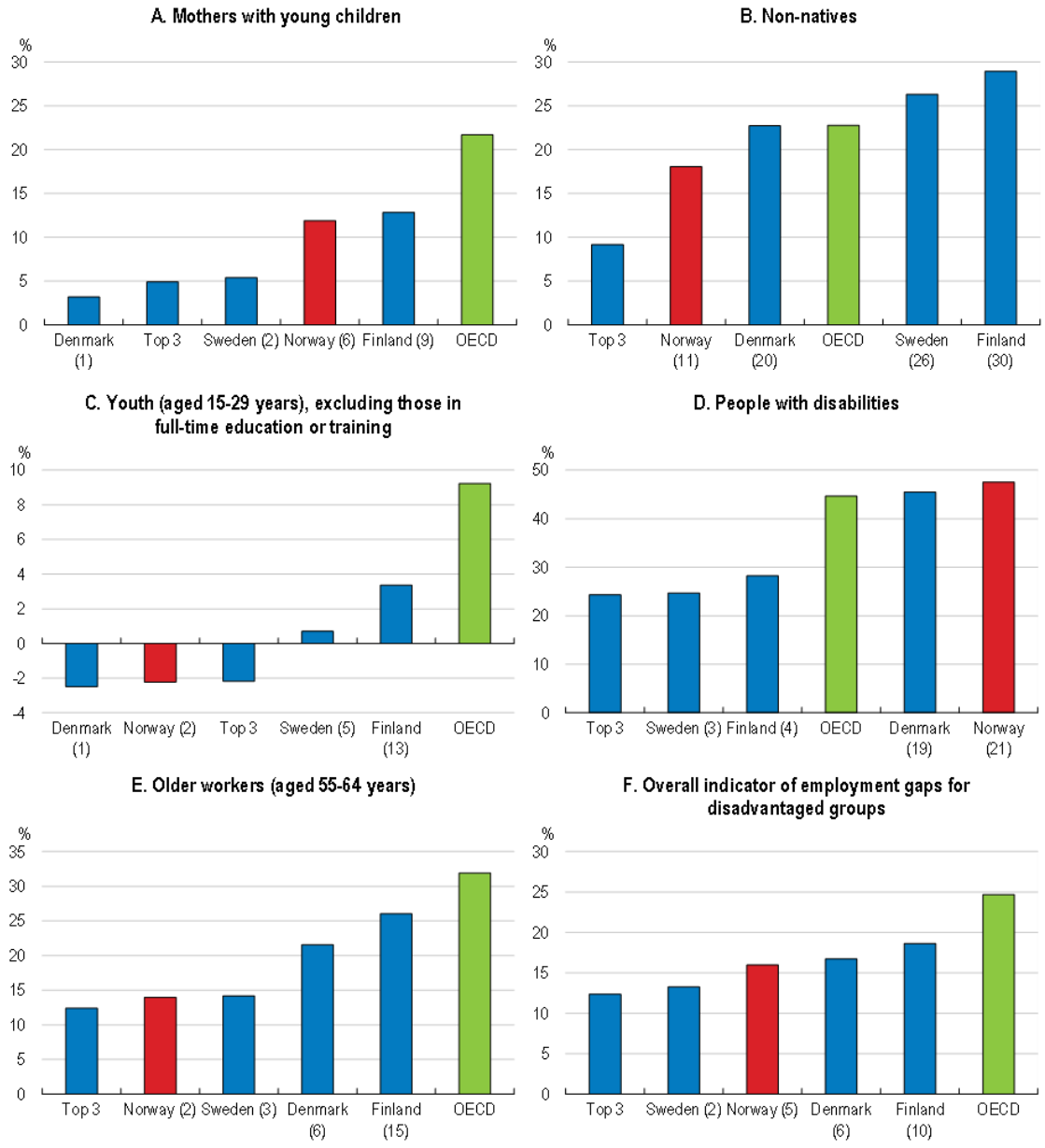
Employment rates of people with disabilities and non-natives could be higher

People with disabilities in Norway have almost 50 % lower employment rates than prime-age men, a gap significantly above the OECD average (Figure 2.8). Non-natives have nearly a 20 % gap, also large, although below the OECD average. In contrast, for other potentially disadvantaged groups, such as mothers with young children, youth (15-29 years) not in full-time education or training, and older workers, Norway is among top performers.

Figure 2.8. Employment gaps are sizable for some disadvantaged groups, notably people with disabilities and non-natives

Employment gaps with respect to prime-age men for selected disadvantaged groups, 2016 or nearest



Note: Countries are sorted in ascending order of the employment gap (i.e. from best to worst performing). Number in parenthesis indicates the rank from best performing. For each group, the employment gap is the difference between the employment rate of prime-age men (aged 25-54 years) and that of the group, expressed as a percentage of the employment rate of prime-age men. Panel A: Mothers with young children refer to working-age mothers with at least one child aged 0 to 14 years. Panel B: Data refer to all foreign-born people with no regards to nationality. Panel C: In the case of youth, those that are in full-time education are excluded from the denominator of the employment rate. Panel D: Data refer to 2011 except for Norway (2016). Panel F: The overall indicator is a weighted average of the employment gaps for each group.
Source: *OECD (2018), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy,* https://doi.org/10.1787/9789264308817-en .

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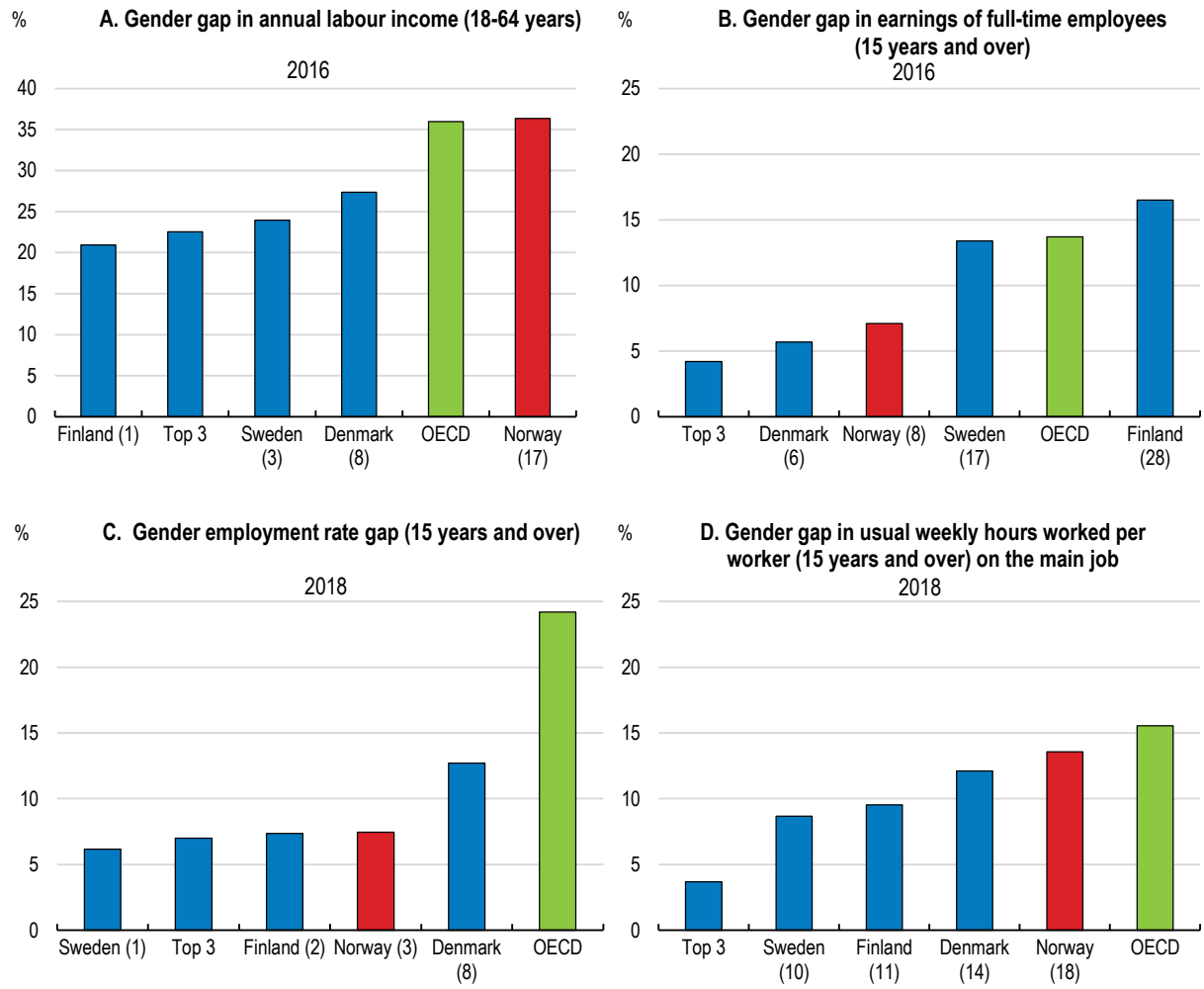
Norway has a relatively high gender labour income gap (Figure 2.9). On average, women aged 18-64 years receive 35 % lower labour income than men of the same age. Employment rates for women are high and the employment rate gap between men and women is far below the OECD average. Moreover, the gender earnings gap for full time employees (due to for example men and women working in different sectors and occupations) is small. Much of the total gender labour income gap therefore stems from the fact that women in Norway work shorter hours. Employed women work on average close to 15% fewer (usual weekly) hours than men. There is also a relatively high share of women that work part-time and a high share of those that work very short hours. Norwegian policy has long put a high priority on reducing gender gaps in the labour market and outcomes have been steadily improving over time. For example, Norway was an early mover in introducing statutory quotas for women on the boards of public limited companies. Nearly 45 % of board members are now women among large listed companies (OECD, 2018d).

Figure 2.9. Gender labour income gap is sizeable due to shorter working hours of women



Note: Gaps are computed as the difference of the relevant indicator for men and women expressed as a percentage of that of men. The Norway's rank from the best performing OECD country is indicated in parenthesis. OECD is an unweighted average in Panels A and B and a weighted average in Panels C and D.

Source: *Gender labour income gap*: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) for European countries; OECD Family database; and OECD Employment Database (www.oecd.org/employment/database).

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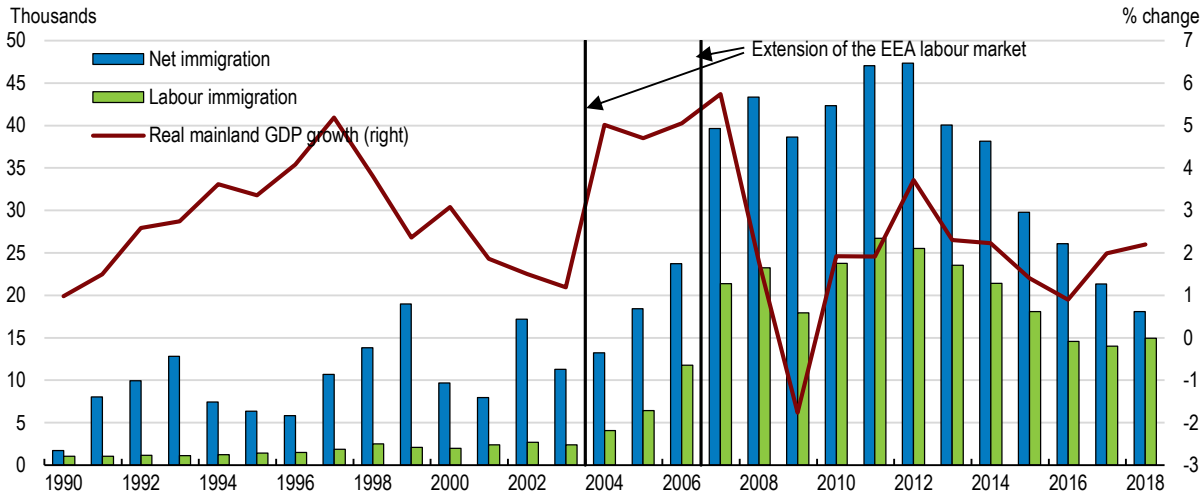
Coordinated wage bargaining and labour migration help absorb shocks

Norway's labour market adjusts well to economic shocks, which helps limit their impact on the unemployment rate. A highly coordinated wage bargaining system ensures that real wages are responsive to macro-economic conditions. It is characterised by a "pattern bargaining" system. A target wage increase is negotiated for the manufacturing sector highly exposed to foreign competition. This wage norm then serves as a benchmark for wage rises in other sectors of the economy and provides an effective instrument for wage moderation. The resilience of the labour market is also supported by a flexible labour supply through labour migration. Norway has for a long time been strongly integrated with other Nordic economies, and since 2004, the labour market has been open to flows from new countries in the European Economic Area (EEA). Labour migration is quite responsive to economic cycles and acts as a shock absorber (Figure 2.10).

Figure 2.10. Cyclical labour migration is a shock absorber



Note: Net immigration is the amount by which the number of immigrants is greater than the number of emigrants. Labour immigration is the number of first-time immigrants with non- Nordic citizenship with labour as the reason for immigration.
Source: Statistics Norway and OECD Economic Outlook database.

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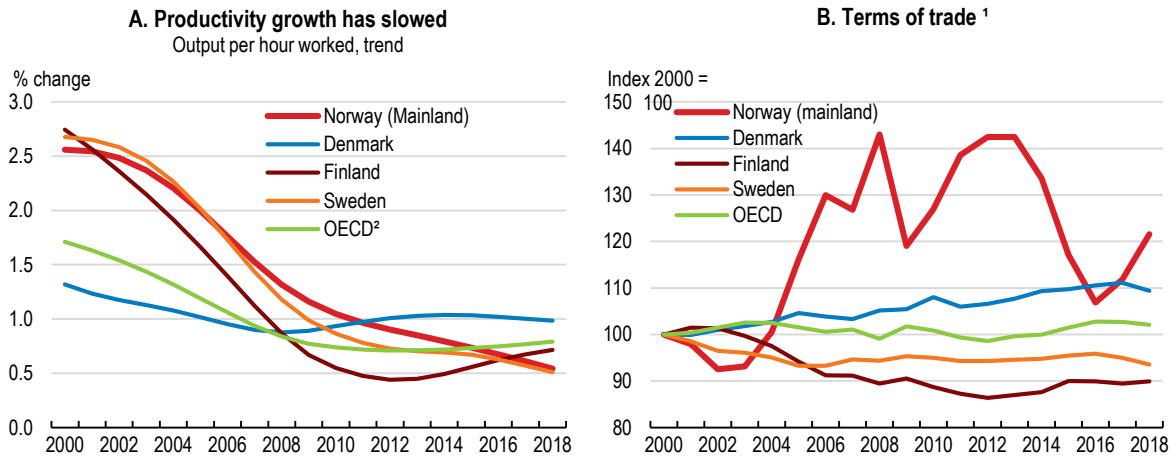
However, similar to many other economies, Norway has undergone a marked slowdown in productivity (Figure 2.11) and wage growth. Helped in part by oil wealth and terms of trade gains over the decades, Norway has benefitted from steady gains in living standards. Low wage inequality in combination with strong wage coordination could limit wage differences between firms and consequently undermine the ability of high-performance firms to attract workers, reducing optimal reallocation of workers. While wage compression is associated with relatively low levels of job mobility between firms, there is no indication that this has hindered the ability of high performance firms to expand in Norway (Box 2.2; Hijzen et al., 2019). Looking forward, it will be important to ensure continued effective operation of wage coordination, including its ability to support productivity growth and competitiveness.

Figure 2.11. Terms of trade gains have cushioned Norway from the productivity slowdown



1. The ratio between the index of export prices and the index of import prices.
2. Unweighted average of 35 available OECD countries.
Source: OECD Economic Outlook (database).

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Box 2.2. Wage-setting, job mobility and efficiency-enhancing job reallocation

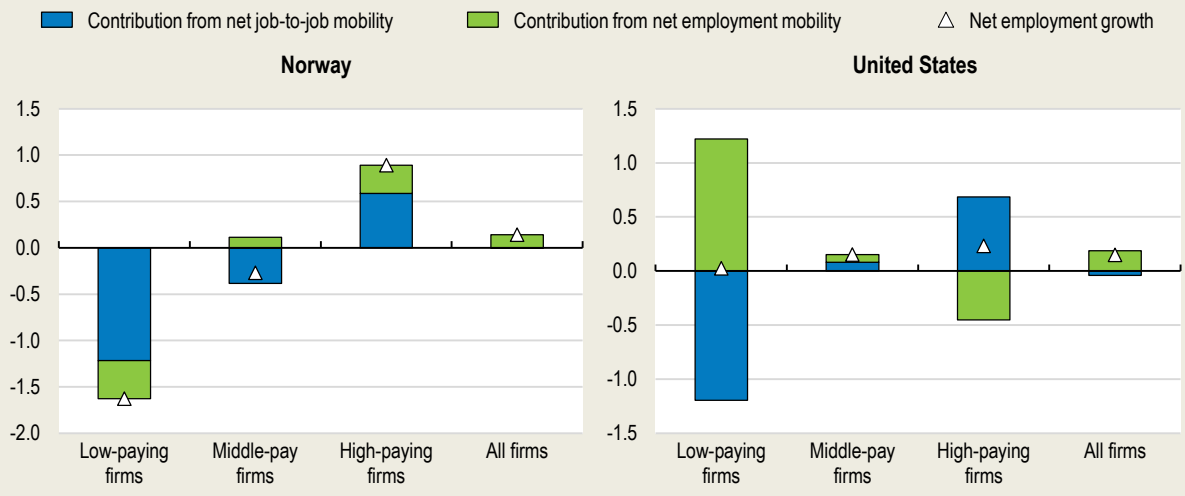
Norway places a strong emphasis on the role of public institutions and the social partners for ensuring that productivity gains are broadly shared, resulting in very low levels of wage inequality and high employment rates. However, low levels of wage inequality have sometimes raised concerns about the flexibility of wages and their ability to support strong productivity growth. Wage compression could limit the ability of high-performance firms to attract new workers and hence undermine the efficiency of labour reallocation between low and high performance firms. This box summarises a number of insights from new OECD work on the role of job mobility for the efficiency of labour reallocation based on a comparison between Norway and the United States, a country where wage-setting is considered very flexible (Hijzen et al., forthcoming). The analysis distinguishes between two forms of job mobility: direct job-to-job movements between firms, which are more likely to be voluntary based on differences in pay, and movements in and out of private-sector employment (reflecting movements between employment in the private sector to employment in the public sector or joblessness). More specifically:

- *Job mobility is considerably lower in Norway than in the United States*. Job-to-job mobility is about twice as high in the United States as in Norway, while mobility in and out of private-sector employment is about 50 % higher. The lower rate of job-to-job mobility in Norway may be related to the fact that wage differences between firms are relatively small, resulting in weak incentives for workers to move to higher-wage firms.
- *The speed of reallocation of workers from low to high-wage firms is higher in Norway than in the United States, despite lower overall job mobility*. While in both Norway and the United States, job-to-job mobility is the main source of job reallocation from low to high-wage firms, the role of worker movements in and out of employment is fundamentally different. In Norway, employment growth through net employment mobility is stronger in high-wage than in low-wage firms, while in the United States, employment growth through net employment mobility hires is stronger in low-wage than in high wage firms as low-wage firms seek to mitigate the impact of worker poaching by high-wage firms by hiring jobless workers. Employment mobility therefore complements job-to-job mobility in reallocating workers from low to high-wage firms in Norway, but undermines it in the United States.

- *Efficient labour reallocation in Norway is likely to reflect in part the importance of employment and social policies for job matching.* In Norway, out-of-work income support and job-search assistance policies (e.g. counselling, job brokering) assist those out of work in finding a suitable job that corresponds to their experience and qualifications, thereby increasing the likelihood of finding a job in a high-wage firm. In the United States, such policies are much less well developed. As a result, workers may be more inclined to accept job offers that do not match their experience and qualifications and rely more on-the-job search for finding a suitable job. The relatively high rate of job-to-job mobility from low to high-wage firms in Norway further suggests that the system of coordinated wage bargaining does not significantly undermine the efficiency of labour reallocation. Indeed, it suggests that the bargaining system allows sufficient space for further adaptation at the firm level to support healthy levels of job-to-job mobility between firms with significantly different levels of productivity.

Figure 2.12. Reallocation from low to high-wage firms is faster in Norway than in the United States

Average annual employment growth by firm type and the contributions of net job-to-job mobility and net employment mobility, percentage points, 1998Q1-2011Q4



Note: The figure shows net employment growth due to net job-to-job mobility (workers movements between firms in the private sector) and net employment mobility (worker movements between the private sector and the public sector or joblessness) for low paying, middle paying and high firms as well as all firms. Low-wage firms correspond to firms with average pay in the bottom quintile of the distribution, middle-wage firms to those offering average pay in the second and third quintiles of the distribution and high-wage firms to those offering average pay in the top two quintiles of the distribution. Results for the United States are averaged over the period 1998 to 2011 and for Norway over the period 1995 to 2015.
Source: Hijzen, Lillehagen and Zwysen (forthcoming).

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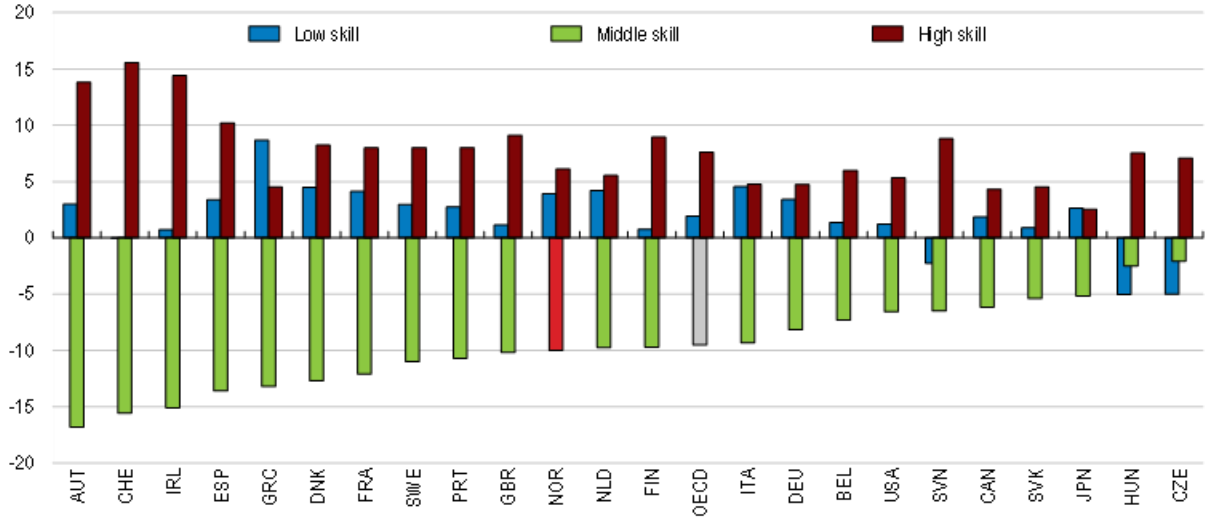
Technology and globalisation bring change and require new skills

Norway also is being affected by the labour market challenges brought by new technologies, globalisation and changing world of work that will increasingly involve new skills and new tasks, creating demand for certain jobs, while reducing it in other areas. Similar to other OECD countries, these processes have increased polarisation into high-skill/high-paying jobs and low-skill/low-paying jobs, with a hollowing out of middle-skill jobs (Figure 2.13).

One driver of job polarisation is technology's differential impact across skills and occupations, crucially depending on type of tasks performed (Autor et al., 2006; Goos and Manning, 2007; and Goos et al., 2009; OECD, 2017a). In particular, information and communication technology (ICT) generally complements high-skill workers performing complex cognitive tasks, while middle-skill clerical and production jobs, characterised by "routine" tasks, can be more easily automated with ICT. Many low-skill jobs (e.g. catering, cleaning or delivery), on the other hand, involve non-routine manual tasks that have so far proven more difficult to automate.

Figure 2.13. Norway has also experienced job polarisation

Percentage point change in share of total employment, 1995 to 2015



Note: *High-skilled occupations include jobs classified under the ISCO-88 major groups: legislators, senior officials, and managers (group 1), professionals (group 2), and technicians and associate professionals (group 3). Middle-skilled occupations include: clerks (group 4), craft and related trades workers (group 7), and plant and machine operators and assemblers (group 8). Low-skilled occupations include*: service workers and shop and market sales workers (group 5), and elementary occupations (group 9).
Source: *OECD (2017), "How technology and globalisation are transforming the labour market", in OECD Employment Outlook 2017,* https://doi.org/10.1787/empl_outlook-2017-7-en.

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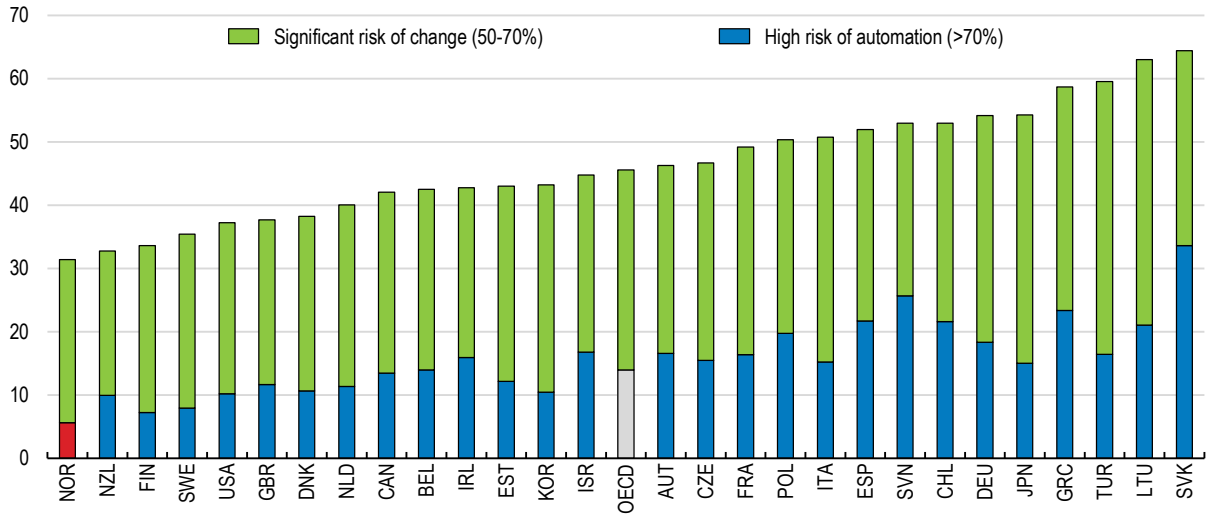
Technological change and globalisation are ongoing and understanding which jobs and skills are likely to become obsolete as technology develops further is important. Recent OECD work, exploiting the Survey of Adult Skills (PIAAC), estimates that a substantial share of jobs across the OECD will be significantly changed by technology (Figure 2.14). This research (OECD, 2019a and 2017a; Arntz et al., 2016, Nedelkoska and Quintini, 2018) argues that jobs with the same occupational title often have considerable differences in tasks, which is essential to gauging jobs at risk. Nedelkoska and Quintini (2018) estimate that the share of jobs expected to be substantially changed by automation in Norway is about one third (Figure 2.14). This is substantial, but lower than in all other countries examined. One of the main reasons

is that Norway already exhibits the highest levels of information and communication technology (ICT) task intensity and non-routine employment in the business sector among OECD countries (Figure 2.15).

As regards future skill requirements, rising routinisation and further expansion of ICT applications will increase demand for skills that are complementary to technology. As reported by Nedelkoska and Quintini (2018) occupations with high automatability will typically only require a low level of education, while the least automatable occupations will almost all require professional training and/or tertiary education. Compared to previous waves of technological progress, whereby technology replaced primarily middle-skilled jobs creating labour market polarisation, artificial intelligence puts more low-skilled jobs at risk. With the exception of some relatively low-skilled jobs – notably, personal care workers – Nedelkoska and Quintini (2018) report a monotonic decrease in the risk of automation as a function of educational attainment and skill levels. These developments are likely to put further pressure in the coming decades on workers with low and middle levels of education who have already seen declining employment trends in recent years (Figure 2.16).

Figure 2.14. A significant share of jobs is at risk of being automated or significantly changed by technology in the future

Share of jobs that are at a high risk of automation or a risk of significant change (%)



Note: Jobs are at high risk of automation if the likelihood of their job being automated is at least 70%. Jobs at risk of significant change are those with the likelihood of their job being automated estimated at between 50 and 70%. Data for Belgium correspond to Flanders and data for the United Kingdom to England and Northern Ireland.
Source: OECD Employment Outlook 2019.

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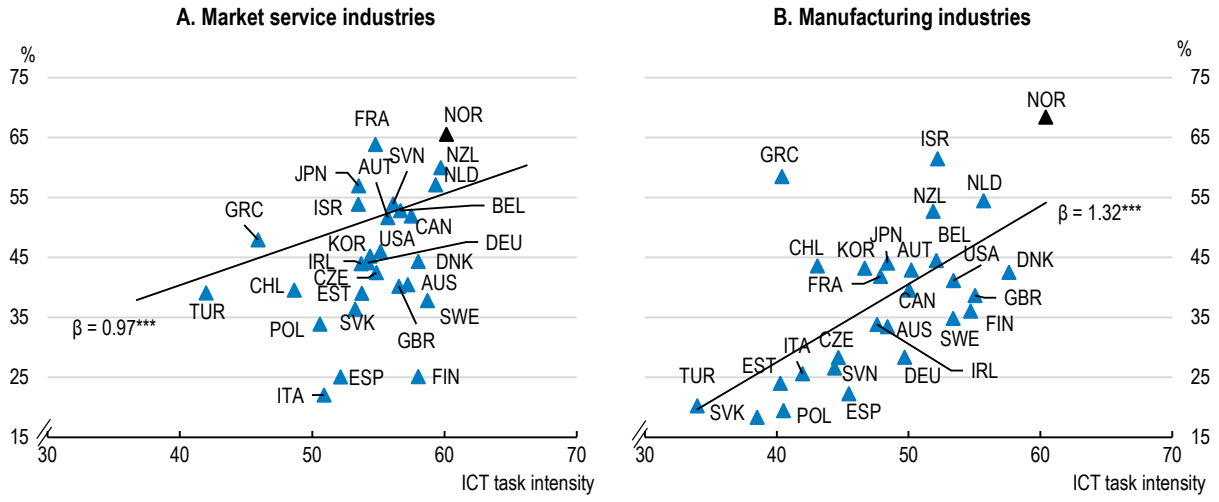
Ensuring that children and adults have access to education and training that delivers appropriate skills must therefore be a priority. Stronger core skills and readiness to learn – and not only ICT specialist skills - can ensure that individuals are able to adapt more easily in a world where jobs and tasks may change more often than they have in the past (OECD, 2016a and 2017b). In addition to ICT-specialist skills, there is increasing demand for ICT-generic skills that enable use of technologies for professional purposes and for ICT-complementary skills such as information processing, problem solving and communication. Foundation skills, digital literacy as well as social and emotional skills are important for effective use of technology.

Figure 2.15. Share of non-routine employment and ICT task intensity are high in Norway

Share of non-routine employment and ICT task intensity, 2012 or 2015



Note: The "routine intensity of jobs" captures the degree of independence workers have to plan and organise their activities and time, as well as their freedom to decide what to do on the job and in what sequence. The "ICT task intensity of jobs" reflects the extent to which workers perform tasks ranging from simple use of the Internet to the use of Word or Excel software or a programming language. Data for Belgium refers to Flanders and for the United Kingdom to England and Northern Ireland.

Source: *OECD (2017), OECD Science, Technology and Industry Scoreboard 2017: The digital transformation*, http://dx.doi.org/10.1787/9789264268821-en.

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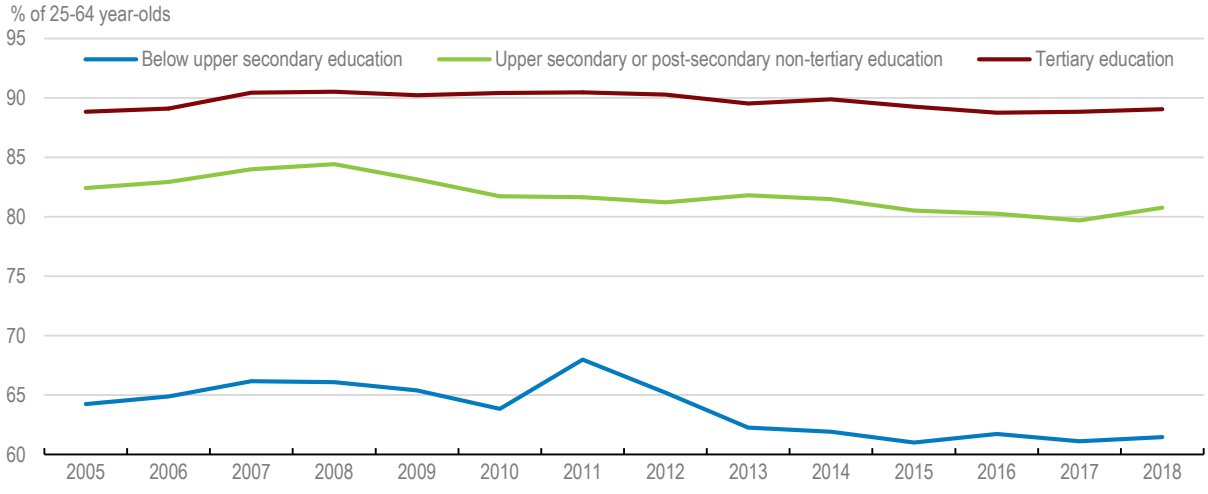
Figure 2.16. Employment rates have declined more rapidly for people with low education

Employment rates of population aged 25-64 years by education level



Source: OECD (2019), Education at a Glance database.

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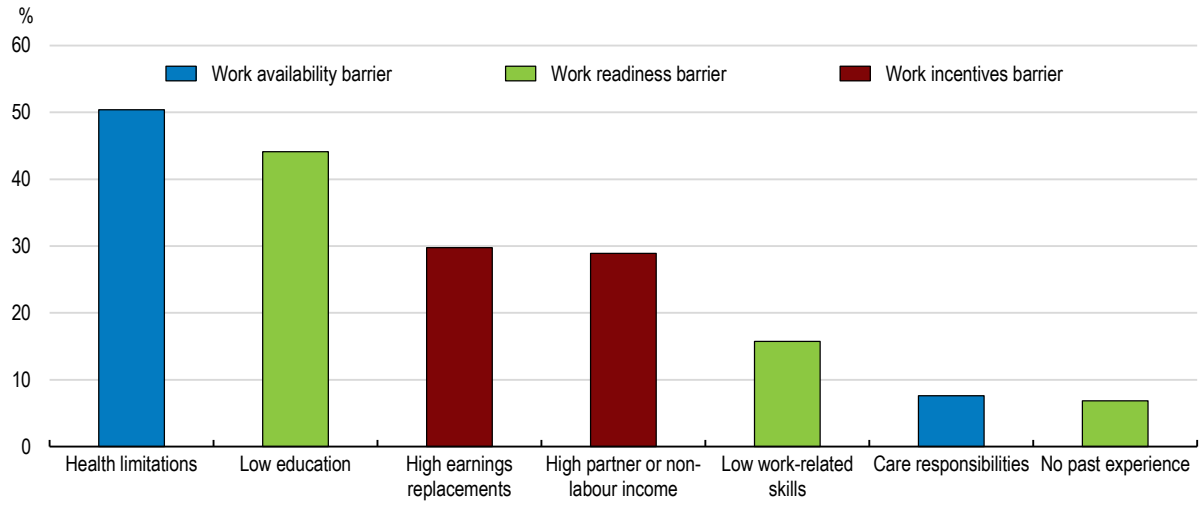
Key policy areas for strengthening employment outcomes

This section focuses on the main policy levers to improve labour market policy and maintain high levels of employment in Norway. The priority policy areas are echoed in quantitative analysis conducted in OECD's *Faces of Joblessness* project, that helps identify the most prevalent barriers to employment (see Box 2.3; Fernandez et al., forthcoming). In Norway, these are found to be health limitations (self-reported), low education, and high replacement incomes and non-labour incomes (Figure 2.17). Based on this, the policy discussion focuses on the following areas of policy: i) sick-leave compensation and disability support, ii) retirement-age incentives in old-age pensions, iii) education and training, and iv) immigrant integration. Reform in the first two areas essentially involves reorienting the incentives embedded in policy systems towards greater labour force participation of groups with health limitations and of older workers. Education and training has a crucial role from a forward-looking perspective in ensuring that Norwegian workers will remain well equipped for gainful employment in the changing world of work. Finally, immigration integration policy is key because there are groups of immigrants whose low education and skills do not match with the needs of Norwegian employers, preventing them from finding jobs.

Figure 2.17. Health limitations and low education are the most common employment barriers in Norway

Proportion of population with major employment difficulties that face the selected employment barrier



Note: The population experiencing major employment difficulties is defined as those aged 18-64 that report to be long-term unemployed, inactive or to have a weak labour market attachment (an unstable job, restricted working hours or with near-zero earnings), excluding full-time students and those in compulsory military service. 19% of the working-age population experiences major labour market difficulties. The figure indicates the proportion of this population that faces each identified employment barrier. The bars do not sum to 100 as individuals can face multiple employment barriers.
Source: Fernandez, Hijzen, Pacifico and Thewissen (forthcoming). Calculations based on EU-SILC 2017.

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Box 2.3. Groups experiencing major employment barriers in Norway

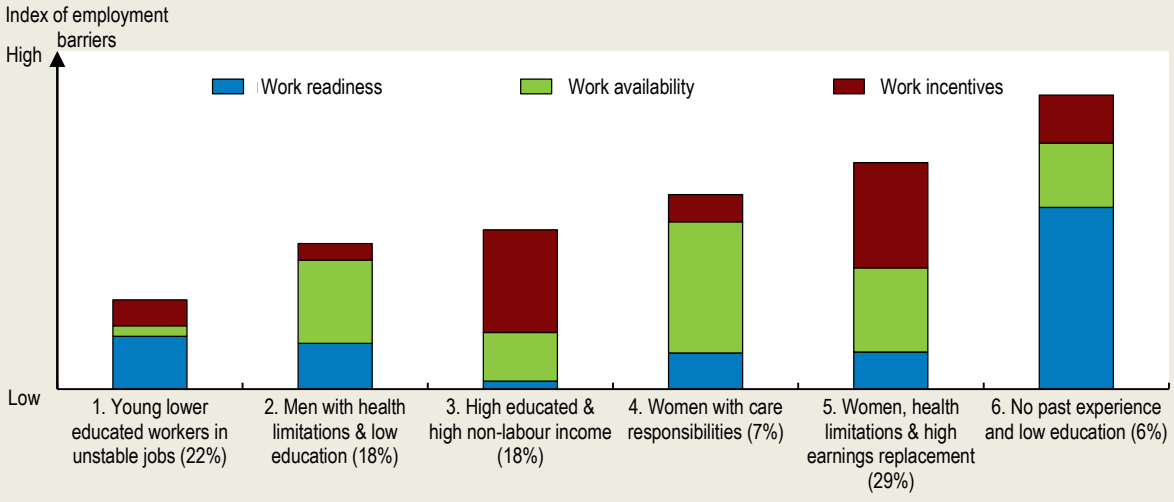
This box uses the OECD's Faces-of-Joblessness methodology to identify groups of individuals who experience major employment difficulties and face similar combinations of barriers (Fernandez et al., forthcoming). Major employment difficulties include long-term unemployment, inactivity or a weak labour market attachment (an unstable job, restricted working hours or near-zero earnings). Employment barriers may relate to either work readiness (low education, low work-related skills or no work experience), work availability (health limitations or care responsibilities) or work incentives (generous income-support benefits, high partner or non-labour income). Barriers on the demand-side are not considered. Statistical segmentation methods are used to identify groups of individuals who face a similar combination of employment barriers. The statistical portraits of the identified groups can then serve as a basis for people-centred policy interventions.

In the case of Norway, about one-fifth of the working-age population experiences major employment difficulties, which is substantial in absolute terms, but considerably lower than the OECD average of 30%. This group can be divided into six sub-groups who face broadly similar employment barriers: three for which health limitations tend to be a major issue and three others with low work-related qualifications (Figure 2.18). Each of these sub-groups requires different combinations of activation and policy support.

- *Groups with health limitations.* In three groups, more than two thirds of the members receive sickness and disability benefits. Two of these groups generally consist of prime-age and older women who often also receive old-age benefits, and who are either high-educated part-time workers (Group 3) or inactive (Group 5). The third group mainly consists of prime-age low-educated inactive men (Group 2).
- *Groups with low work-related qualifications.* Three other groups generally face low-education barriers, have high shares of migrants, and are generally relatively poor. Two groups mostly consist of young individuals, who are either working part-time and face relatively few barriers (Group 1) or, in a more limited number of cases, have never worked and have low work-related skills (Group 6). A third group comprises mostly prime-age women with childcare responsibilities (Group 4).

Figure 2.18. Groups facing different combinations of employment barriers

Share facing employment barriers related to work readiness, work availability and work incentives



Source: Fernandez, Hijzen, Pacifico and Thewissen (forthcoming). Calculations based on EU-SILC 2017.

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Reforming sickness and disability systems, next steps

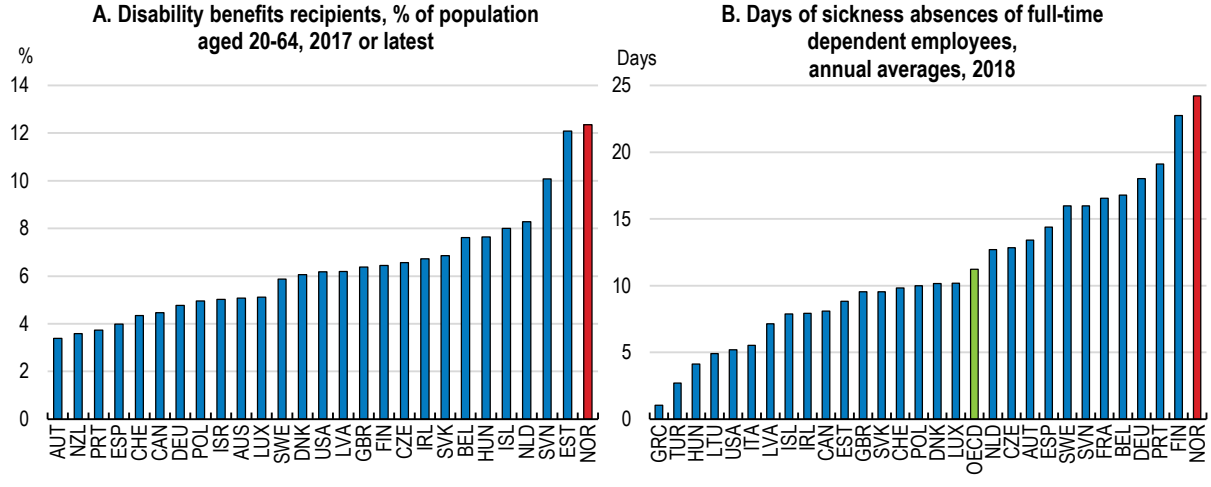
Norway's sickness and disability systems are a substantial channel for de facto early retirement among older cohorts but also increasing numbers of middle-aged and young people spend prolonged periods on health-related benefits. Norway is among a number of OECD countries facing this issue (Box 2.4). A background paper accompanying this chapter compares the situation in Norway with that in Sweden, the Netherlands and Switzerland (Hemmings and Prinz, 2019).

Box 2.4. The origins of increasing numbers on long-term sick leave and disability benefit

Starting several decades ago, a number of countries experienced a prolonged and substantial increase in long-term sick leave and in disability benefit recipiency, prompting analysis and policy measures. These trends, according to the OECD's *Breaking the Barriers* project, partly reflected a behavioural response to policy reforms (often conducted in the 1990s) that reduced the generosity and accessibility to unemployment benefit, social assistance and early retirement. Labour redundancy through skill-biased technological change and economic shocks, such as the 2008 economic downturn, are also thought to have been a factor.

Outcomes have improved on some fronts in Norway but there is scope for much more. In international comparison (Figure 2.19), the incidence of sick leave and the numbers on disability support programmes remain high (in Norway this comprises a temporary disability support ("AAP") and long-term Disability Benefit, see below). The numbers on Disability Benefit among pre-retirement cohorts have been falling, but still around one quarter of 55-67 year-olds are claimants (Figure 2.20). Furthermore, claimant levels among young and middle-aged cohorts are increasing, largely driven by a growth in claims based on mental ill health. This is an increasing concern, not only in Norway, that has yet to be tackled more forcefully (OECD, 2015). Sick-leave absence data indicate some decline up to around 2010 but little change since then (Figure 2.21).

Figure 2.19. Norway has the largest share of disability recipients and the highest number of days of sickness absences



Notes: Panel A: Norway data include recipients of the AAP benefit as well as the Disability Benefit;
Panel B: the number of days of sickness absences derived from the EU-labour force survey (LFS) (this includes Norway) are multiplied by a factor of 2 as it is estimated there is in general a 50% underestimation in LFS-reported sickness absences compared to administrative records and health surveys. The assumption is based on data confrontation for some countries (Switzerland, Germany and France) between LFS data and those from health surveys and administrative sources.
Source: *OECD Disability Recipiency Database (unpublished), OECD Sickness Leave Database (unpublished)*.

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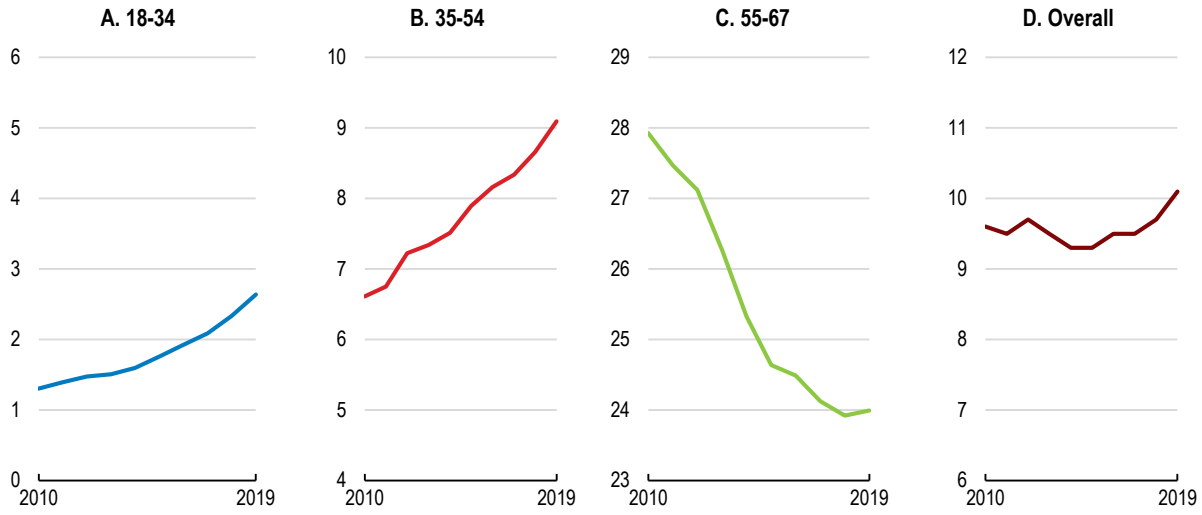
Figure 2.20. Disability Benefit claimant levels are falling in pre-retirement cohorts, but are rising in younger cohorts

Recipients of Disability Benefit as a share of the population, %



Note: Latest data point, March 2019. The data do not include those on the temporary AAP benefit.
Source: Norwegian Labour and Welfare Administration (NAV).

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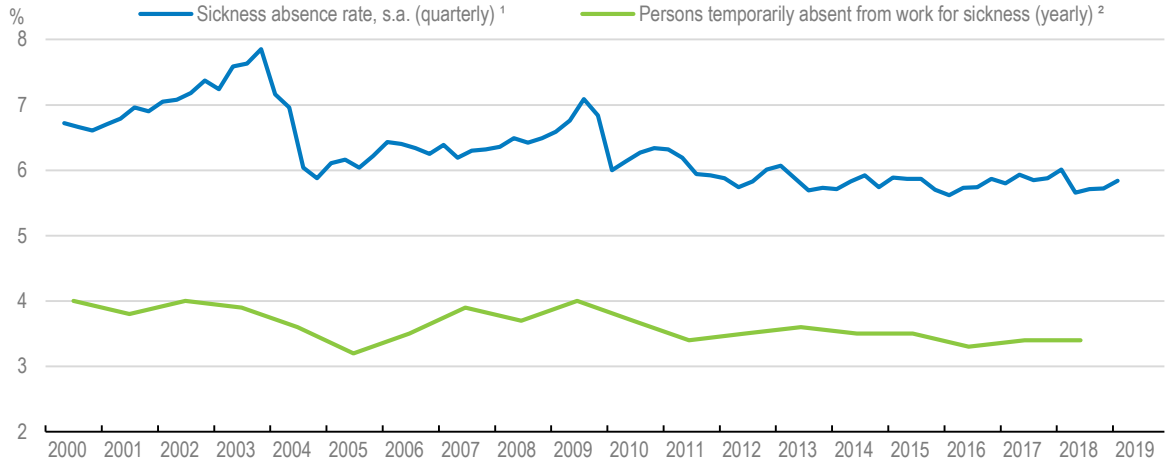
Figure 2.21. Sickness absence in Norway



1. Person-days lost due to own sickness (self-certified and doctor-certified) as a percentage of contractual person-days.
2. Persons temporarily absent from work for sickness during the whole survey week based on the Labour Force Survey (LFS). Per cent of employment.
Source: Statistics Norway.

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Norway's sick-leave system comprises mandatory compensation for those off work due to illness, funded by employers and the state (Table 2.1). Disability support is fully state funded and has two components: an initial time-limited benefit, the Work Assessment Allowance (*AAP, Arbeidsavklaringspenger*) and long-term disability support, the Disability Benefit (*Uføretrygd*). The AAP emphasises rehabilitation, aiming to

limit numbers ending up permanently on the Disability Benefit. There is linkage between the sick leave and disability systems. Typically among middle-aged and older cohorts individuals transition from a prolonged period of sick leave into the AAP benefit and then onto Disability Benefit support. Among young cohorts transition directly into the AAP benefit is more common, as many young people receiving the AAP benefit have little to no work experience.

Norway's still high rates of sickness absence and disability benefits do not reflect the health of the population, but rather a combination of structural factors and policy design. Core issues are generous benefit levels and relatively light eligibility conditions for starting and remaining on benefit, resulting in low rates of rehabilitation. Past reforms have endeavoured to re-orientate sickness and disability systems to better facilitate and encourage return to work. This has been a theme of reform in other countries too, including Sweden, the Netherlands and Switzerland, where outcomes have improved considerably (Box 2.5). Norway has had some success in outcomes. For instance, aside from reduced disability claims among pre-retirement cohorts, there has been some progress in encouraging partial return to work; around 20% of sick leave entails a partial return to work and a similar percentage of those receiving disability are in work. Reform to the AAP-scheme in 2018 seems to have reduced the number of AAP-claimants substantially, in particular due to stricter requirements for extending the duration of the benefit (Table 2.1). However, the much larger overall rates of sick leave and disability point to substantial scope for improved outcomes.

Sick-leave reform

Reform progress has been rather limited in sick leave compensation. To date, changes to sick-leave regulations have largely arisen from a series of agreements between the government, employers and unions (the Inclusive Working Life (IA) Agreements). The Agreements rely mostly on individual employer and sector-level actions to address sick leave. One advantage of this approach is that it potentially addresses the drivers of the substantial sectoral differences in the incidence of sick leave. For instance, there are above average levels of sick leave in some areas of public-sector employment, including health care, and in some areas of the private sector, for instance, construction.

However, so far the Agreements' impact on the incidence of sick leave has been disappointing. A new four-year IA Agreement was struck in 2018. As for previous agreements, it includes a national quantitative target on reducing sick leave and national-level initiatives that support employer-level and sector-level efforts at preventing sickness absence (e.g. health and safety measures) and encouraging return to work among those absent. The instruments of the new Agreement aim to target the challenges more directly with more focus on work at the individual work place. This is encouraging, however the Agreement is unlikely to be sufficient in itself to bring about major changes in patterns of sick leave. The Agreement's, reliance on individual employer and sector-level actions to address sick leave, without substantial reform to the sick-leave compensation rules themselves may be the key issue. Indeed, as per previous agreements, the latest contains a clause agreeing to no government-initiated changes to the sick-leave system while the agreement is in operation – a feature that the OECD questioned already in 2005, in its initial assessment of the first IA agreement (OECD, 2006).

Table 2.1. Norway's sickness and disability system: key features and recent initiatives

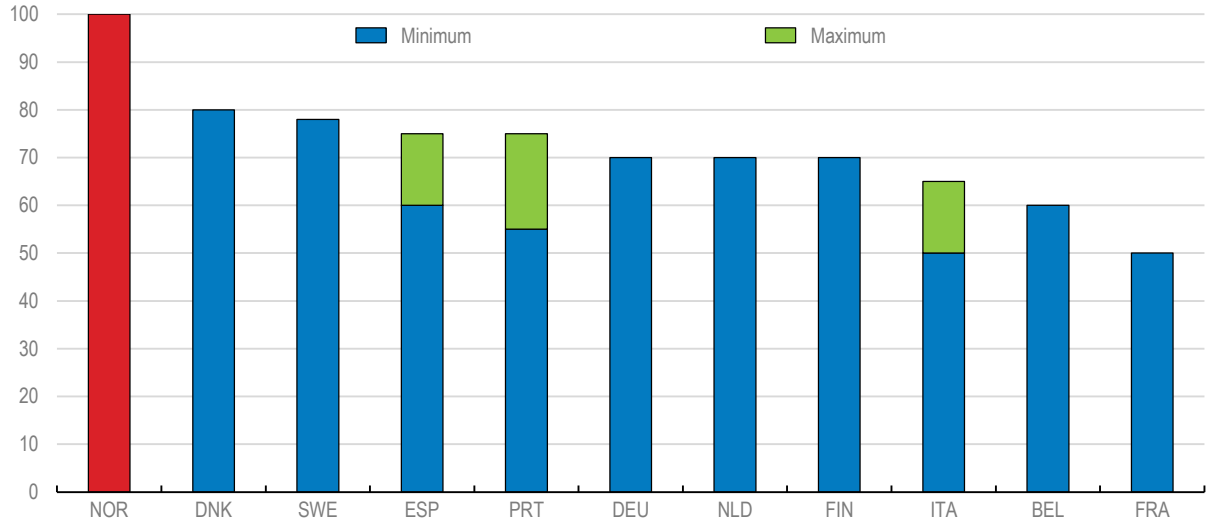
Sick leave	
Key features	• Compensation at 100% previous salary for up to one year, a ceiling applies to state-funded payment at a little above the average wage. • Employer pays sickness benefit for the first 16 calendar days, thereafter state funded. • Follow up requirements include: formulation of a return-to-work plan by employer and employee within four weeks, an expanded medical certificate and requirements regarding activity after eight weeks, (generally) a meeting after 26 weeks between NAV, the employer and the person receiving sickness benefits.
Recent measures	• A trial introducing a new requirement for a medical assessment after six months of sick leave has been completed. • Introduction of guidance for doctors on the appropriate length of sick leave. • Ramped up rules requiring that those on sick leave beyond eight weeks are subject to activation requirements. • Measures in the 2019-2022 IA Agreement include: a working environment programme, seven new industry programmes, a trial skills programme, an expert assistance grant for those on long-term sick leave.
Work Assessment Allowance (AAP)	
Key features	• Principally aims to get individuals into employment, targets those who have been assessed as having at least 50% impairment in work capacity. • Compensation is around two-thirds previous wage (a ceiling applies), three year maximum duration. It can be supplemented by a disability pension from an occupational scheme. Minimum benefit is around NOK 200 000. • Receipt of the benefit is conditional on following an agreed activation plan. • Those reaching the end of one-year of sickness leave may apply to the scheme.
Recent initiatives	• Shortening of standard duration from 4 to 3 years, introducing maximum duration on extension beyond the standard duration (two years) and stricter rules on extension beyond the standard duration (2018). • The government's Budget for 2020 proposes changes in the Work Assessment Allowance for young people (under 25 years) to encourage labour participation.
Disability Benefit	
Key features	• Provides long-term disability support for those of working age (i.e. 18 to 67 years). • Compensation is around two-thirds previous wage (a ceiling applies) and as for AAP it can be supplemented by a disability pension from an occupational scheme. Minimum benefit is between NOK 230 000 and 250 000. • Income from employment is permitted though benefit is partially withdrawn for income levels above certain limits.
Recent initiatives (2015 reform)	• The disability pension system is no longer part of the old-age pension system. This, inter alia, has resulted in disability benefit being taxed as wage income. • Combining disability and work income has been made easier.

Substantial change to the system of sick leave compensation must be a key ingredient to reducing absences in Norway. Incentive issues are important and past OECD assessment has drawn particular attention to the following:

- Mandatory compensation remains at 100% of the previous wage throughout sick leave absence (which is up to one year). Elsewhere, mandatory sick leave compensation, even initially, is usually less than 100% and sometimes is reduced as sick leave progresses (Figure 2.22, OECD, 2010). Past OECD recommendations have suggested reducing Norway's mandatory rate of compensation.
- Employers fully fund the first 16 days of sick leave but there are no further mandatory funding responsibilities. However, all public-sector employers and some in the private sector voluntarily (or as part of firm level or sectoral agreements) make top-up payments to employees earning above the payment ceiling for state-funded compensation. A comparatively short period of obligatory employer funding is a feature of some other systems, for instance Sweden. This approach weakens employers' incentives to engage in preventative measures or rehabilitation of those on prolonged sick leave. Past OECD recommendations have suggested extending employer funding

Figure 2.22. Norway's mandated sick leave compensation is generous

Sickness benefit replacement rate %



Note: The sickness benefit paid by the social protection system is calculated as a percentage of the gross (or in some cases the net) daily or monthly salary and varies between 50% and 100% thereof. Many countries apply an earnings ceiling to insurance coverage. The sickness benefit replacement rate varies most often according to the period of social contributions, the worker's status (white versus blue/collar), the arrangements in collective agreements, and the type of sickness. The replacement rates do not take into account the supplementary compensation from employers, private insurance companies or mutual insurances.

Source: EC/European Social Policy Network (2016), Sick pay and sickness benefit schemes in the European Union, Background report for the Social Protection Committees, 17 October 2016. Based on MISSOC 2015.

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Box 2.5. Significant reforms in Sweden, the Netherlands and Switzerland

Efforts to improve sickness leave and disability benefit systems are often being conducted on a more or less continuous basis. However, though not always apparent at the time, some phases of reform turn out to be particularly significant. The following have been identified as important for Sweden, the Netherlands and Switzerland (further details in Hemmings and Prinz, 2019):

Sweden, sickness leave reforms, 1990s. Reforms notably included introduction of a 14-day sick-pay period covered by the employer and substantial changes to compensation. Pre-reform the system replaced 100% of previous earnings for 90 days and 95% thereafter, with no time limit. There were two phases of reforms:

- 1993: introduction of a one-day waiting period (i.e. no payment on the first day of sickness absence), compensation was 75% of previous earnings in the next two days, 90% until day 90, 80% after day 90 and 70% after the first year of absence. This reform prompted a sharp drop in absence spells but also a small increase in the duration per spell (Johansson and Palme, 2004; Henrekson and Persson, 2004).
- Late 1990s: partial reversal; sick-pay rates were increased 90% of the previous wage for the first year and set at 80% thereafter. This led to a significant rise in absence rates, especially longer-term absences (Hesslius and Persson, 2007). Overall, the cost of being absent significantly affected absence behaviour.

Sweden (mid 2000s). Starting around 2006, Sweden undertook another series of reforms to sickness and disability policies. These included the introduction of:

- A sick-leave process in which a wider scope of jobs has to be considered over time.
- A 2.5-year ceiling on the duration of sick leave compensation (previously there was no limit on duration). The limit on the duration was revoked again in 2016.
- More stringent disability-pension entitlement criteria.
- Introduction of guidelines on the recommended period of absence.

The Netherlands, sickness leave reforms (1990s). Major reform started in the early 1990s that led to the full privatisation of the previously publicly administrated and collectively financed sickness benefit scheme. This reform was largely responsible for drop in absence rates from 8.1% in 1992 to 4.6% in 1997. Notable components of the reform included:

- A shift from uniform employer premiums to premiums reflecting firms' absence rates.
- Longer employer responsibility for payment of benefits, by 1996 employers were entirely responsible for sick pay (then 52-weeks maximum). An insurance market developed, where most small companies choose to insure their sick-pay liabilities.

The Netherlands, sickness leave reforms in 2002 and 2004. These reforms brought much more detailed regulation of the employers' sickness management and reintegration responsibilities and extended the sick-pay period from one year to two years. Notably, insufficient reintegration efforts by the employer can make them responsible for up to a year's additional sick leave compensation, thus prolonging the sick-pay period by another year.

The Netherlands, disability benefit reforms (early 2000s). Major reform to the disability system was agreed by the government and the social partners in 2003-04, and took effect in 2006. The reform notably: focused on recent entrants to disability, brought in entitlement reassessment for those aged under 45 years, and strengthened employer and employee incentives.

Switzerland, medical assessment reform (early 2000s). In 2004, as part of a revision of invalidity insurance law Switzerland established the Regional Medical Service (RAD, Regionaläzlichen Dienste). The RAD supports the disability insurance authority in assessing work capacity and thus benefit entitlement – a task previously carried out predominantly by the claimants' general practitioners. A preliminary evaluation found the RAD system improved medical decisions, with more cooperation between physicians and a better alignment with the requirements of the disability insurance. However the reform did not reduce the time needed to take decisions.

Switzerland, disability benefit reform (2003-2016). Over this period, the government substantially altered disability insurance system through a series of reforms. Overall, the reforms:

- Clarified and tightened the eligibility criteria for disability pensions.
- Introduced a more fine-grained classification of disability.
- Reduced implicit tax on earnings from employment while in receipt of a disability pension.
- Improved the detection of people at risk of becoming disabled, including a new form of low-threshold application to disability insurance.
- Set up early intervention measures to secure job retention or to support job search, including vocational training and active job placement.
- Introduced substantial wage subsidies for employers hiring disability benefit claimants.

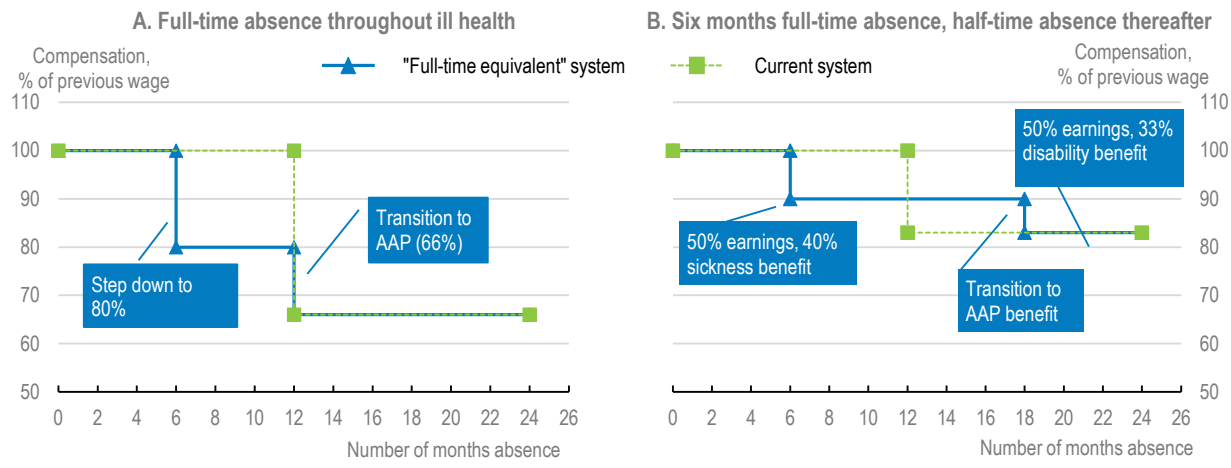
Source: Hemmings and Prinz (2019).

Sick-leave reform proposed by the initial report of the Employment Commission (Box 2.6) recommends:

- A shift to a full-time equivalent approach to sick-leave compensation and duration. Any configuration of sick leave (full-time, part-time, and any mix of the two) would be possible within a total allowance of 12 months full-time equivalent with a maximum duration of 18 months.
- Extended employer participation in funding sick-leave compensation. The period of full funding by employers would be reduced from 16 to 7 days. Thereafter the employer would pay a 10% co-payment on the first half of full-time compensation, and 25% for the second half. Thus, for instance, the co-payment for an employee on half-time sick leave would be equal to 5% of the previous salary and 17.5% in case of full-time sick leave (5% plus 12.5%).
- A step-down in compensation paid to workers on sick leave to 80% of the previous wage after six months full-time equivalent (pro-rata adjustment for part-time absence), i.e. after a period of six months in the case of full-time sick leave, or for instance 12 months in the case of 50 % sick leave.

Implications of the step-down in compensation and the full-time equivalent approach are illustrated in Figure 2.23. Panel A shows the proposed compensation step-down for full-time absence, as in the current system those with long-term health problems transition to the AAP benefit after 12 months. Panel B illustrates how, under the full-time equivalent approach, someone could return to work half time after a 6-months absence and then remain on sick leave a further 12 months (thus using the full 12-month full-time allocation and terminating at the proposed 18-month limit). Income drops to 90% of previous earnings at 6 months (extended sick leave compensation, plus earnings), then to 83% at 18 months (disability support, plus earnings). The claimant receives the same total value of sick-leave compensation as for full-time absence—which would not be the case in the current system.

Figure 2.23. Employee compensation under the Employment Commission's proposed "full-time equivalent" system, example of 24-month absence



Note: This simulation shows the case for a worker with a wage below the benefit ceiling. AAP: Norway's Work Assessment Allowance (AAP, Arbeidsavklaringspenger).
Source: OECD's calculation.

StatLink https://doi.org/10.1787/888934072334

Box 2.6. The Employment Commission's initial recommendations

In 2018, the government commissioned an investigation of employment levels and related policies. This was primarily motivated by the trend declines in employment rates and labour-force participation seen among certain groups (see main text). The initial expert group, which unusually for Norway excluded union and employer representatives, produced a report in March 2019 (*Arbeid og inntektssikring*, 'work and income support'). A second round of analysis, including representation from the social partners, is underway. A second report will be submitted in mid 2020.

The Commission report's emphasis is on increasing the work orientation of policy, recognising that higher employment rates bring both social and economic benefits. The report's overall capacities-motivation-opportunities framework is also advocated by OECD, including in the latest Jobs Strategy.

The policy recommendations of the Commission's initial report focus heavily on sick-leave compensation and disability benefits. These are discussed quite extensively elsewhere in this chapter. The initial report also advocates lighter taxation on low income levels, increased use of wage subsidies, increased education options, greater entrepreneurial support for the unemployed and better training for immigrant refugees. Meanwhile it also suggests stronger activity requirements for some benefits and longer job probationary periods. In addition, it is recommended that the benefit-services provider, NAV, be given more resources for claimant follow-up and for research into policy effectiveness.

The initial report also proposes measures to encourage employers to retain or hire those aged 70 plus. In 2015 the age limit of certain elements of dismissal protection (part of the Work Environment Act) was raised from 70 to 72 years. In response, many firms introduced mandatory company age limits at age 70, suggesting significant concern among employers that the extension of dismissal protection may mean retaining workers with deteriorating performance. The Commission proposes banning company age limits and reverting to an age limit of 70 for the Work Environment Act, which in combination should boost employment among those over 70 as well as older workers below the age limit.

The Commission's proposal for employer funding implies lower compensation costs for short absence (which accounts for the vast majority of sick-leave spells) but higher costs for long absence, thus in principle incentivising employers to address prevention and rehabilitation in cases of long-term sickness absence. The lower cost of shorter absence is illustrated in Figure 2.24, Panel A, which suggests that for full-time absence, sick-leave compensation costs for employers will be less than the current system until around the seventh week of absence. Figure 2.24 Panel A also illustrates how the proposal makes partial return to work attractive for employers. In the case of an absent employee normally earning the national average wage, a 20% return to work (e.g. 1 day in a 5-day working week) reduces the employer's cost of sick leave by about NOK 5 000 over a three-month absence.

The higher employer costs of long-term absence are illustrated in Panels B and C of Figure 2.24. For an employee on the national average wage the accumulated cost would be around NOK 90 000 or NOK 140 000 for 12 months absence, depending on whether the employer continues to tops up the 80% mandatory compensation after six months. For high-earners (Panel C), when earnings are well in excess of the ceiling on mandatory compensation, the implications of the proposed system are less significant if top-ups remain in place.

Reducing the generosity of sick-leave compensation and extending employer funding are very welcome directions for policy, and should be retained as key elements of the reform. Ensuring impact from the reform would be helped by.

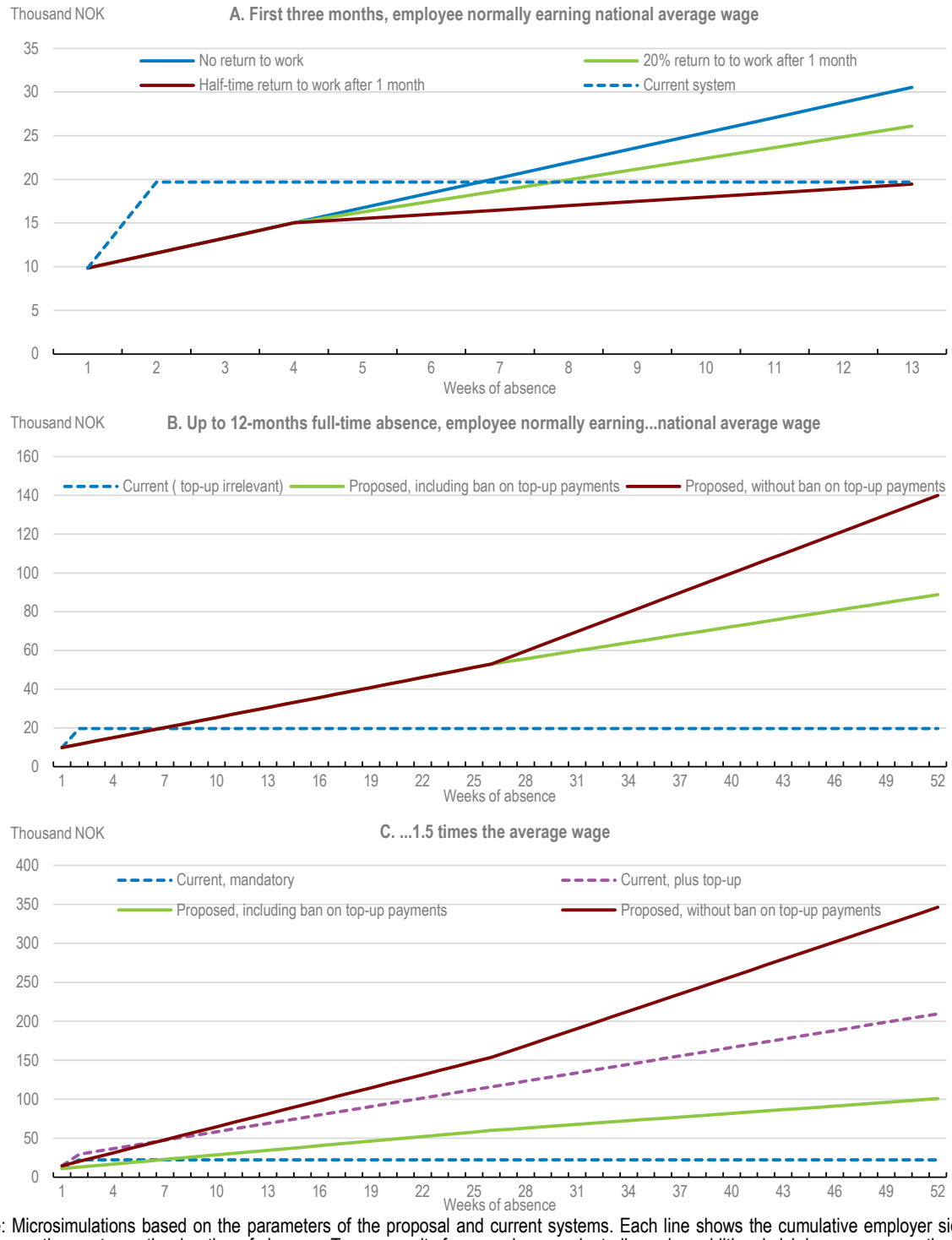
- Early step-down in compensation. Step-down in compensation after 6 months, as described in the central recommendation of the Commission, is comparatively late; step down much earlier or even from the initial day of absence would be more effective. This is echoed in the details of the Commission's report. Data from a number of OECD countries show that a return to work is very unlikely after a period of sickness absence of 5-6 months (OECD, 2015).
- Limitations on top-up payments (also suggested in the Commission's report). For reduced compensation (at any stage) to influence patterns of sick leave, a limit on top-up payments should be considered. Given many employers already top-up compensation for employees earning above the ceiling for mandatory compensation, it seems likely that topping-up the 80% compensation would also become common, unless banned or dissuaded by a penalty (as is the case, for instance, in the Netherlands and Sweden).

Ensuring positive impact from strengthening employer and employee financial incentives may require auxiliary measures:

- Further measures to intensify management efforts, particularly in certain sectors. Greater, opportunities and incentives for employers to facilitate and motivate preventative actions and return to work may be required. At present, employers have some avenues for engagement, for instance in the formulation of obligatory return-to-work plans (see Table 2.1). However, more steps may be needed. The proposed full-time equivalent system may prove useful, allowing employers to offer more attractive return-to-work options than at present. A sectoral approach to intensifying management attention to sick leave could also be taken, particularly in public-sector employment where government can more directly influence management.
- Further checks against adverse selection. Current sick-leave regulation includes a possibility for employers to apply for state funding for employees with increased probability for being sick (long-term or chronical diseases and sickness related to pregnancy). However, further measures may be required if the reforms prompt a reluctance to employ those at risk of ill health. The Netherlands, for instance, introduced a ban on health testing of job applicants and an exemption of employer co-payments for workers hired while on sick leave or on disability benefit (for further details see de Wind and Pronk, 2018).
- Additional mechanisms against the risk of heavy sick-leave compensation bills for individual employers. The Commission's proposal claims to be calibrated such that, in aggregate, the burden of mandated sick-leave compensation cost remains roughly the same between employers and the government (i.e. it aims to be fiscally neutral, based on assumptions about the impact of reform). However, the cost impact among individual employers will vary widely depending on the profile of sick-leave absence among their employees. Sick-leave regulation currently allows small companies to ensure against sick pay during the first 16 calender days (specifically, the company's total salary bill must not exceed 40 times the 'basic amount' of the welfare system, which implies a wage bill of below around NOK 4 million, i.e. around EUR 400 thousand). However, more steps may be required. Several OECD countries, including Austria and Germany for example, have mechanisms that compensate excessive sick-pay costs for small businesses. In Austria, a subsidy that partially covers the cost of sick-leave pay is available for employers with fewer than 50 employees. In Germany, employers with fewer than 30 employees pay a compulsory contribution to a fund that reimburses between 40% and 80% of sick-leave wage costs.

Figure 2.24. Employer's sick leave compensation under the Employment Commission's proposals

Employer cost of sick leave compensation for an absent employee



Note: Microsimulations based on the parameters of the proposal and current systems. Each line shows the cumulative employer sick leave compensation cost over the duration of absence. Top-up results from employers voluntarily paying additional sick-leave compensation to bring it to 100% of previous (reference) wage. Top-ups arise when the employee earns more than the ceiling for mandatory sick-leave compensation or when, as proposed by the Employment Commission, compensation is less than 100% of previous earnings after six months of full-time sick leave (or equivalent).
Source: OECD calculations.

StatLink https://doi.org/10.1787/888934072353

Disability benefit reform

Past policy actions have endeavoured to re-orientate disability support so that it better facilitates and encourages a return to work. This has been a theme of reform in other countries too, including Sweden, the Netherlands and Switzerland. Past reforms in Norway have included the consolidation in 2010 of time-limited schemes into the AAP benefit and the separation of the Disability Benefit from the old-age pension system, which has notably resulted in the Benefit being taxed in the same way as wage income (Table 2.1). Recent reform to the AAP benefit has included a shortening of the standard length of the AAP benefit and tighter conditions on extensions.

As described above, the falls in disability claimant rates among pre-retirement cohorts suggest a degree of success from reforms. However, there is considerable scope for further reduction in this age group and worrying growth in the share of young and middle-aged Norwegians claiming a disability benefit. Among these groups, entering the system 'directly', i.e. without first passing through the sick leave system, is more common than in other age groups. This underscores that the AAP has an important role in rehabilitation.

Critical weaknesses in the disability benefit system lie in the rules and processes determining benefit eligibility. A need for stricter application of rules as well as stronger criteria and processing has been identified; specifically, limiting access to Disability Benefit through wider exclusion criteria and stronger treatment and rehabilitation requirements (OECD, 2013). Some of the Employment Commission's recommendations on disability support suggest tougher criteria along these lines, which is welcome. In particular, it suggests reducing AAP payments for younger cohorts and for individuals living at home. The government has proposed lower minimum benefits for AAP-recipients under 25 years in the budget for 2020, and more funding for follow-up of these recipients more closely. Stricter eligibility is also recommended by the Employment Commission for those entering AAP directly. Such measures could have impact, depending on specific policy design.

Early intervention should also be a theme of adjustment and reform to disability benefit (and indeed sick-leave too) looking forward. International evidence underscores that the chances of return-to-work and the effectiveness of rehabilitation measures decline steeply the longer individuals remain off work (OECD, 2010; 2015). Early intervention also should, for instance, be a feature of mechanisms such as targeted (and time limited) wage subsidies to encourage employers to hire those receiving health-related benefits. Norway makes comparatively less use of such subsidies, especially compared with its Nordic neighbours. The Commission's report also proposes "health adjusted wages" (Box 2.7), which aim to encourage employers to offer work to those on Disability Benefit. The scheme has some merit, but making it available only to those on the Disability Benefit means the scheme will apply typically to those who have been out of work for a prolonged period. Unfortunately, in this instance applying the scheme earlier risks compromising the AAP system, which strongly focuses on getting individuals back to regular work

Box 2.7. The Employment Commission's proposal for "health-adjusted wages"

One proposal by the Employment Commission is for "health-adjusted pay" in which employers would be permitted to pay reduced wages when employing those receiving Disability Benefit on the basis that ill health is compromising the worker's productivity. This approach has parallels in other OECD countries. In Australia, under the "supported wage system" employers can pay a productivity wage (with a complex assessment to determine the workers' level of productivity). A government inquiry (Australian Human Rights Commission, 2012) provided a broadly positive assessment of the scheme but saw room for improvement, including in program administration and in monitoring the impact of support removal. In Denmark's flex-job scheme workers can move from a regular job to a partially subsidised job, to compensate for reduced productivity. In Norway, a health-adjusted wage scheme would strengthen employer interest in taking on those on Disability Benefit. It also avoids (direct) new fiscal commitment by government (as would be the case with a more typical wage subsidy to employers). Given the scheme's experimental nature, it is proposed that it initially applies only to certain groups, including younger cohorts.

Prima facie, making the scheme available at an earlier stage, for instance as part of the AAP benefit, would make it more effective. However, this would risk compromising the central goal of the AAP benefit, which is to promote a return to ordinary work on ordinary conditions.

As regards other aspects of the scheme, the Employment Commission's report only partially fleshes out the details and acknowledges that a number of questions arise. How the scheme treats and motivates claimants will be critical. For instance, if participation in the scheme is to be voluntary, the reduced wage has to be sufficiently attractive for the claimant. The process for determining the wage adjustment (by social-security administration, or otherwise) will also be important.

Major medical-assessment reform for sick leave and disability claims could reduce take-up of benefits

Reform to the medical assessment procedure in both sick leave and disability support has long featured in OECD recommendations for reform in Norway. Throughout the sick-leave and disability benefit application process, medical assessment is still predominately carried out by the claimant's own general practitioner, making the system vulnerable to assessments biased in favour of the claimants interests. There have been several initiatives aimed at strengthening co-operation and co-ordination between health rehabilitation and active labour market policies. Some of these are promising, such as the "Centres for Work Coping" (Box 2.8). However, the schemes are yet to involve large numbers of those on health-related benefits. For greater impact, such schemes (if proven successful) need to be rolled out.

Deeper reform to medical assessment procedure may be needed, including medical assessment by practitioners other than the person's own doctor. A trial requiring the claimant to obtain a second opinion to a general practitioner did not have significant impact. This could be due to the specific design of the trial. Effective reform of medical assessment may require changes that, for instance see input of medical practitioners selected (or contracted) by the employer or the public employment service. Switzerland offers an interesting example in this regard as it introduced regional medical services that can overrule the decision of a claimant's general practitioner. This reform, introduced in 2004, has helped the country considerably in bringing the number of new disability benefit claims down (OECD, 2006; OECD, 2014).

Box 2.8. Coordination between employment and health service: Norway's Centres for Coping

Systemised co-ordination between employment and health services can help improve rehabilitation. Several initiatives focus on this issue. One measure provided by the public employment service is "Individual placement and support", which focusses on helping people with mental disorders and drug problems return to work. "Health in Work" seeks to ensure health promotion and preventive information at the workplace. A third example are the "Centres for Work Coping" (*Senter for Jobbmestring*) operated by the public employment services.

The Centres offer cognitive behavioural therapy and specialist employment services to people with mild-to-moderate mental disorders who are either still in work, on sick leave, or inactive (OECD, 2015). The services are currently established in seven of Norway's 19 counties. A randomised controlled trial found positive impact in terms of work participation, depression and anxiety, and health-related quality of life after 12 and 18 months (Reme et al., 2015). A follow-up study found positive impact in terms of income, work participation and reliance on welfare benefit 10 to 46 months after the intervention (Øverland et al, 2018).

Specific measures to address work absence due to mental ill health are required

In Norway, as in a number of other countries, mental illness has increasingly been a cause of employee absence, and a reason why some individuals remain out of work for prolonged periods. Resolving the problems in the sick leave and disability systems along the lines described above will help address mental health concerns, in particular by prompting greater employer interest in preventative steps to avoid absence. However, people facing mental health challenges are not only found among those on sickness or disability benefit but also among those still working and those on other benefits, such as unemployment benefit and social assistance. Therefore, as underscored in the OECD's *Mental Health and Work* project (OECD, 2015) broader steps are required with a focus on early identification and service integration. A more in-depth assessment for Norway (OECD, 2013) recommends also strengthening early intervention through the provision of additional services directed at mental illness by the Employment Support Services of NAV.

Getting incentives right in retirement-age choices

Government reforms have widened retirement-age choice and reduced biases

Norway's pension system (see Box 2.9 and Table 2.2) for most individuals allows retirement as early as 62 years while also permitting considerably later retirement. A central thrust of major reforms, one implemented in 2011 and one agreed on in 2018, has been to bring a more actuarially neutral trade-off between the age of retirement and pension income, and to reduce previously strong biases towards retiring early. In particular:

- For the state-funded earnings-linked pension, reform in 2011 brought:
  - A retirement-age range of 62 to 75 years for the state-funded earnings-linked pension accompanied by actuarially-adjusted pension payouts.
  - Systematic updating over time of the life-expectancy assumptions used calculating an individuals pension pay-out to reflect further increase in longevity. Thus, over time individuals will be nudged towards later retirement as the pay out at a given retirement age will be diminished. Thus, ceteris paribus, only by retiring later individuals will be able to reach the same level of pay out as preceding generations of retirees.
- For the second pillar of the pension system (see Table 2.2), reforms to the occupational pensions and the supplementary 'AFP' early retirement pensions will also strengthen actuarial neutrality and reduce biases towards early retirement.

The increased emphasis on providing a wide range of possibility on retirement age with corresponding actuarially based pay out adjustment is broadly welcome and should be preserved as a central feature of the pension system. However, the approach is not without challenges.

Box 2.9. Norway's pension provisions: overview

Norway's pension system includes a substantial first pillar comprising a state-funded pension that provides earnings-linked pensions and a safety net pension. This is supplemented by second-pillar occupational pensions (historically, predominantly defined-benefit pensions, today almost all defined-contribution in the private sector). The occupational pensions in the private sector have widely varying importance in individuals' retirement incomes. Many workplaces adopt the 2%-of-salary mandatory minimum contribution rate, while in other workplaces the contributions are considerably higher. In the public sector, an agreement has been reached to replace the defined benefit occupational pensions which aimed at specific compensation level, with a system that gives a net supplement to the state-funded old-age pension that increases with age of retirement (more actuarially neutral). Second-pillar pensions are supplemented by a separate collectively bargained system ('AFP') for workers covered by collectively bargained schemes. The AFP system has recently been joined by a new scheme for early retirement set up by unions and employers (sliterordningen). Third pillar pensions - individual voluntary pension products - play a comparatively small role.

There has been a shift away from focus on a specific retirement age in the pension system. A flexible retirement age ranging from 62 to 75 has been implemented throughout the pension system. However, some components of the system are still centred on age 67. For instance, this is the age when the safety net pension commences

Addressing tensions from retirement-age choice and pay out adjustment

One risk of providing a wide range of options on retirement age, with corresponding pay out adjustment, is that tensions over fairness may arise. The pension system is fair in that each retirement age is financially equivalent in terms of the expected value of the total pension received over the remaining lifetime. However, fairness issues in a different dimension arise from the actuarial adjustment. Given the correlation between earnings and life expectancy, high earners are disproportionately rewarded for delaying retirement because the pay-out calculation is based on a lower life expectancy than theirs (i.e. actuarial adjustment may be regressive). In addition, high earners are more likely to be in occupations where it is feasible to continue working into later life, further driving regressivity.

Concern about regressivity has been exemplified in a small-scale early retirement scheme agreed in 2018 between unions and employers The sliterordningen scheme will provide annual top-up retirement payments (to age 80) for those retiring between the age 62 and 64 years, thus (re)introducing actuarial bias towards early retirement (Box 2.10). Regressivity concerns could however be tackled differently. For instance, the accumulation of pension entitlements to the state-funded earnings-linked pension could be made more progressive through the contribution rate. Tensions over fairness can also be amplified if choices on retirement age are not well informed. Information and education campaigns can help along with higher default or recommended retirement ages to help guide decision making.

Table 2.2. Norway's pension system, selected details

Where applicable, the details describe new systems being phased in, not legacy systems

Selected details	Comment
First pillar I: Earnings-related, state-funded pension (major reform, 2011)	
● Retirement age 62 to 75 years ● Actuarial pay out calculation based on accumulation of a (notional) contribution of 18.1% of earnings from age 13 to 75 years (with a ceiling of 120% of the average wage) ● A minimum benefit level is required for access prior to 67 years	Provides most retirement income for a large majority of retirees
First pillar II: Guarantee pension (major reform 2011)	
A safety net pension for those without entitlement to the earnings-related state pension ● Available from age 67 years ● Tapered if retiree has other income in retirement	
Second pillar I: private sector occupational pensions	
Three types of occupational pension schemes (defined benefit, defined contribution or mixed/hybrid) provide supplemental income to first-pillar pensions. ● The pension schemes are managed by insurance companies and pension funds (employers paying a premium) ● The contribution is employer-paid with a mandatory minimum of 2% of salary. The basic contribution rate must be the same for all employees in an enterprise ● The payouts are mainly fixed term (10 years minimum) and therefore are not life-long pension annuities. ● Tax breaks apply	The minimum contribution is applied to a large share of workplaces, so for many retirees income from these pensions is comparatively small. However, some employers make substantial contributions and the pensions are an important component of retirement income Defined-contribution pensions now dominate but there are sizeable defined-benefit legacy funds
Second pillar II: public sector occupational pensions (for 67 years +)	
● A single occupational scheme providing supplemental pensions to central and municipal government employees ● Includes special retirement-age rules for certain occupations, including police, national defence, nursing	A new public occupational pension based on the same principles as in the first pillar will be introduced in 2020.
Second pillar III: "AFP" supplementary pensions (reformed 2011, a new reform is ongoing)	
● Separate systems for private and public sector. ● Pay-as-you-go funded. In the private sector funding is partly by a pension fund comprising employer contributions and a one-third state contribution to payouts. ● Early retirement payouts under the private-sector AFP scheme were replaced by life-long and more actuarially neutral payments in 2011. A similar reform is due to be implemented for the public sector under ongoing reforms	Prior to the 2011, reform of the private sector AFP provided early retirement pensions. The "new" private AFP provides life-long payments to employed workers, thus incentivising labour market participation..
Second pillar IV: "sliterordningen" special early retirement pension (recently introduced)	
● Established by unions and employers in 2018 ● Provides supplements to all workers retiring at 62 years onwards ● Annual pay-out schedule (after phase-in period) will be 25% of the welfare-system's basic amount ("G") if retired at 62, 2/3 of this if retired at 63 and 1/3 if retire at age 63 or 64. The benefit will be paid until age 80. (as of May 1 2019 G was 99 858 NOK per year)	The scheme is partly motivated by concern for regressivities introduced by the shift to actuarial-based pay outs (see main text)
Third pillar: voluntary pension saving by individuals	
● Comprises pension products offered by the private sector ● Tax breaks apply	Relatively small numbers, predominantly high-earners take up these pensions

Box 2.10. Implications of the union-employer sliterordningen early-retirement scheme for individuals' pensions

When fully phased in (which will be around 2025) sliterordningen will provide 25% of the standard national-insurance amount ("G") to 62 year olds, two-thirds of this to 63 year olds (i.e. 16.7% G) and one third of this (i.e. 8.3% G) to 64 year-olds. Based on the 2019 annual value of G (NOK 99 858), these translate to pay outs worth around 25 000, 17 000 and 8 500 NOK per year (or around EUR 2 500, 1 700 and 850), respectively.

Sliterordningen will incentivise retirement in the range of 62 to 64 years, and affect the marginal incentives within that range. When the state-pension reform is fully phased in (which happens for those born in 1963 onwards) the annual pension gain for those retiring at 63 years instead of 62 years is around 13% of G, the sliterordningen pay out reduces this gap by 8.3% G, therefore roughly halving the financial incentive to postpone retirement.

Linking age dimensions to longevity should be explored

Reforms have factored increasing longevity into actuarial calculation but not age-dimensions of the system. Thus, the age range for the main state pension is set to remain at 62 to 75 years and access to the safety net pension will remain at 67 years. A common approach is to update such parameters periodically on a discretionary basis. However, an increasing number of countries (including Denmark, Finland and Sweden) have hard-wired linkage between the retirement-age parameters in their pension systems and life expectancy through regular technical updates. Linking age-parameters to life expectancy does not have to be on a one-for-one basis. Potential advantages of this approach include:

- Greater certainty and smoother adjustment for households' decision-making and planning around pensions compared with discretionary updating of age parameters.
- Less risk of poverty in retirement (and perhaps also reduced tensions over fairness), because a coordinated actuarial adjustment of both the pay-out calculation and the lowest permissible retirement age can prevent declines (relative to wages) in pension pay outs for early retirees. Gradual increase in age parameters also helps prevent a build-up of constraint on choice at the upper bound of the retirement-age range.

Adjustment in pension provisions for those on disability benefits is required

Co-ordination between the state pension system and other benefits (see earlier sections) implies a trade-off between work incentives and fair pensions to unhealthy individuals. Norway faces a particularly difficult issue regarding retirement for those on disability benefits (either the AAP or the Disability Benefit). Under the reformed pension system, those on benefits transition to an old-age pension at age 67. Retiring early via Disability Benefit (typically preceded by sick leave and AAP benefit) is for many of those considering retirement far more attractive financially than retiring via the options offered by the old-age pension system.

Opportunity has arisen to tackle this issue. Under the system of life-expectancy adjustment in the new pension system, the pension pay out to ex disability benefit recipients will decline over time. This is because, unlike other retirees, such individuals cannot postpone retirement to offset the impact of adjustment. A scheme that compensates for about half of the effect of life-expectancy adjustment has been in operation. At present there is no provision for those born in 1954 or later. Given the case for eroding the overall attractiveness of early retirement via disability benefits, re-introduction of this compensation could be postponed for a while, thus bringing a phase of more rapid erosion of the pension payout to ex disability benefit recipients. Once the pension has adjusted to a more appropriate level, the compensation scheme can be reactivated.

Special occupational retirement-age rules ("særaldersgrenser") remain unreformed

Similar to many countries, certain occupational groups have special provisions for retirement. In Norway these job-specific retirement-age rules (*særaldersgrenser*) are embedded in the public sector occupational pension system, with the largest groups being police, national defence and nurses. Around 20% of state employees fall under these special rules, 30% in municipalities. As also highlighted by the Employment Commission, these special provisions have seen little or no change for a long time. For instance, the retirement age legislation for the police dates back to 1938 and for the armed forces back in the 19th century. Notably the pensions still include:

- Mandatory retirement ages (mainly between 60 and 65 years), which have not been revised since the 1990s.
- Provisions allowing retirement three years prior to the mandatory retirement age if the sum of working years and the persons age exceeds 85 years, without adjustment of the annual pension.

Such blanket early retirement rules for certain professions are inappropriate. Reflecting the changing nature of work in these professions, for many jobs and tasks there is today no reason for rules that force early retirement. Also, there are more channels for individuals to transition away from functions where physical capacity is important, while remaining within the profession.

Mainstream pension reform has highlighted the disadvantages of the special retirement rules. Similar to the ex-Disability Benefit pensioners, a fixed retirement age does not fit well with life-expectancy adjustment as individuals cannot respond through later retirement (life-expectancy adjustment will apply from age 67 for those under job-specific retirement-age rules).

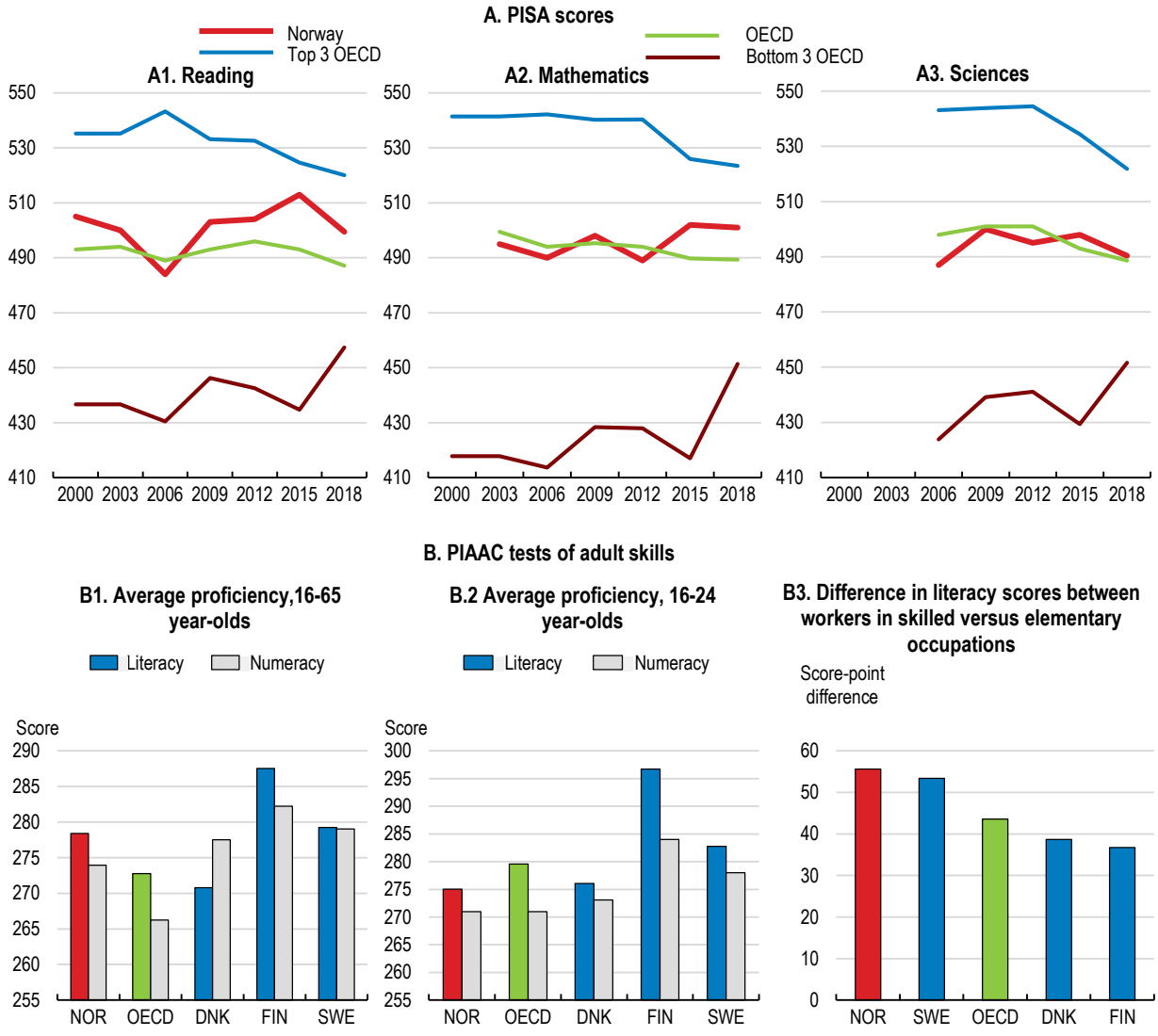
Education and Skills for High Employment

Ensuring solid skills across the entire population is becoming increasingly important in Norway as advances in technology, enhanced global competition, and the changing structure of work are shifting skill demands. Broadly, higher levels of skills will be required but there are specific dimensions. For instance, transversal skills, such as the ability to communicate, work in teams, lead, solve problems, self-organise, and digital skills are becoming more important in the labour market (OECD, 2017c and 2016b). Education and training need tuning to employers' needs, to provide relevant skills in a timely fashion and ensure continued high levels of employment. Relevant and high level skills, in turn, foster productivity growth and innovation in the economy.

There is room for improving skills in Norway

Norway's performance in international tests of learning and skills shows a mixed picture. There has been some progress in PISA scores in recent years across the three areas tested (reading, mathematics and science), but Norway largely remains around the OECD average (Figure 2.25). In the PIAAC tests of adult skills, Norway's scores for all adults are above average in reading and numeracy, albeit lagging behind high performers such as Finland. Norway's youth (16-24), on the other hand, score below the OECD average in PIAAC. These mixed outcomes are particularly concerning given that spending on education, which is predominantly public in Norway, is one of the highest in the (Figure 2.26).

Figure 2.25. In international tests of skills Norway's performance is mixed



Source: OECD, PISA 2000-2018 Databases; and OECD (2018), Higher Education in Norway: Labour Market Relevance and Outcomes, Higher Education, OECD Publishing, Paris, https://doi.org/10.1787/9789264301757-en.

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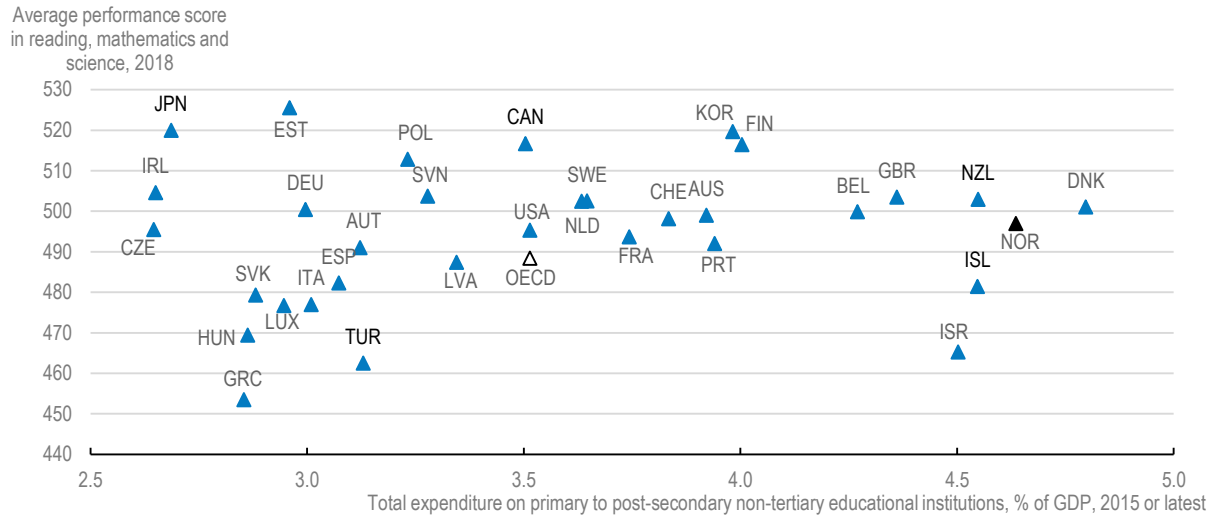
Early school leaving, especially among VET (Vocational Education and Training) students, is another challenge for Norway. Almost all youth that have completed compulsory education enrol in upper-secondary school, but completion rates are low. Close to 20% of 25-34 year-olds have not attained an upper-secondary qualification, which is above the OECD average and nearly twice as high as in best performing countries (Figure 2.27).

Figure 2.26. Very high spending on education has not brought outstanding outcomes



Source: OECD Education Statistics: PISA: Programme for International Student Assessment; and OECD (2019), Education spending (indicator). https://doi.org/10.1787/ca274bac-en (Accessed on 10 July 2019).

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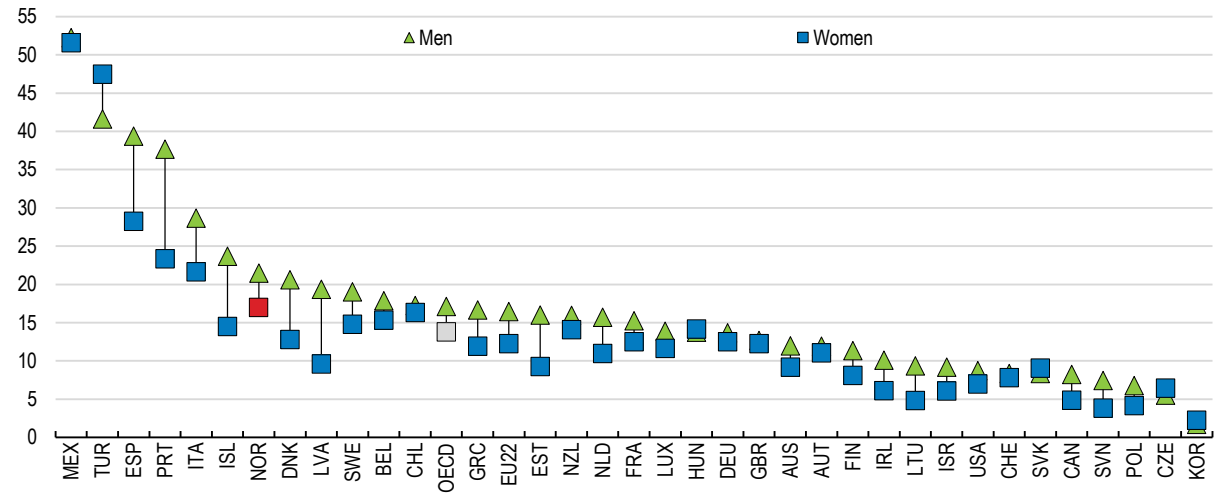
Figure 2.27. High share of youth do not complete upper secondary education

Percentage of 25-34 year-olds without upper secondary education, 2017 or latest



Source: *OECD (2018), Education at a Glance 2018: OECD Indicators, OECD Publishing, Paris,* https://doi.org/10.1787/eag-2018-en.

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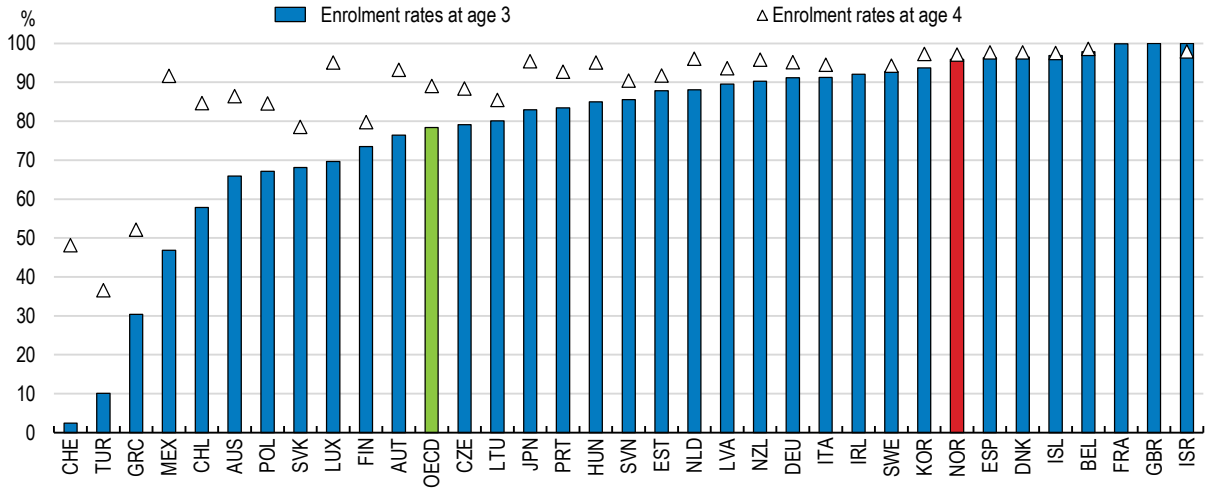
Nevertheless, Norwegian education and learning have many qualities and successes. Generous public funding brings universal access and equity throughout much of the education system. Norway has close to universal enrolment of 3-year olds into early childhood education and care (ECEC) (Figure 2.28). This plays a beneficial role in children's wellbeing and cognitive and social-emotional development and can form a good foundation for lifelong learning (OECD, 2017d, 2017e and 2018e). According to PISA results, schools across Norway tend to be of consistent quality (OECD, 2016c), which helps promote equality of opportunity and income mobility. The likelihood of disadvantaged students performing poorly compared to other students is lower than in other countries (Figure 2.29).

Figure 2.28. There is almost universal enrolment of 3-year olds into early childhood education and care

2017 or latest



Source: *OECD (2019), "Education Database: Enrolment by age", OECD Education Statistics (database), https*://doi.org/10.1787/71c07338-en (accessed on 9 October 2019).

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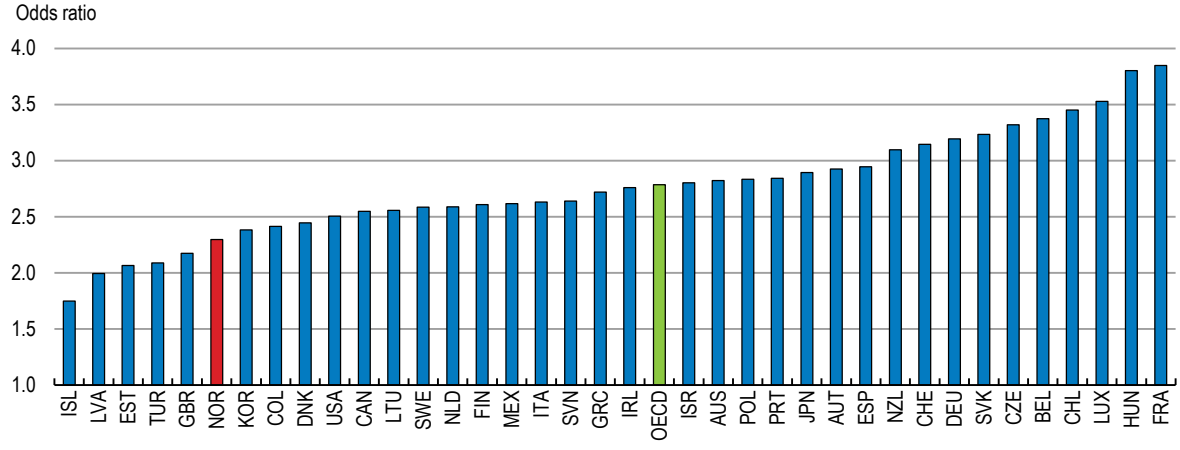
Figure 2.29. Disadvantaged students have a relatively low probability of poor performance

Likelihood of low performance among disadvantaged students, relative to non-disadvantaged students



Note: A socio-economically disadvantaged student is a student in the bottom quarter of the distribution of the PISA index of economic, social and cultural status (ESCS) within his or her each country/economy.

Source: *PISA 2015 Results (Volume I)*: Excellence and Equity in Education.

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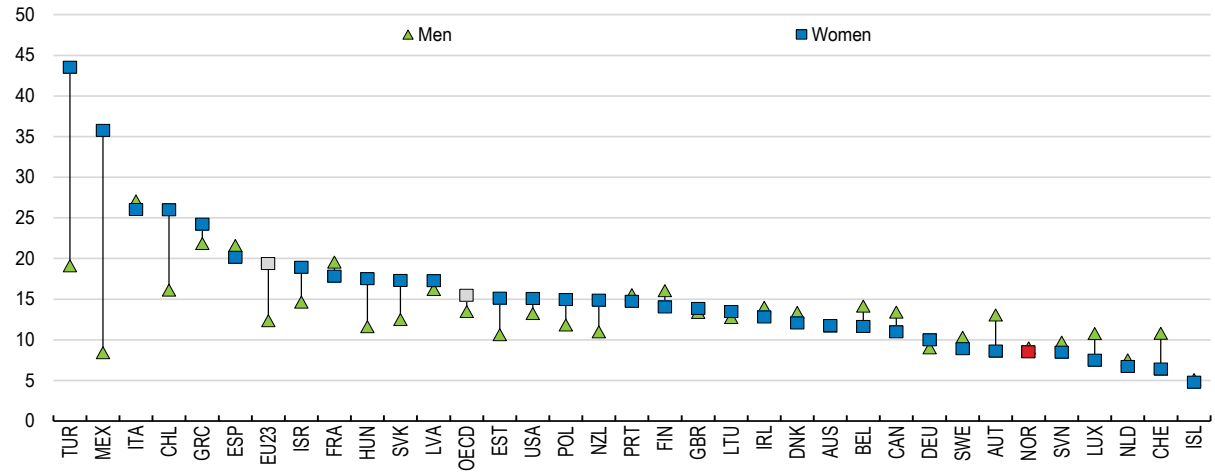
Norway has a flexible education system, where students can switch relatively easily between general and VET paths in upper secondary and tertiary education. Likewise, a lifelong learning culture and flexibility offer plenty of opportunities for learning, including returning to education later in life. This flexibility and a relatively strong labour market contribute to low rates of NEET youth (Not in Education, Employed or Training), which is among the lowest in the OECD (Figure 2.30), despite high non-completion rates of upper secondary education discussed above. Furthermore, participation of adults in education and training is high (Figure 2.31), including from those with low education and skills (OECD, 2016c and 2019b). The share of adults with low skills is small (Figure 2.32).

Figure 2.30. The share of NEET youth is low

Percentage of 18-24 year-old NEETs (neither employed nor in education or training), 2017 or latest available



Source: *OECD (2018), Education at a Glance Database,* http://stats.oecd.org.

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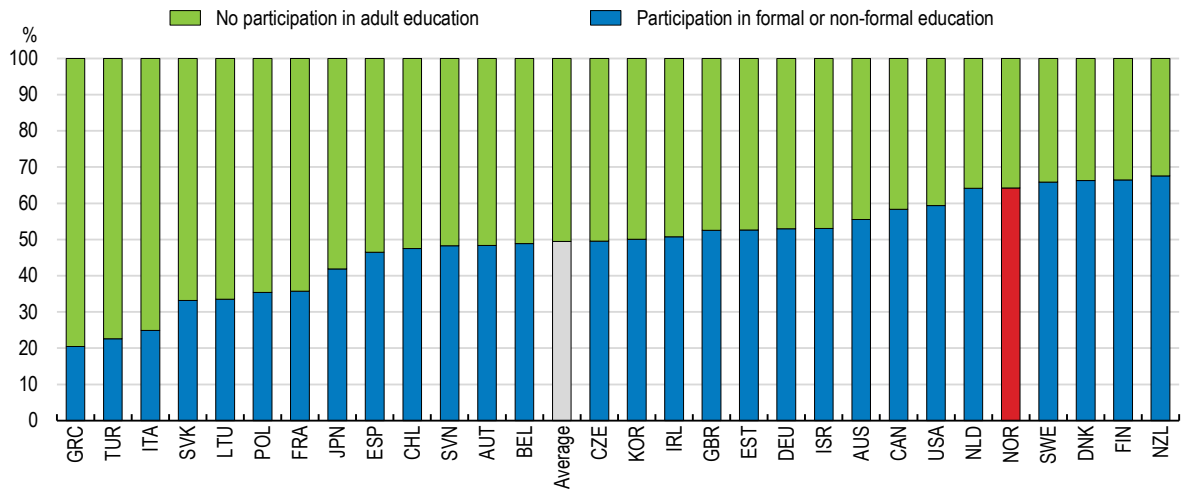
Figure 2.31. The participation of adults in education and training is high

Adults' participation in formal and/or non-formal education, by type (2012 or 2015)
Survey of Adult Skills (PIAAC), 25-64 year-olds



Source: Education at a glance, Table C6.1a. See Source section for more information and Annex 3 for notes. (www.oecd.org/education/education-at-a-glance-19991487.htm).

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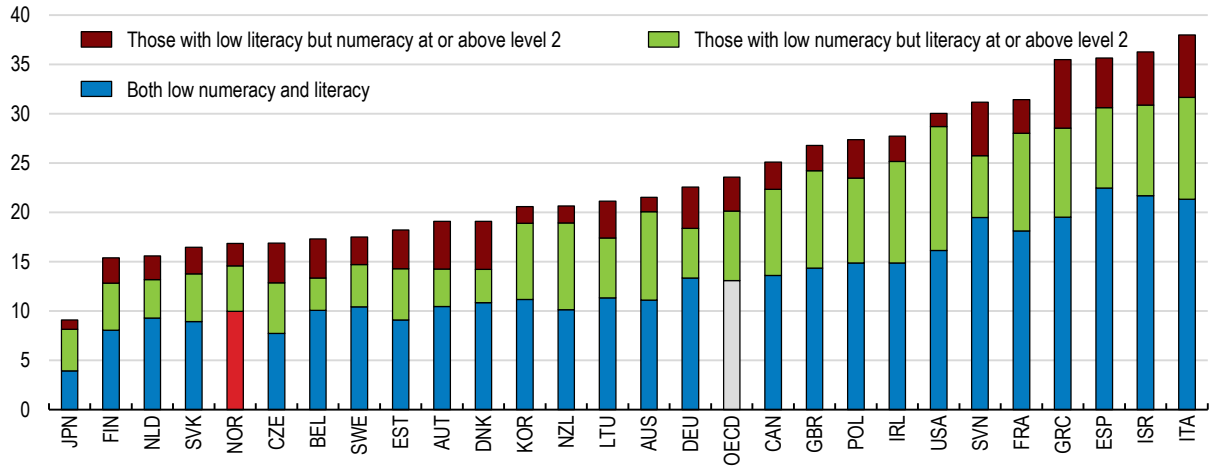
Figure 2.32. The share of adults with low basic skills is low

Share of adults with low basic skills



Source: Building Skills for All in Australia. Policy Insights from the Survey of Adult Skills (PIAAC 2012 and 2015).

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Reform efforts in schools are ongoing

As indicated by the average PISA test results, there is room for improvement in basic skills. Solid basic skills can equip workers with adaptability later in life, where they will likely be faced with a change of employer, a job or occupation. Sound basic skills can also help individuals acquire new skills later in life.

The authorities are aware of the challenges that education and training faces, and together with stakeholders efforts are continuously made to modernise the system at all levels and make it more relevant for the workplace. Primary and secondary education reforms currently include a major curriculum overhaul starting in 2020 (the previous major review was in 2006). The overhaul focuses on reducing the curriculum overload, encouraging more in-depth learning and greater clarity on expected pupil progression. It also aims for more systematic curriculum renewal in the future, with a higher degree of stakeholder involvement, which could boost the labour-market relevance of skills learned. A reform is also underway to improve teaching and school management. A programme has been rolled out that increases support for teachers' continued education and introduces requirement for a 5-year master's-level degree for new entrants to the profession.

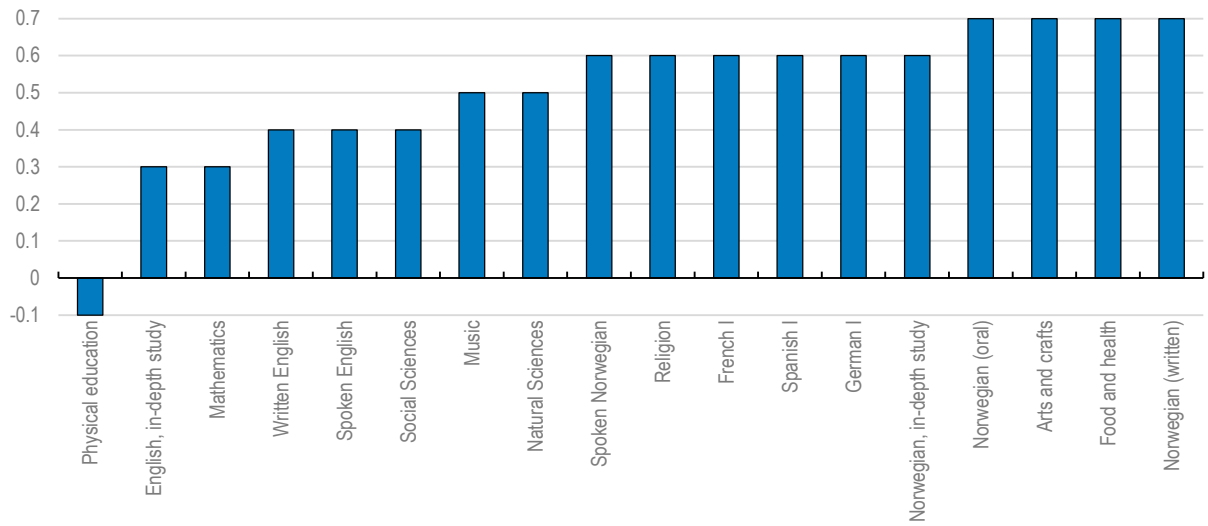
Boys' lower performance in schools is a concern

As for many other advanced economies, girls are increasingly outperforming boys in academic performance at school. In Norway's schools, the evidence suggests girls are outperforming boys, on average, across all subjects except physical education (Figure 2.33), with the gender gap especially large in language skills. More boys than girls are receiving additional educational support – approximately 70% of pupils receiving special needs education in primary and lower secondary education are boys (National Commission on Gender Equality in Education, 2019). Attitudes between boys and girls also differ, with fewer boys reporting that trying hard at school is important. In addition, fewer boys have ambitious academic and career expectations according to an OECD working paper (Borgonovi et al., 2018).

As grades from primary and lower secondary school are used to select students into upper secondary education, boys are more likely to have lower acceptance rates to schools for which there is high demand. Boys also have a lower chance of studying the subject of their choice. This contributes to boys having lower educational attainment – boys are significantly less likely to attain upper secondary or tertiary education (Figure 2.34). This can have far-reaching consequences, in particular as the labour markets will increasingly reward the highly qualified and highly educated workers

Figure 2.33. Girls do better in all school subjects except physical education

Gender gaps in final marks in 10th grade (girls' minus boys'), 2018



Note: Marks are awarded on a scale from 1 to 6, where mark 6 indicates that the pupil holds exceptionally high competence, and 1 indicates that the pupil has attained little competence in the subject.
Source: Statistics Norway.

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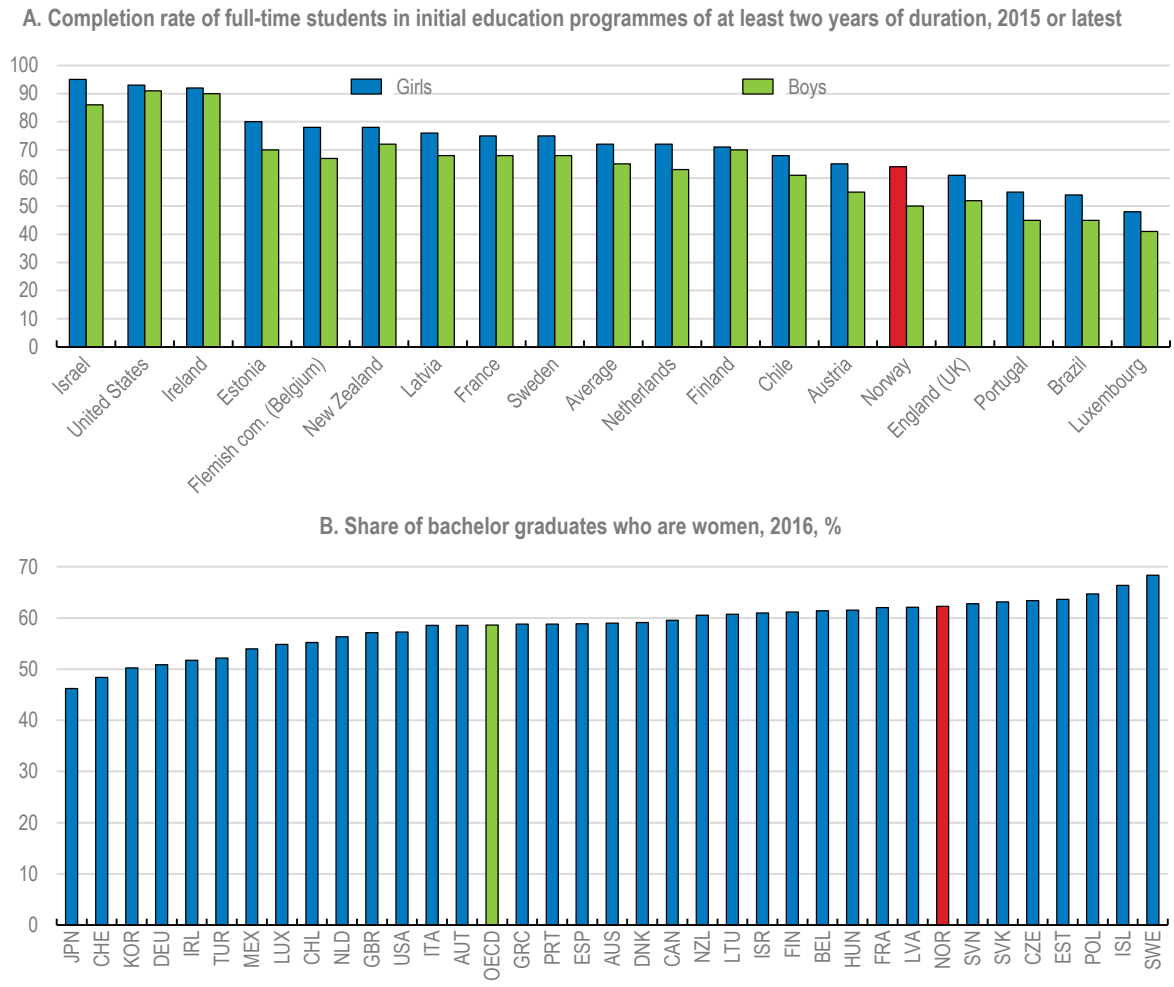
In recognition of the problem, the government established a commission on gender equality in education in 2017 that submitted a report in early 2019. Several factors are thought to explain the gender gap - different resilience to disadvantaged circumstances, teacher-pupil interaction and teacher gender, different cognitive profiles, different cognitive development over time and different self-regulation. However, the evidence has yet to point conclusively as to which of these are the most significant.

The OECD – Borgonovi et al. (2018) – focuses on research and policy experience from selected OECD countries, and presents policy options across three policy levels - the classroom, the school and the education system. In the classroom, teachers can help improve the learning outcomes by motivating and supporting all students and adapting teaching to the needs of both boys and girls. Providing teachers with tools and guidance on how to adapt their teaching strategies to the needs of low achieving boys has proven to be effective in improving boys' earning outcomes.

School level practices and policies can intensify efforts to identify and help students at risk of dropping out - often boys - as a key component of national strategy to improve completion rates in upper secondary education (more on this below). Many who drop out have low learning achievement and are disengaged from school. Norway runs quite comprehensive early intervention programmes in schools that target pupils who lag behind in reading, writing or mathematics. The pupils are offered intensive and adapted training/teaching/education for a limited period. However, it would appear that problems remain, despite these efforts.

Figure 2.34. Women have higher educational attainment than men



Note: Panel A: Countries are ranked in descending order of female completion rate (for true cohort, by the theoretical duration). Data cover upper secondary general programme only for Latvia; and for England, successful completion and achievement of two-year GCSE programmes.
Source: OECD (2017), Education at a Glance 2017, http:/www.oecd.org/education/education-at-a-glance-19991487.htm; and OECD Education at a Glance database.

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Finally, national government could work on the transition from early childhood education to primary school so that it better suits the different development of boys and girls. Furthermore, government should also incentivise evidence building on the gender gap and its causes, dissemination of findings and information, and promote policies to reduce the gap. Also, importantly, policy levers are not only within schooling itself – better outcomes could also be achieved by engaging parents, for example by encouraging them to read more with their children, in particular with boys.

Tackling high drop-out in vocational education

Technological change and rising global competition reinforce the importance of skill-based education. Vocational education is the key channel for providing skills for those that do not enter into degree-level education and is key for providing employers with ready-to-go skills for many types of work. Assessment of Norway's vocational education was part of an OECD *Investing In Youth* study (OECD, 2018f).

Vocational training in Norway is provided mostly by upper-secondary schools. The schools are the responsibility of county-level government and are inclusive in that students have the right to attend for three years, irrespective of previous schooling performance (the students are generally aged 16 to 19). Practically all students completing compulsory education enrol in upper-secondary courses and it is a national policy that all students attain an upper-secondary diploma. Within each school, there are two tracks, an academic ("general") stream that principally channels students into degree-level tertiary education and a vocational stream. Apprenticeship courses are a central pillar of this latter stream, and most courses are structured on a 2+2 basis; i.e. two years of full-time study is followed by two years of training and work experience with an employer. Students can easily switch between the general and vocational streams.

Yet, non-completion of vocational-education courses has long been a policy concern. As seen above, a high number of Norwegians do not complete upper secondary education. While this can be partly explained by Norway's tight labour market and ample job opportunities, there is a risk that early leavers are putting themselves onto a trajectory of low-paid, unstable and unfulfilling jobs for the longer term. This is particularly worrying, as leaving school early is concentrated among those with poor grades from previous schooling, whose parents have weak educational attainment and young migrants. For example, non-completion is particularly high in restaurant and food processing programmes, where students typically have poor grades from lower-secondary school and many have special needs (Norwegian Directorate for Education and Training, 2017; Cedefop, 2017). Some of the early school leavers also end up being NEET, out of employment and education, with even worse prospects for the future (OECD, 2018f).

Shortages in the two-year apprentice placements with employers are a key problem, contributing to dropout. In January 2018, out of 28 900 applicants for apprenticeship only 20 800 (72%) found a placement (Haukås and Skjervheim, 2018). County authorities are required to offer one year of practical school-based training, equivalent to apprenticeship training, to those who do not find a placement. However, these courses are unpopular because of their short duration and lack of work-based training (Mogstad Aspoy and Nyen, 2015). Many failing to get an apprenticeship placement drop out of education. In contrast, most of those who receive apprenticeship placements complete their VET training - nine out of ten passed their final exam in 2015–16 (Norwegian Directorate for Education and Training, 2017).

The current Social Contract for VET (covering the period 2016-20), aims to make VET more attractive and to reduce dropout rates. One goal is to ensure a placement for all apprenticeship applicants. The initiative builds on the previous Social contract for VET (2011-15) that had some success. The scheme comprises a range of measures including raising the cash bonus for businesses taking on apprentices. In addition, there are requirements for public procurement contractors to run apprenticeship programmes (EACEA, 2019; Cedefop, 2018). A website helps young people find employers that offer apprenticeship places.

As discussed in the OECD Investing In Youth study (OECD, 2018f), relatively high apprenticeship wages are one factor dissuading employers from offering placements. The wages are set as part of collective agreements. According to calculations in OECD (2018f), first-year apprentices cost around 12% of an experienced worker salary (after taking account of government subsidy) but this rises to 57% in the second year due to the increase in the regulated wage. Apprentice wages in Germany and Switzerland start at roughly the same relative cost (15%) but only increase to 18-27% of the skilled worker wage. This would suggest flattening the apprentice wage as a policy measure. However as the wage is set through collective bargaining, government has limited influence. To ensure higher completion rates, Norway could also pay part of the bonus to employers who train apprentices - subsidies to training firms are already quite generous - conditional upon a successful graduation of their apprentices, as is done in Australia (Kuczera, 2017).

The shortage of apprenticeships may however reflect the lack of suitable candidates. In Norway VET provision is largely driven by student choice. All students that complete compulsory education are entitled to a place in one of their three preferred VET programmes. The late start of apprenticeship training - in year three - means that students choose their vocational pathway before beginning to look for an

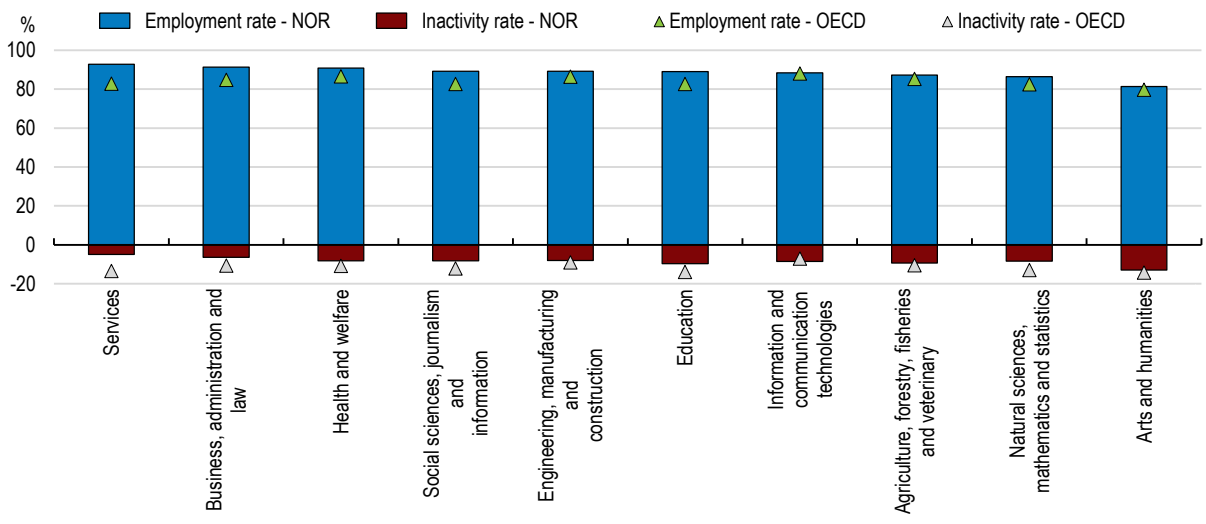
apprenticeship. The extent to which businesses can steer youth towards occupations that they require through offering to train them is therefore limited, weakening the link between skills needs in the labour market and training followed in school. In Austria for example, apprentices choose a specific occupation from day one, and must find a placement with an employer before starting their course. VET programmes in Norway should therefore offer earlier and deeper specialisation for students in specific occupations. In certain trades, a more specialised VET and greater flexibility on how apprenticeships are scheduled (i.e. alternative arrangements to the currently predominant 2+2 approach) could better suit both students and employers.

Making higher education more relevant for the labour market

University graduates in Norway enjoy high employment rates and few are unemployed, but labour market outcomes vary by field of study (Figure 2.35). Given technological change, demographic shifts and resulting changes in skills needs, the labour-market relevance of the content and length of degree courses are frequently the subject of debate. A government white paper on these issues is in the pipeline (with release of the final report due in 2020). Norway's higher education has been discussed in previous OECD *Surveys* (OECD, 2018g and 2016d). *Higher education in Norway* (OECD, 2018h) looks at the sector from the perspective of labour-market relevance.

Figure 2.35. Labour market outcomes vary by field of study

Employment and inactivity rates of 24-65 year-old graduates, 2016



Source: OECD (2018), Higher Education in Norway: Labour Market Relevance and Outcomes, Higher Education, OECD Publishing, Paris, https://doi.org/10.1787/9789264301757-en.

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Enrolment in tertiary education in Norway is encouraged by generous financial support for students. Generally, there are no tuition fees and students receive loans and grants to cover living expenses. Students can combine study and part-time work without reduction in the financial support up to a ceiling. This level of financial support may be weakening the link between career considerations and the choice of field of study and the intensity of study. Students in Norway tend to be older on graduation than those in other countries (OECD, 2018g). While there is little appetite in Norway for a substantial downgrade in student support, there is nevertheless room for policy action.

The previous *Survey* suggests, for instance, altering living-expenses support for students so that it incentivises students to complete their studies on time, in addition to the existing financial incentives through the student loan scheme for those who complete their programmes within the prescribed time. To better match the skills of graduates with labour-market demands, students could be steered towards

certain fields of study, occupations or regions via incentives in student financial assistance. This approach is used to an extent already. Debt relief on student loans is provided to graduates working in certain areas of northern Norway, medical practitioners in certain regions and some specialised teachers. Starting in 2025, primary teachers will also be included (OECD, 2018g). The authorities should monitor and evaluate the effectiveness of such financial incentives and expand them if proven effective.

A significant number of students change programmes and institutions throughout their studies, often delaying the completion of their programme. Better student support can help. Higher education institutions are required to enter into study contracts with students to monitor their progress and help them make good choices. An evaluation (Nordhagen et al., 2016), however, has found shortfalls in student support: many institutions were only checking student progress once a year and often letting students fall far behind in their studies before intervening. To better motivate higher education institutions for timely graduation of their students, the government could also put a greater weight on graduation rates in the formula for performance based funding.

Welcome progress is being made to improve the quality of teaching and courses in higher education. The 2003 Quality Reforms in Higher Education and the 2017 White Paper on the Quality Culture in Higher Education emphasise innovative teaching and learning approaches and aim to put teaching more centre stage. As discussed in the OECD review (OECD, 2018h), more effective teaching practices that enhance labour market relevance and outcomes are required. This means more widespread and effective use of student-centred, active learning approaches. Also, a greater focus on key transversal skills is required. The OECD review also recommends more learning via work placements, especially for humanities. The public sector should take a lead in this regard, offering more placements to higher education students outside the health and education sectors, where such practice is already well established.

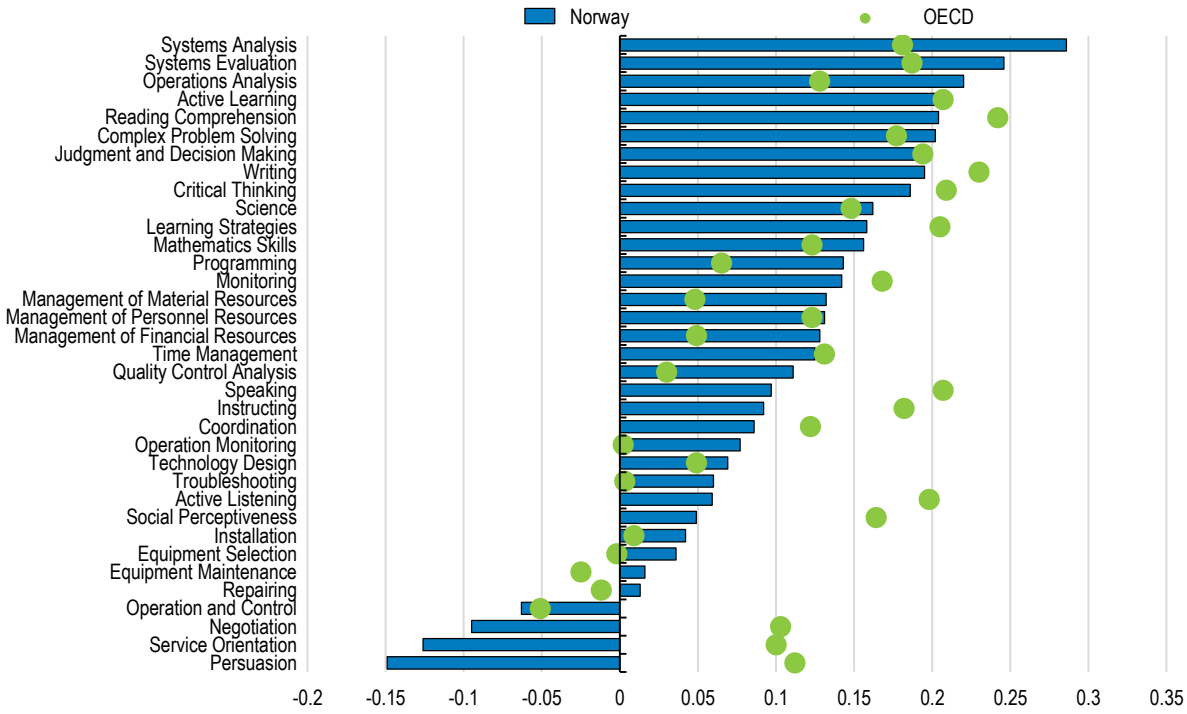
Improving choices in education with career advice and better information

Better information and career guidance can help students choose a programme where they are likely to succeed and subsequently find a fulfilling job. The Norwegian Strategy for Skills Policy 2017-2021 stresses the importance of career guidance that provides coherent advice that draws on knowledge of the labour market and current and future skills needs (Figure 2.36). Furthermore, career counselling needs to start early to reduce dropout rates and poor choices in later stages. Through the Strategy, a Future Skills Needs Committee has also been established to assess and anticipate skill needs.

In Norway, all secondary-school students are entitled to career guidance. However, no specific background or qualification is required for guidance counsellors. Career guidance at schools is supported by a follow-up career guidance service for 16-21 year-olds who are not in education. However, despite the availability of career guidance services at school and beyond, only one in three students in higher education state that they are aware of the labour market opportunities available (Kantardjiev & Haakstad, 2017). To improve career guidance, Skills Norway has developed a new quality framework for career guidance to increase professionalism of guidance counsellors. Furthermore, Skills Norway is to establish a national e-guidance centre staffed by professional career guidance counsellors.

As regards higher education there is a government website with information on the types of jobs in which graduates from a certain field of study typically work, the number of people working in those occupations, the anticipated number of jobs in the future (based on projections of Statistics Norway), and the median earnings for a given occupation. However, there is no information regarding the performance of individual institutions or information on anticipated skills needs (OECD, 2018h). Following the recommendations in the White Paper on Quality Culture in Higher Education the government is planning to develop an improved web portal. It is important to ensure that the site is user friendly, and that students are aware of it.

Figure 2.36. Current skills imbalances in Norway



Note: Skills shortages occur when the skills sought by employers are not available in the pool of potential recruits, whereas skills surpluses occur when the supply of certain skills is higher than the demand for them. The OECD Skill Needs Indicators measure the degree of shortage (positive values) and surpluses (negative values) for a range of dimensions, such as Skills, Abilities, and Knowledge areas. Results are presented on a scale that ranges between -1 and +1. The maximum value reflects the strongest shortage observed across OECD (31) countries and skills dimensions.
Source: OECD Skill needs database.

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Skills reform for lifelong learning

With longer working lives and ongoing change in skills needs, lifelong learning is becoming increasingly important. As seen above, Norwegian adults take up training more than their counterparts in other OECD countries. There is considerable policy support for individuals to take up adult learning. After having worked for three years, adults have the right to up to three years of unpaid leave to pursue studies. Adult learners are also eligible for student loans and grants with an upper age limit of 65 years. Providers have also responded well to the demand for adult learning. Vocational colleges and higher education institutions offer a variety of short-cycle courses (continuing education) and in many VET programs work experiences can count towards completing qualifications. Admission in higher education institution recognises prior learning and work experience

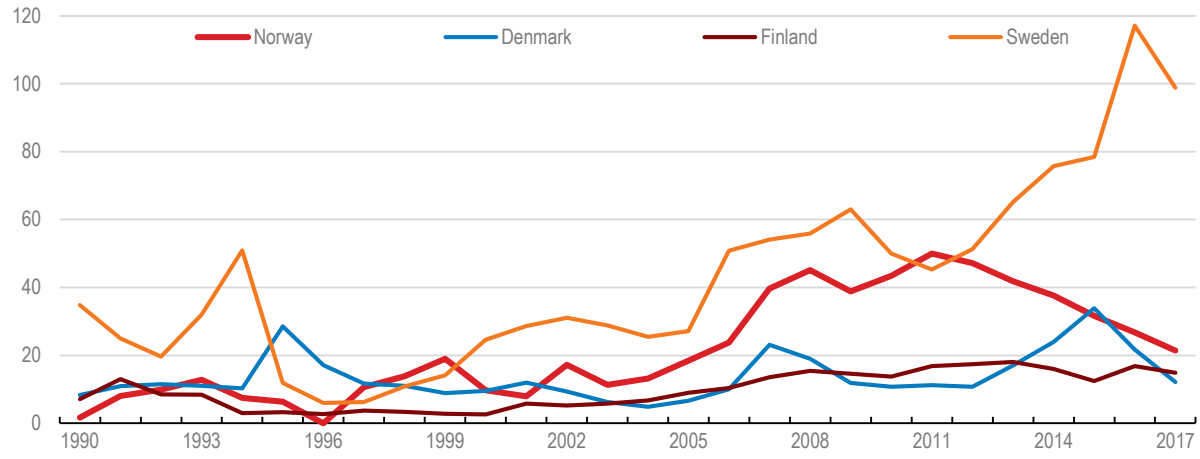
The Norwegian government will present a white paper on a skills reform to the Parliament in 2020. The goal is to further promote learning throughout life and to provide workers with updated skills. As a first step, the government in cooperation with social partners is establishing programs for training that target sectors and industries where there is the greatest need for upskilling or reskilling. The government is also funding the development of short, flexible courses - that can be combined with full-time work - for advanced digital skills such as cyber security, artificial intelligence and the internet of things. These courses will be designed in cooperation between businesses and universities, and vocational education institutions (Norwegian Ministry of Education and Research, 2019).

Raising employment rates of immigrants

Norway has long been a net immigration country (Figure 2.37). The 2004 and 2007 enlargements of the common European labour market triggered large inflows of labour migrants from Central and Eastern Europe. Subsequently, during the refugee crisis in 2015, similar to many other European countries, Norway absorbed higher inflows of asylum seekers. Meanwhile, due to economic downturn following the 2014 oil-price drop, the inflow of economic migrants abated. An increasing share of recent immigrants are now from less developed countries, having arrived as refugees, while past immigration mostly comprised of economic migrants, family members and students (Nordic Council of Ministers, 2019; Figure 2.38). Immigration is changing Norway's demographic composition and an increasing share of residents are foreign born (Figure 2.39).

Figure 2.37. Net migration increased following the enlargement of the common European labour market

Thousand persons



Note: Net migration is the difference between the number of immigrants and the number of emigrants.
Source: Eurostat.

StatLink https://doi.org/10.1787/888934072600

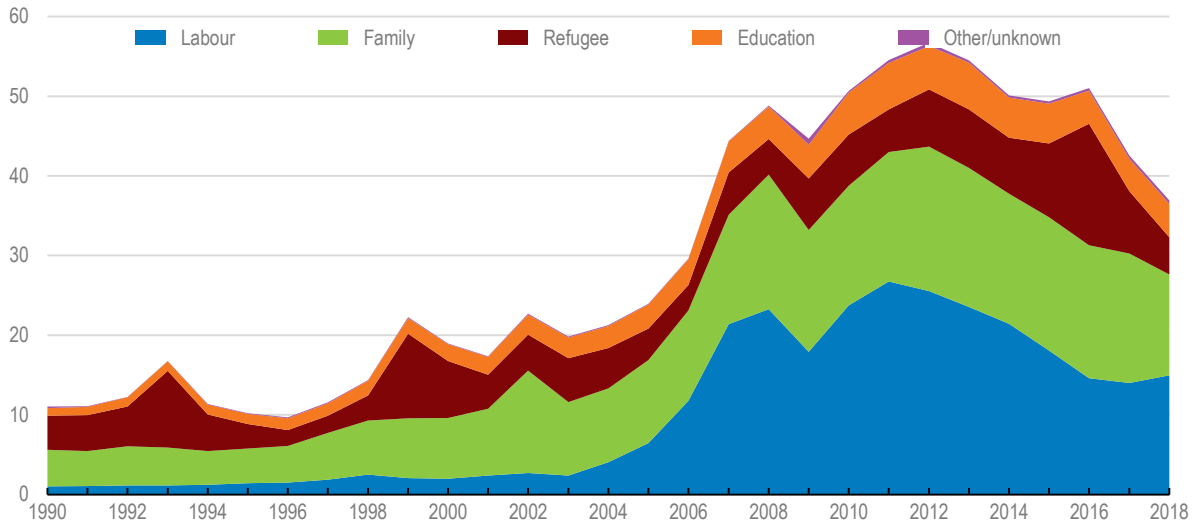
The substantial immigration of recent years, particularly from non-EEA countries, sparked a renewed policy focus on the complex issue of immigrant integration, where Norway, like many other countries, faces challenges. Immigration can bring substantial benefits in terms of meeting demand for workers and skills, but it may also make labour market conditions more difficult for people with similar skills. There have been some cases in Norway of employers hiring migrant workers outside collective agreements.

While natives have one of the highest employment rates among the OECD countries, foreign born are close to the OECD average (Figure 2.40). Unemployment rates are also significantly higher for immigrants, and foreign born are much more likely to be long-term unemployed than natives (OECD, 2018i). The changing composition of the immigrant population is also influencing integration. Education and skills of immigrants are considerably lower than that of the rest of the population (Figure 2.41). With the rising share of immigrants from less developed countries, the gap is rising. This is compounded by the comparatively small number of jobs suited to those with low education and skills in the Norwegian labour market (Figure 2.42). In addition, the compressed wage distribution implies that workers at the low end of the wage range are relatively expensive and therefore have to be relatively productive. Limited Norwegian languages skills can be another barrier to employment for many immigrants. As a result of these factors, the

unemployment rate of immigrants with low education at 17.4% is almost 5 percentage points above the OECD average (Figure 2.43; OECD, 2018i).

Figure 2.38. The composition of immigration has changed

Immigrants by reason for immigration, thousand persons



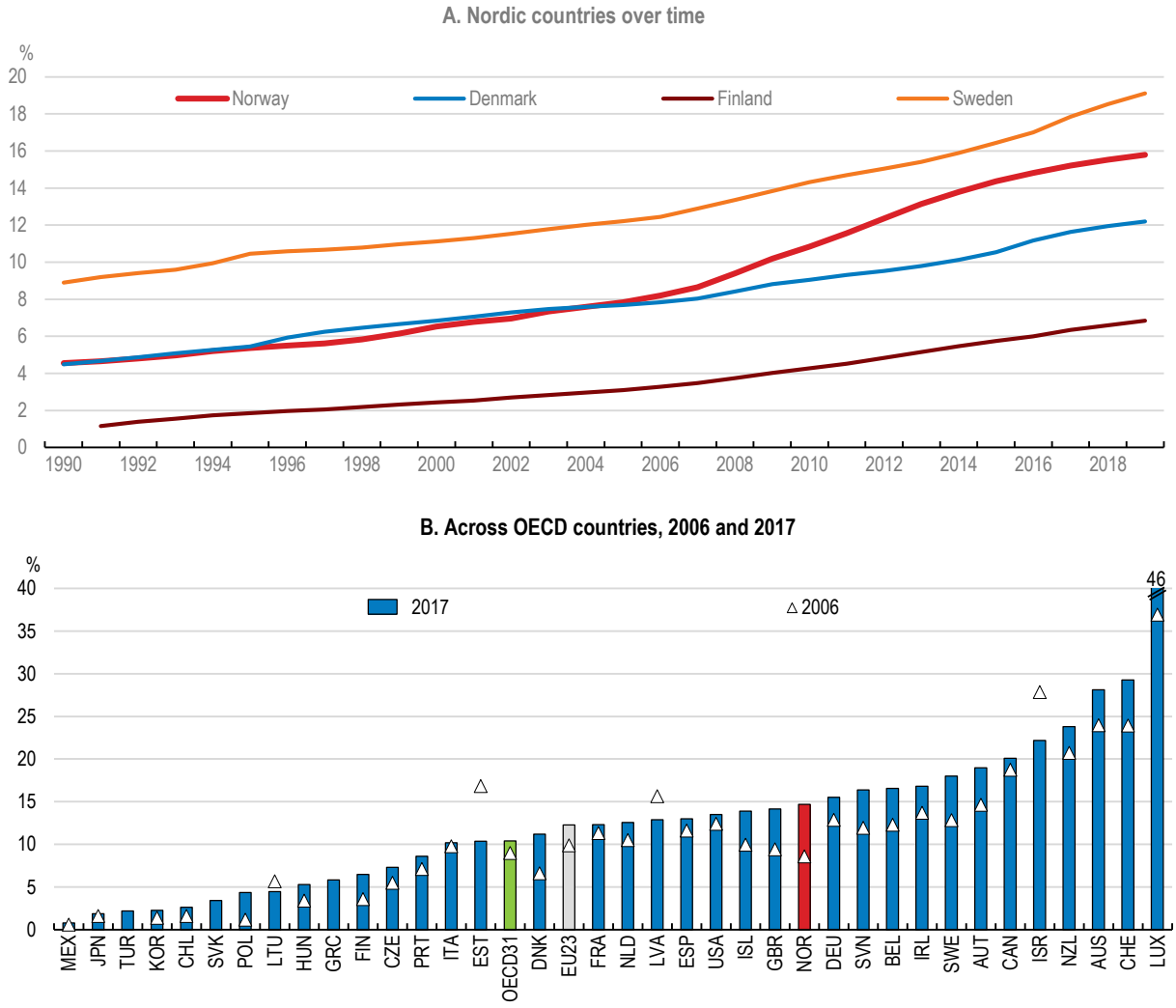
Note: *Gross flow of immigrants by reasons for immigration.*
Source: Statistics Norway.

StatLink https://doi.org/10.1787/888934072619

Worryingly, labour-market attachment among some immigrant groups appears to weaken over time, even among those that have had a job in the past. Research shows that in Norway immigrants from less developed countries work in firms more prone to bankruptcy and lay-offs. Compared to native workers they are also much less likely to find new employment once displaced (Bratsberg et al., 2018a). Studies tracking cohorts of refugee immigrants find that in the first five years after arriving in Norway employment rates rise, but then decline for the next 10-15 years. The falling employment rates are echoed in increasing dependency on social welfare. The decline in employment rates may reflect that some immigrant groups struggle to remain in employment once the support from integration programmes wanes (Bratsberg et al., 2017). However, the relative generosity of social benefits also lowers work incentives for low-skill low-educated workers (Bratsberg et al., 2018b).

Figure 2.39. The share of foreign-born people in Norway has risen

Share of foreign-born people in total population

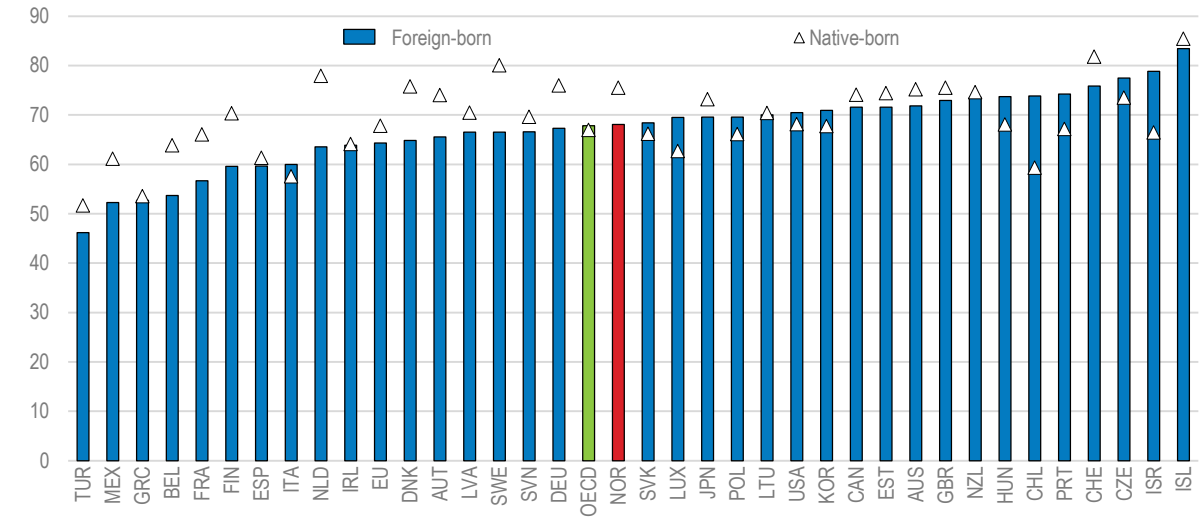


Source: *Nordic Statistics and OECD (2018), Indicators of Immigrant Integration 2018*: Settling In.

StatLink https://doi.org/10.1787/888934072638

Figure 2.40. Employment rates of foreign born are significantly lower than that of natives

Employment rate of foreign-born, % of 15- to 64-year-olds, 2017

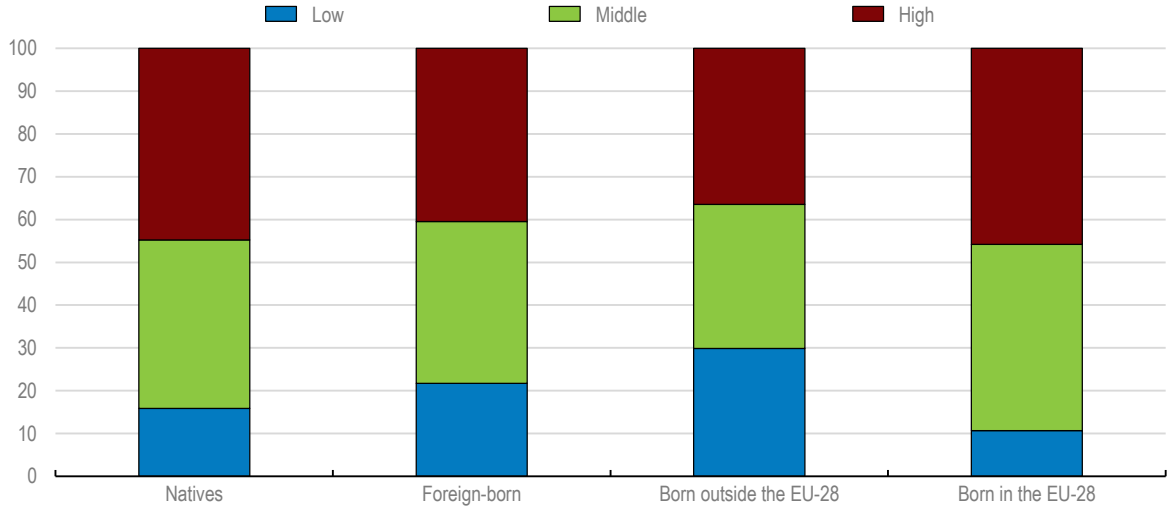


Source: *OECD (2018), Indicators of Immigrant Integration 2018*: Settling In.

StatLink https://doi.org/10.1787/888934072657

Figure 2.41. Educational attainment of immigrants differs considerably from that of natives

Distribution of educational attainment by country of birth, 2018

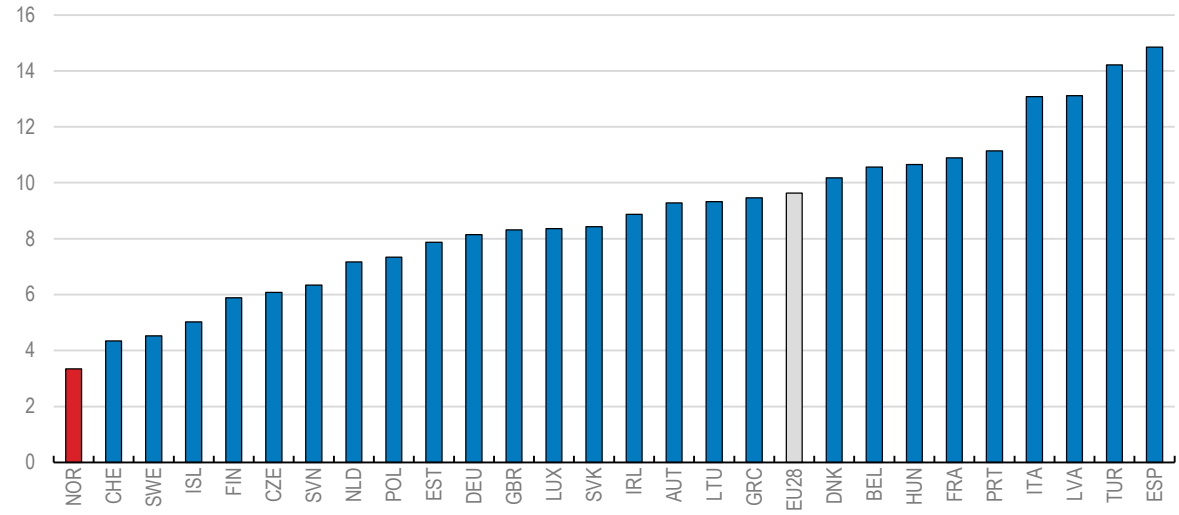


Note: Low educational attainment means less than primary and lower secondary education (levels 0-2 of ISCED11); Middle: upper secondary and post-secondary non-tertiary education (levels 3 and 4 of ISCED11); and High: Tertiary education (levels 5-8 of ISCED11).
Source: Eurostat.

StatLink https://doi.org/10.1787/888934072676

Figure 2.42. Share of workers in elementary occupations is very low in Norway

Share of employees working in elementary occupations in European countries, 20-64 years, 2018, %

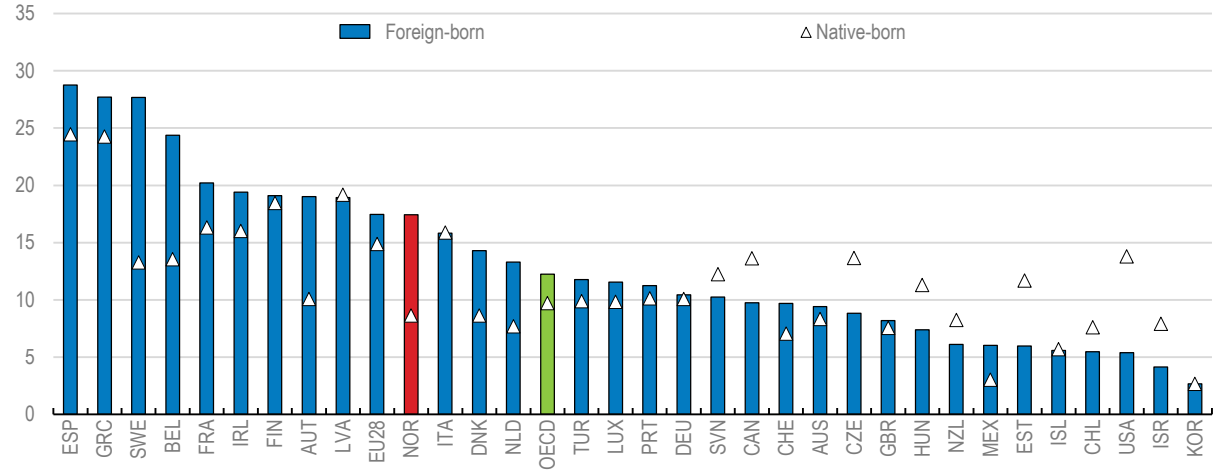


Note: Elementary occupations are defined in the ILO's International Standard of Classification of Occupations (ISCO). The occupations consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort. The skills required correspond to primary education (around five years).
Source: Eurostat.

StatLink https://doi.org/10.1787/888934072695

Figure 2.43. Unemployment rate of low educated immigrants is high

Unemployment rates of 15-64-year-olds having less than primary and lower secondary education level, % of labour force, 2017



Source: *OECD (2018), Indicators of Immigrant Integration 2018*: Settling In.

StatLink https://doi.org/10.1787/888934072714

Given Norway's small market for low-skill workers, and the seeming deterioration of labour market attachment in the long term, the policy focus should be on skills and with greater attention to long-term outcomes. Integration policy needs to align financial incentives (for immigrants, employers and with respect

to social benefits), education and training, and societal integration for the whole immigrant family so that high employment is sustained. There should be focus on equipping immigrants with general skills that can help them change jobs and/or upskill. Targeted activation services should be offered to those unemployed, while welfare support should be linked to activation requirements to prevent labour force drop out.

Considerable effort has gone into upskilling and integrating newly arrived immigrants in Norway, at both the state and local-government level. Municipalities receive central-government grants to offer labour immigrants, family immigrants and refugees free-of-charge courses (*Norwegian Language Training and Social Studies and Introduction Programme*). In the *Introduction programme* – targeted at refugees and family migrants - an individualised plan is developed based on previous education and experience. The programme lasts 2-3 years and includes language training, courses in civic orientation and labour market activities. Participation is a prerequisite for permanent residence status and among the eligibility conditions for welfare benefits. Other targeted programmes are available for various vulnerable groups of immigrants.

Immigrant integration is an area where comprehensive success in outcomes is difficult to achieve and programmes can be costly. Strengthening the evidence base on the impact of programmes can substantially improve policymaking given the often limited and mixed results from existing studies (Nordic Council of Ministers, 2019). In addition, relatively little use is made of cost-benefit analyses of various education and labour market programmes, due to poor data on programme costs.

The *Introduction programme* includes different types of labour market activities such as work practice, subsidized employment and labour market training. Review of the evidence by the Nordic Council of Ministers (2019) identifies private-sector employment subsidies as the most effective measure in promoting regular employment - suggesting that work experience is key. Furthermore, it reports positive impact on employment from language training and labour market training. Job search assistance also has positive effects.

Work experience has been the focus of recent policy. In 2018, the government launched a new integration strategy for 2019–2022 - *Integration through education and competence* – which focuses heavily on labour market measures. The strategy focuses on occupational training – for trades where there is labour demand – together with Norwegian language skills. This approach could be pursued further. In particular, subsidised apprenticeship-type programs for immigrants could be introduced to ensure work experience leads to qualification. Initially, worker compensation could be primarily covered by the subsidy, but with gained experience and skill, wages could be raised and increasingly covered by the employer.

As reported above, immigrants with low education and skills are more likely than native workers to lose their jobs, and many end up on welfare. Targeted follow-up and support by activation services for laid-off immigrant workers could help them in their job search and in identifying reskilling needs. Reducing the financial attractiveness of remaining on welfare benefits may bring some positive marginal impact in employment, but risks reduced programme participation and increased poverty among immigrant households, as many benefit receivers will still stay outside employment (Bratsberg et al., 2018b). An alternative is to introduce stricter activation requirements for receiving benefits. Overall improvements to sickness and disability systems - as discussed earlier in the chapter - would likely temper the reliance on these benefits for immigrants alongside the rest of the population.

The assessment and recognition of qualifications and the validation of skills is an important tool for strengthening immigrants' labour-market integration. According to the OECD International Migration Outlook 2018 (OECD, 2018j), recognition of qualifications has the highest yield when undertaken early in the integration process. Many skilled immigrants, including in Norway, work in jobs for which they are overqualified, wasting their potential and earning salaries below the level they could earn. This could be overcome by reducing uncertainty for employers on foreign qualifications and experience. In Norway, recognition of foreign vocational qualifications is administered by the Norwegian Agency for Quality Assurance in Education (NOKUT) in collaboration with the social partners. In addition, there are bridging

courses for those trained as nurses and teachers in their country of origin. Bridging courses have also been developed for refugees with science or technology qualifications (Norwegian Ministries, 2019).

Recognition of previous training can be a particular challenge for refugees, who frequently have no proof of their qualifications. To overcome these difficulties, several international initiatives took place in 2017, such as the EU Skills Profile Tool for Third-Country Nationals and a new pilot project developed by the Council of Europe, granting European Qualifications Passports for Refugees. The project is based on a recognition methodology developed by the NOKUT. Validation of informally acquired skills is also important for migrants who lack formal qualifications. Germany's public employment service has developed a smart "My Skills" tool that captures competences in 30 different professional areas (OECD, 2018j). This can help immigrants in finding a suitable job or suggest a need for targeted further training.

FINDINGS	RECOMMENDATIONS
Sickness and Disability	
Norway has the highest rate of sick leave absence in the OECD, reflecting poor policy design.	**Strengthen incentives to contain sick leave absences, including through:** • **lowering the rate of compensation**, specifically introduce an early step-down in compensation. Set limits on voluntary top-up payments to ensure motivational impact of the step-down in compensation. • **extending employers' participation in funding sick leave**. Help employers facilitate rehabilitation and return to work. **Intensify management efforts to address sick leave in sectors facing elevated levels of absence due to illness, in particular in the public sector.**
Norway has the largest share of disability recipients in its working-age population in the OECD. Generous disability benefit levels and relatively light eligibility conditions for starting and remaining on benefit result in low rates of rehabilitation.	**In disability benefits, strengthen treatment and rehabilitation requirements and apply eligibility rules in general more strictly.** **Make early interventions that encourage and facilitate return to work a strong theme of future reforms to sickness leave compensation and disability benefits.**
Throughout the benefit application process, the claimant's general practitioner predominately carries out medical assessment, often resulting in assessments biased in favour of the claimants interests.	**Tighten medical assessment for both sick leave and disability benefit systems**; in particular consider medical assessment by medical practitioners selected by employers or the public-employment service
As in a number of other countries, high rates of sickness absence and disability partially reflect high levels of mental illness in certain population groups.	Strengthen prevention and early intervention for mental health issues, including through additional services provided by the Employment Support Services of NAV, well integrated with other supports provided by NAV to address employment barriers
Retirement incentives in old-age pensions	
A scheme (the sliterordningen scheme) agreed between unions and employers reintroduces actuarial bias towards early retirement in the pension system.	Seek alternatives to extra payments to early retirees (as under the sliterordningen scheme) to address potential regressivity concerns. For instance, strengthen progressivity in the accumulation of pension entitlements to the state-funded earnings-linked pension.
Early retirement via disability benefits remains financial attractive compared with early retirement via the old—age pension system.	**Diminish the financial attractiveness of early retirement via disability benefits by putting the the compensation for life-expectancy adjustment on hold.**
Special occupational retirement-age rules remain unreformed.	**Align special pension provisions for certain occupational groups such as nurses, national defence and the police with the mainstream pensions system**. Bring greater retirement-age flexibility and facilitate switching to roles where age is not a constraint on performance.
Tensions over fairness and regressivity – and undesirable outcomes in old age - can be amplified if choices on retirement age are not well informed.	Help individuals make sound retirement choices, by ensuring information and education campaigns on retirement-age choice and consider default or recommended retirement ages.
Countries are increasingly formally linking age dimensions of the pensions system to longevity as this improves decision-making and reduces risk of poverty in retirement.	**Index age-dimensions of the pension system to life expectancy, such as the retirement-age range of 62 to 75 years.**
Education and Skills	
Average outcomes in Norway's PISA test results indicate room for improvement in basic skills. Boys are increasingly underperforming in school compared to girls.	**Press ahead with primary- and secondary-school curriculum reforms.** Address boys' weak academic performance compared to girls including through further building the evidence base..
Shortages in apprenticeship contribute to the high dropout from courses.	**Reduce apprentice remuneration to make it more attractive for employers to offer additional places.** **Link part of the employer subsidy to course completion by apprentices.Link part of the employer subsidy to course**

	completion by apprentices
Higher education students graduate at an older age on average compared with other countries.	**Strengthen higher-education students' incentives for timely course completion** **Ensure that higher education institutions provide comprehensive study guidance and support services..**
The relatively late start of apprenticeship training weakens the link between skills needs in the labour market and training provided in school.	Align VET provision more closely with labour market demand by bringing forward occupational specialisation in the school-based part of VET.
Technological change and the resulting changes in skills needs require more innovative approaches to teaching in higher education. Graduates in certain fields have significantly worse labour market outcomes than others.	Introduce more innovative learning and teaching practices in higher education to improve labour market relevance and expand work-based training.
Despite the career guidance services being available to youth, only one in three students in higher education state that they are aware of the labour market opportunities available.	Further strengthen career guidance and facilitate access to high quality information that links education to labour market outcomes.
Raising employment rates of immigrants	
Immigrants with low skills and education have difficulties integrating in the Norwegian labour market, exacerbated by the comparatively small number of low skill jobs.	**Introduce subsidised apprenticeship-like programmes as part of efforts to raise immigrants' skills and work experience.**
Immigrants with low education and skills are more likely than native workers to lose their jobs, and many end up on welfare over time.	Strengthen activation requirements for the receipt of welfare benefits.
Many skilled immigrants, including in Norway, work in jobs for which they are overqualified.	In the Introduction Programme, strengthen further validation of education and qualifications from abroad and recognition of informal skills.
Immigrant integration is an area where comprehensive success in outcomes is difficult to achieve and programmes can be costly. There is a relative lack of evidence on the effectiveness of different programmes and relatively little use of cost-benefit analysis.	Improve the evidence base on the effectiveness of integration measures by systematically performing programme evaluations and cost-benefit analyses.

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OECD Economic Surveys

NORWAY

Wellbeing in Norway is high; GDP per capita is among the top-ranking countries and the country scores well in measures of inclusiveness. Several challenges must be addressed, however, if this good standing is to be sustained. The economy is vulnerable to trade risks. Also, though property markets and related credit appear to be heading for a soft landing, risks remain. Norway has substantial opportunities for more effective public spending remain, and exploiting these will become more important as fiscal space narrows. Productivity growth remains low, requiring attention to business policy.

Employment rates among young and middle age cohorts have declined, and despite some positive trends many among older cohorts retire early. This is eroding Norway's otherwise good record of strong labour supply and socio-economic inclusiveness through jobs. Chapter 2 of this Survey looks at this, and other aspects of Norway's labour market. Policy issues covered include sick leave compensation and disability benefit, the old-age pension's role in early retirement, education and skills, and immigrant integration.

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