

Norway: Five messages from the latest OECD Economic Survey

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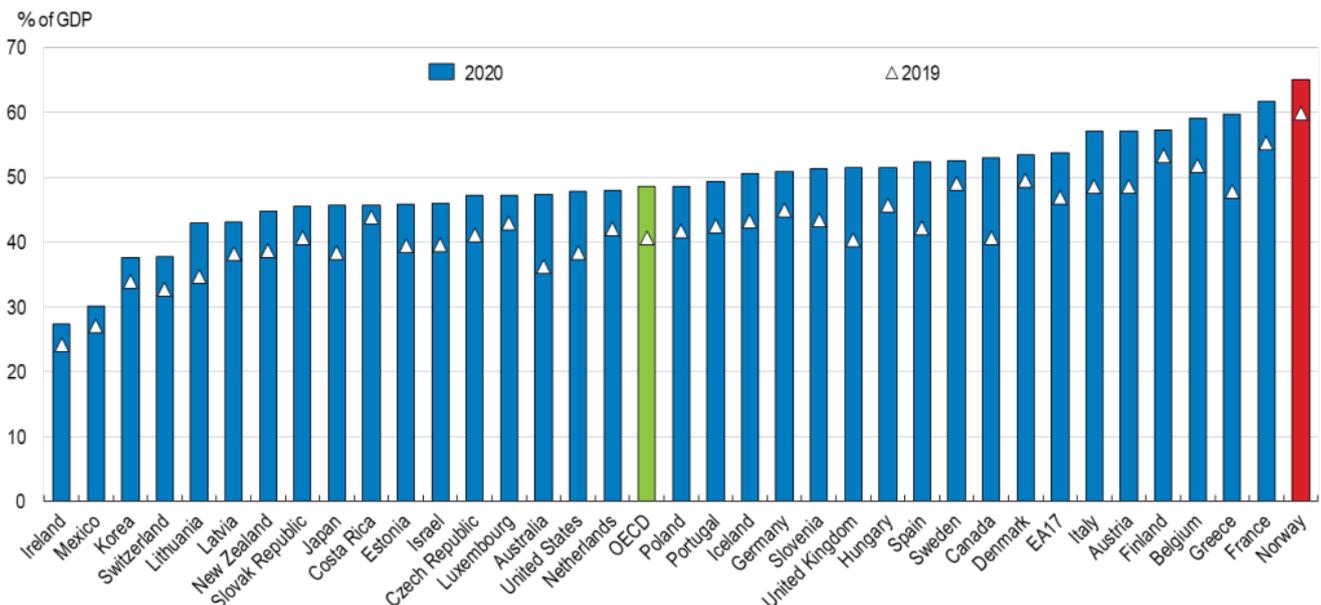
Norway has handled the pandemic better than many other countries and continues to have good outcomes on many economic and social dimensions. GDP per capita remains among the highest in the OECD. Also, the country succeeds in maintaining low inequality and in delivering universal public services, including health and education – contributing to people's wellbeing. Economic growth is expected to turn out at 3.7% in 2022 and 2.2% in 2023. The new Economic Survey of Norway presents recommendations aimed at ensuring good socio-economic outcomes are sustained.

As in many countries, increases in inflation are a concern. While core consumer price inflation remains moderate, headline inflation increased by 3.2% in January compared with a year earlier. This has been driven by large electricity price increases. The energy-price component of the consumer-price index has increased by over 50% since January 2020. Global supply pressures are also contributing to inflation in Norway. In addition, recent quarters have seen higher domestic wage growth.

Norway faces long-term fiscal challenges. Public spending is already high. Slower wealth-fund growth, including due to lower returns, will limit room for new spending initiatives. So will increased spending on healthcare and pensions due to population ageing. To offset this narrowing of fiscal space, there need to be cost-efficiency gains in public spending. Stronger productivity in public services is required,

including follow up from spending reviews. Also, cost-benefit analysis should be used more extensively in public investment decisions.

Figure 1. Public spending remains high



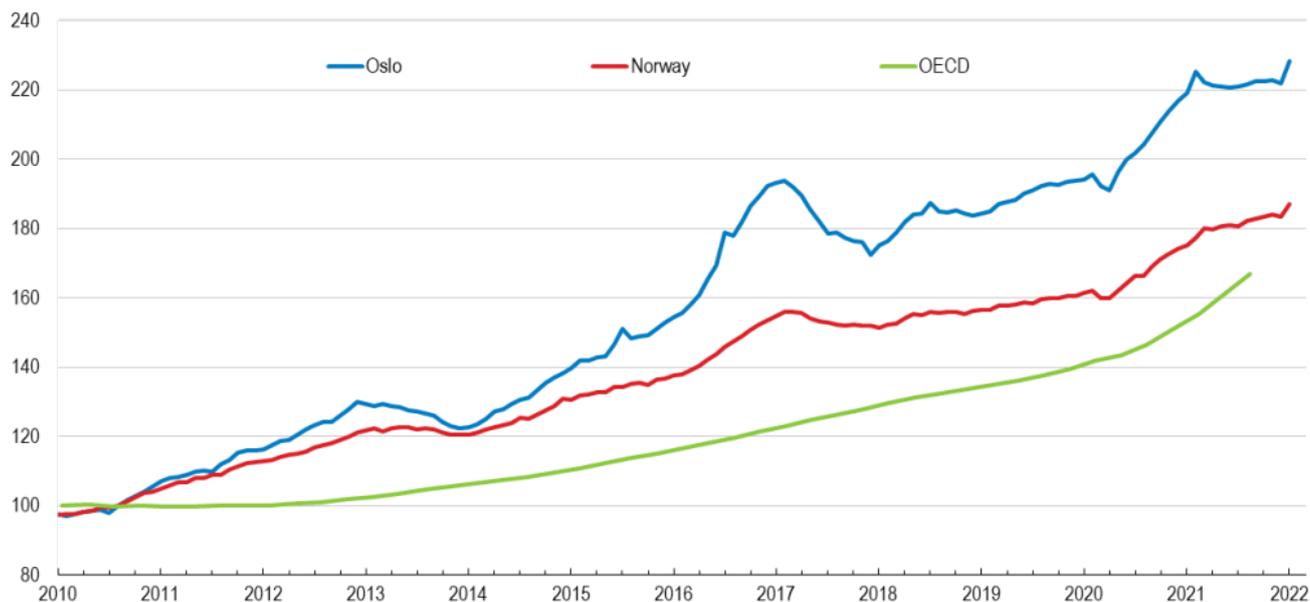
Note: Norway total general government disbursements as % of mainland GDP.

Source: OECD (2021), OECD Economic Outlook (database).

Long-standing housing-market problems need to be resolved. Low interest rates and increased teleworking fuelled a house-price surge during the pandemic. Monetary-policy tightening is helping to cool the market, but the authorities should be ready to tighten macroprudential tools if risks mount again. Structural reform is needed to address the longer-run problems of declining homeownership accessibility and high rent burdens borne by low-income households. Easing land-use rules and making planning more efficient would free up housing supply. More investment in social housing is essential to take pressure off disadvantaged renters. Another priority is to address overly generous tax concessions for homeowners – taxing housing more like other assets could improve affordability, and make the tax system fairer and more efficient.

Figure 2. House prices have surged

Index 2010 = 100, s.a.



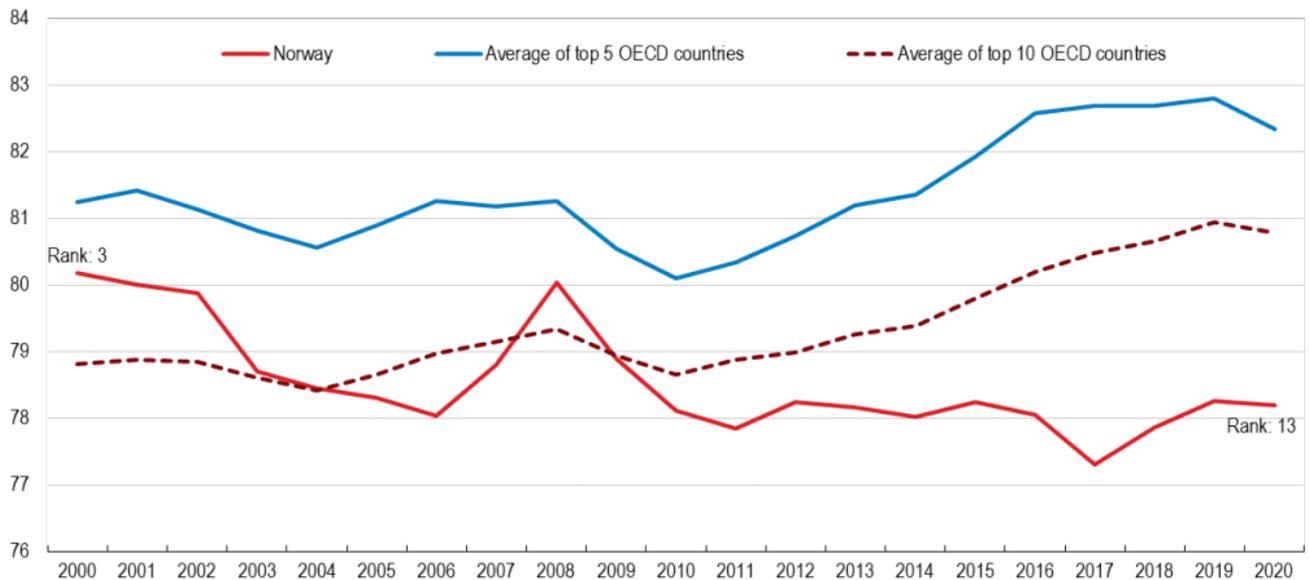
Source: Calculations based on Real Estate Norway (Eiendom Norge) data; OECD (2021), Analytical house prices database.

Norway needs to strengthen productivity and employment.

Business-sector productivity was growing by nearly 3% annually in the early 2000s. In recent years productivity growth has been picking up. Yet it remains less than half the rates achieved two decades ago. Labour-force participation has also slipped. In 2000 Norway had the 3rd highest participation rate across OECD countries; it currently ranks 13th. Generous sick leave and disability compensation systems, in addition to the pension system, continue to have the unintended consequence of eroding labour supply. Sick leave compensation remains more generous than necessary and more could be done to facilitate return to work for those on disability pensions.

Figure 3. Labour force participation has declined

Labour force participation rate, 15-64 years



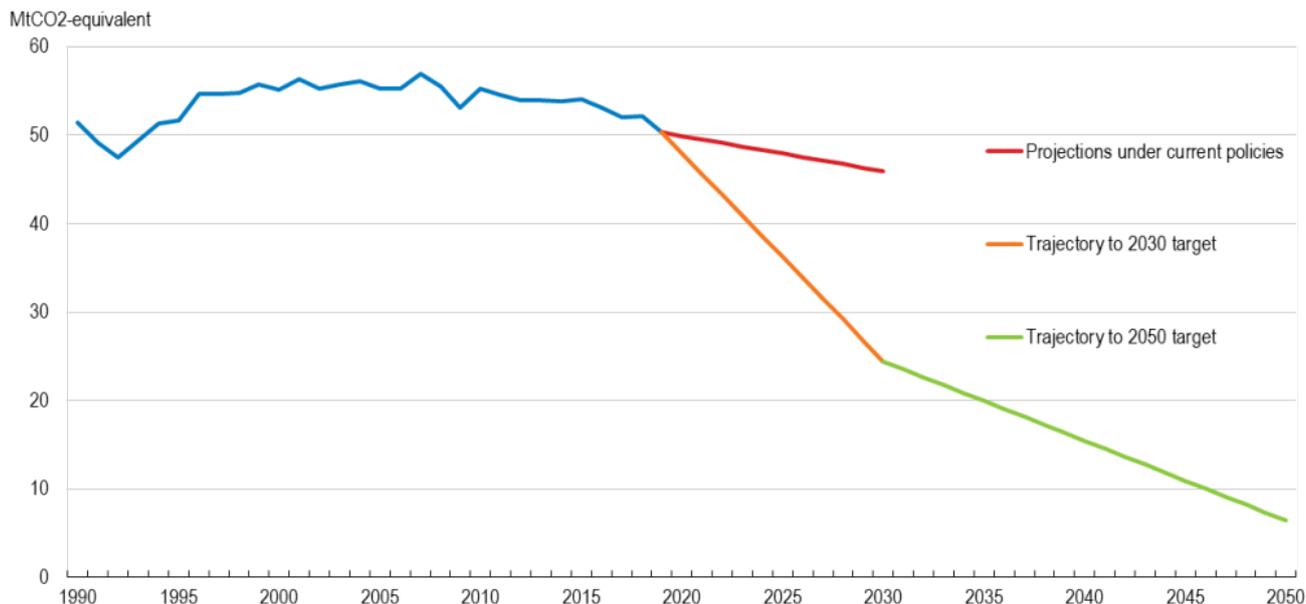
Note: Norway's rank amongst the OECD countries is shown at the beginning and at the end of the period.

Source: OECD (2021), Employment and Labour Market Statistics.

In addition, Norway should follow through on its ambitious agenda on climate change. Norway is making good progress in green technology. The take up of electric vehicles is among the highest in the world and Norway has extensive hydropower. Around 50% of Norway's energy supply is renewable. However, reflecting this advantageous position, much of Norway's greenhouse gas emissions are now generated in sectors where further reductions will be challenging to achieve. Norway has raised its ambition on emission reduction. This is very welcome. Plans include a proposed schedule of increases in the price of carbon until 2030. It is important to follow through on this commitment.

Figure 4. The emission-reduction challenge is sizeable

Greenhouse gas emissions, million tons of CO2-equivalent



Note: Projections under current implemented policies do not include reductions that are intended via participation in the EU-ETS. Norway's emissions targets are in "gross" terms, meaning notably that the CO2 absorption from forestry is not included.

Source: Climate Action Tracker, Country Assessments 2020 – <http://climateactiontracker.org>.

Reference

OECD (2022), OECD Economic Surveys: Norway 2022, OECD Publishing, Paris. <https://doi.org/10.1787/df7b87ab-en>