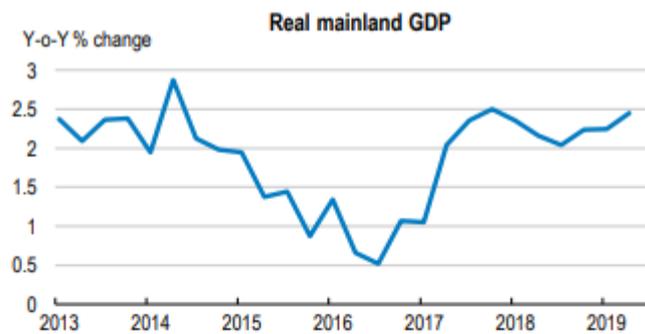


# Norway's economy, ensuring continued good outcomes in wellbeing

by Philip Hemmings, Norway Desk, OECD Economics Department

Norway's economy is currently growing at annual rates well over 2%. Growth is expected to ease in the coming quarters, but remain sufficiently strong for increases in employment and wages. This good macroeconomic performance is helping sustain Norway's living standards, which remain among the highest in the OECD area. Indicators of wellbeing rank among the top countries including self-reported well-being, job satisfaction, earnings and work-life balance. Norway remains highly inclusive in terms of income equality, labour participation and gender gaps.



Source: OECD Economic Outlook database.

StatLink 2 <https://doi.org/10.1787/888934071346>



Source: OECD Income and Distribution database.

StatLink 2 <https://doi.org/10.1787/888934071422>

**However, international and domestic conditions make the economy vulnerable to trade and property-market risks.** The global slowdown in trade and investment, together with faltering business and consumer confidence in the euro area, risks Norway's predominantly European trade. Property markets and related credit appear to be heading for a soft landing but risks remain. House-price growth has resumed 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 high share of wholesale bank funding is also a concern. The Survey urges the authorities to maintain close monitoring on the financial market and housing risks and reduce tax concessions on home ownership.

**For the longer term, 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 financed by fast growth in the wealth fund and the Survey urges conservative application of the fiscal rule to ensure fiscal balances remain on track. It will become tougher to fund public services and develop new projects. Continued weak productivity growth, relatively high labour costs, plus weakening labour-force participation (an issue explored in the Survey's in-depth chapter) are lessening economic capacity to support good outcomes in wellbeing. Sick leave and disability compensation systems require reform, old-age pensions need further attention to ensure people have the right retirement incentives and ongoing efforts to improve education and skills, along with immigrant integration are needed. Despite extensive hydropower, achieving greenhouse-gas abatement targets will be challenging; the Survey recommends intensification of greenhouse-gas reduction measures, particularly in transport and agriculture.

## **References:**

OECD (2019), [\*OECD Economic Surveys: Norway 2019\*](#), OECD Publishing, Paris,

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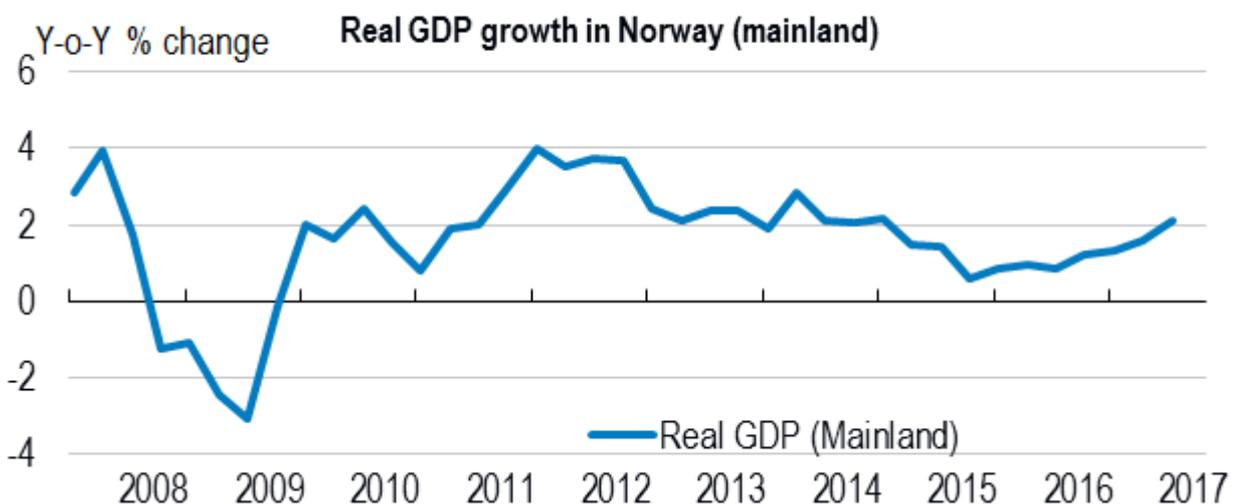
# **Norway's economy, a need to**

# ensure policies can cope with upcoming challenges

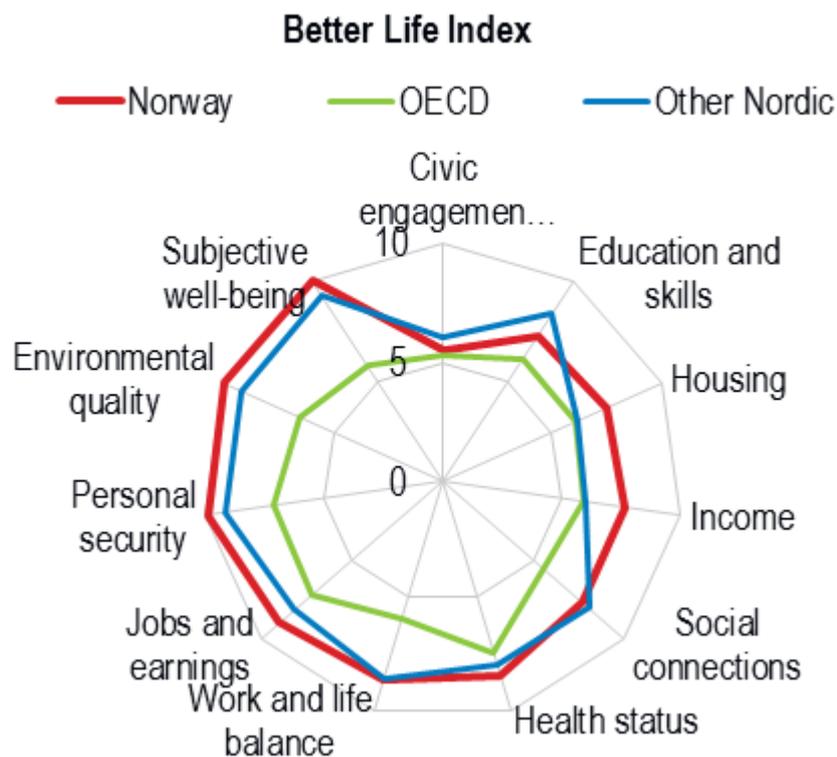
By Philip Hemmings, OECD Economics Department

In its latest [Economic Survey for Norway](#), the OECD underscores the importance of policy facilitating transition away from oil-related activities and helping businesses seize opportunities from digitalisation and globalisation, through providing *i)* macroeconomic and financial stability, and *ii)* improvements to structural-policy settings. It also recommends making public expenditure services more efficient, so as to reduce the injection of oil-money into the economy and to ensure an equitable participation in oil-wealth returns across future generations. An in-depth look at public spending on transport infrastructure is also discussed.

The Norwegian economy continues to perform well, despite low oil prices. Output growth is recovering, wellbeing remains high in many dimensions, and Norway stands as one of the OECD's most inclusive countries in terms of income equality, labour participation and gender gaps.



Source: OECD Economic Outlook 102 database.



For Norway's society to remain inclusive as its petroleum resources decline and its population ages, the business sector will have to diversify to non-oil sectors and continue to exploit opportunities from globalisation and technological change. The policy environment is business-friendly in general, with sound framework conditions and macroeconomic management. In particular, the floating exchange rate has proved a critical mechanism in adjustment to shocks. Also, the protection from 'Dutch disease' provided by Norway's main wealth fund supports diversification of the economy. However, policy cannot afford to stand still. The house-price correction that is currently underway in a context of high household debt potentially poses near-term policy challenges.

Also, Norway, similar to many other economies, has experienced a step-down in productivity growth. In addition, unit labour costs remain comparatively high. Policy needs to help business seize opportunities from globalisation and facilitate diversification away from oil-related activities; this is the theme of [Chapter 1 of the OECD's latest Survey](#). The dynamism of Norwegian businesses would be helped if the public sector

became more efficient. This would create room for lowering taxes, including those taxes that most strongly influence businesses costs and returns. The large role of publicly-financed services and investments in the economy means that returns to efficiency gains are substantial. However, oil-and-gas wealth has traditionally diminished motivation for seeking such gains. [Chapter 2 of the OECD's Survey](#) focuses on transport infrastructure investment. Such investment can widen economic opportunities for business and increase welfare for households. Realising these returns requires that transport-infrastructure investment is well chosen and implemented efficiently.

### **References**

[OECD \(2018\), OECD Economic Survey, Norway, OECD Publishing, Paris.](#)

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# **Norway, higher education could deliver more for less**

by Vassiliki Koutsogeorgopoulou , Economist, OECD Economics Department

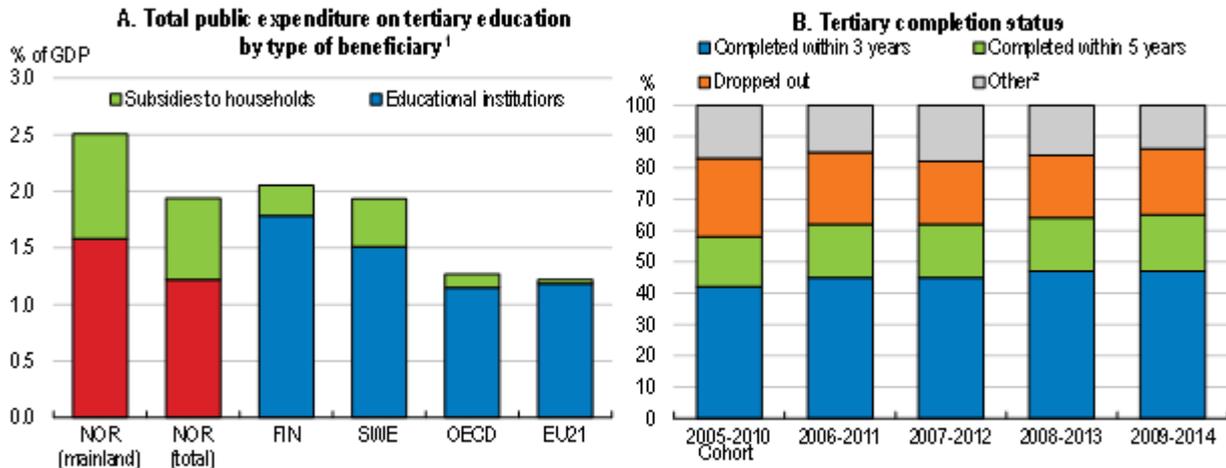
Norway's predominately public and tuition-free tertiary education system has encouraged participation and generated high attainment rates. However, few Norwegian universities rank high in international comparisons on the basis of research related and other indicators. Also, many students take considerable time to finish their studies. Moreover, despite an increase, enrolments remain low in fields such as science and engineering, although disaggregated data show quite different labour market outcomes across STEM

disciplines; and supply shortages in some more “practical” areas, namely teachers and nurses, are looming. Spending on tertiary education is comparatively high, both in terms of annual expenditure per student and as a share of GDP. Efficiency and quality can be improved.

Degree completion times are long, despite various incentives to shorten them. For instance, conversion of loans to grants for early completion has had limited success. Higher education funding has overly incentivised institutions to produce study credit points (required for the completion of courses), rather than degree completions. Plans to include the graduation rates in the formula for performance-based funding should be pursued. Further incentives and financial support for students to complete their courses on time would be helpful. The outcomes should be monitored closely. Current efforts to improve data and dissemination via mechanisms such as the annual national student survey and the development of a portal of quality indicators need to continue.

Students’ choices should be better directed towards subjects with high demand, for instance, via loan discounts for such subjects. Moreover, the funding system of higher-education providers could offer differentiated rewards to institutions for successful study outcomes for students from disadvantaged backgrounds, or those taking up courses linked closely to labour market needs.

## Tertiary education indicators



1. Public subsidies to households cover living costs (scholarships and grants to students/households and students loans). 2012 data.
2. Still enrolled in one of the selected or other tertiary programmes or awarded another qualification.

Source: OECD (2015), *Education at a Glance 2015*; Statistics Norway (2015), *Throughput of Students in Tertiary Education Statistics*.

The efficiency and quality of Norwegian higher education can also be influenced by the existence of many small institutions that aim to meet regional educational needs but which often do not have a critical mass of staff and students. Reforms underway to restructure the higher education through mergers that aim to overcome these problems, while retaining regional coverage, are therefore welcome.

Find out more:

OECD (2016), [OECD Economic Surveys: Norway 2016](#), OECD Publishing, Paris.

Koutsogeorgopoulou, V. (2016), "[Addressing the Challenges in Higher Education in Norway](#)", *OECD Economics Department Working Papers*, No. 1285, OECD Publishing, Paris.

OECD (2014), [OECD Skills Strategy Diagnostic Report: Norway](#), OECD Publishing, Paris.

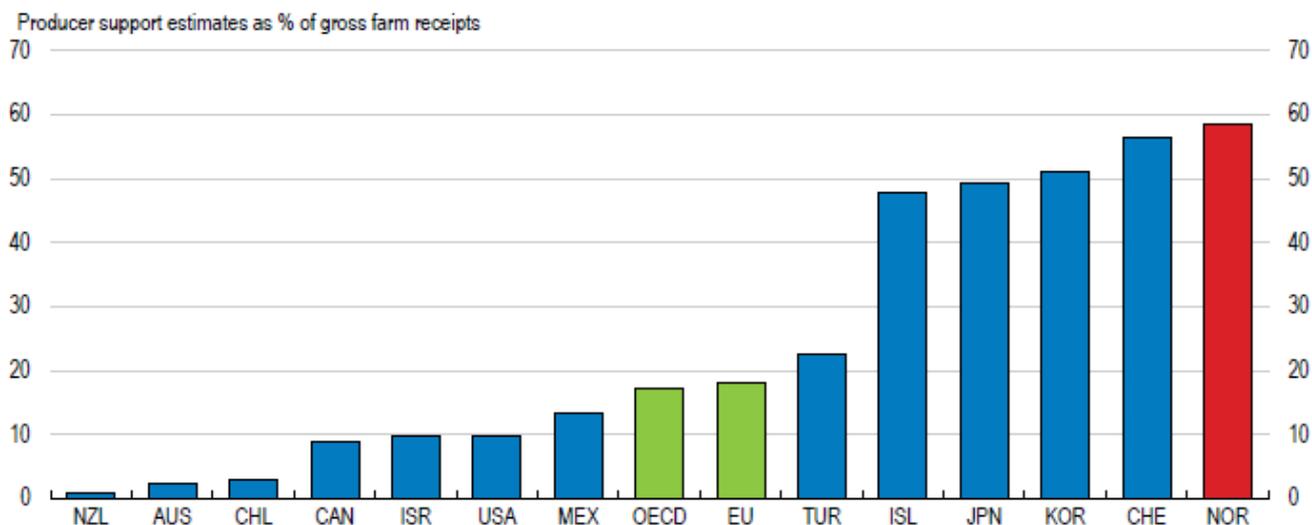
# Norway... time to prune farm subsidies?

**By Philip Hemmings, Head of Norway Desk,  
OECD Economics Department**

Norway puts a high priority on maintaining high levels of well-being in rural communities, many of which are in remote and challenging environments. While it is broadly successful in achieving this goal, it comes at a high price, most notably in the form of substantial support to farmers. Is there a better way?

Each agricultural holding in Norway receives, on average, support worth nearly € 62 000 each year, according to OECD calculations, making the country's agricultural sector among the most heavily subsidised in the OECD area. Overall, subsidies to farms represent around 60% of gross farm income (see chart). Farmers are not only supported by government-funded subsidies but also benefit from special tax breaks and from custom's tariffs on food imports, the latter contributing to Norway's comparatively high retail food prices. Furthermore, the status quo in farming is supported by concessions and special rules in legislation, which for instance limit corporate ownership of farms and provide advantageous inheritance laws for farming families.

**Norway's support to agricultural producers is high**



**Note:** Calculations based on policy settings as of 2014. The OECD's approach to estimating support for the agricultural sector takes into account not only direct payments to farmers from support schemes, but also forms of indirect support, such as customs tariffs and general support (e.g. publically funded agricultural research). This figure shows the producer support estimates, which measures the ratio of transfers from consumers and taxpayers to individual agricultural producers to gross farm receipts (including support, which means, for instance that a 50% PSE means that support equals that of net farm receipts, valued at world market prices).

**Source:** OECD (2015), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database).

Reform of Norway's traditional fishing industry and the country's hugely successful aquaculture industry demonstrates that the country's rural communities have capacity for change and an ability to seize opportunity. Subsidies to fishing communities have fallen substantially, thanks to measures encouraging more economically competitive fleets. In aquaculture the lifting of price-setting and investment regulations in the early 1990s were key to the industry's expansion. Furthermore, there remains considerable potential for Norway to develop rural tourism given its many dramatic and unusual landscapes (such as the fjords and arctic landscapes).

Norwegian agricultural support also now needs substantial reform. Though the current government has taken some welcome steps, a lot more should be done. Import-tariffs should be reduced, which would pare back the implicit subsidy that households pay through food prices. Also direct payments for producing should be lowered and linkages between subsidies and cultural and environmental goals strengthened. The agricultural reform should be central to a wider rural paradigm that is less focused on preservation of the status quo through subsidy and more channeled towards encouraging change that helps rural communities thrive in the long run.

#### References:

OECD, [\*Economic Survey of Norway\*](#), January 2016, OECD Publishing.

Hemmings, P, (2016), "[Policy Challenges for Agriculture and Rural Areas in Norway](#)", OECD *Economics Department Working Papers*, No. 1286, April 2016.