

Norway's economy, a need to ensure policies can cope with upcoming challenges

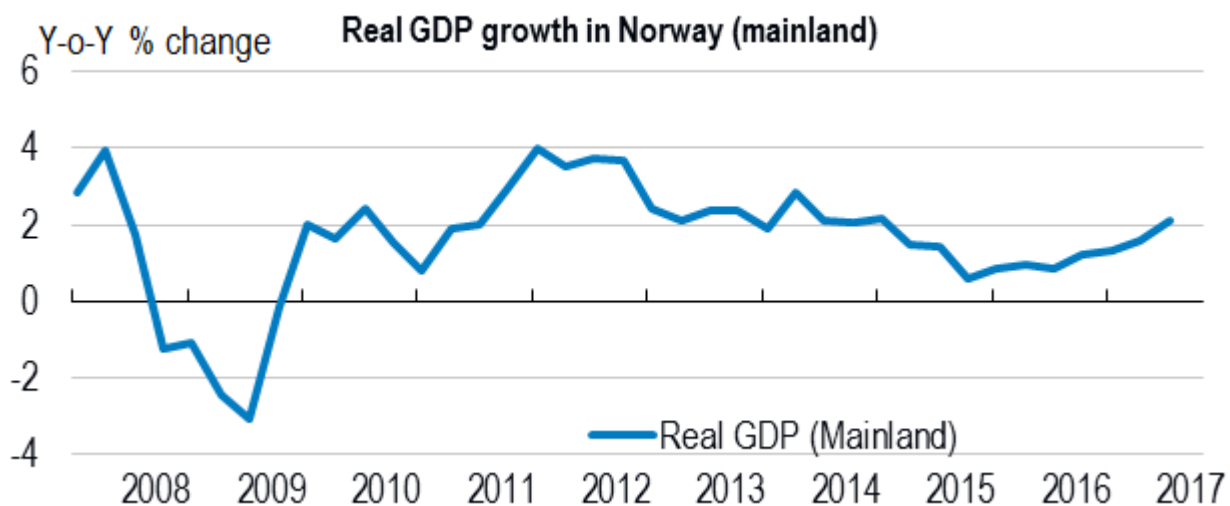
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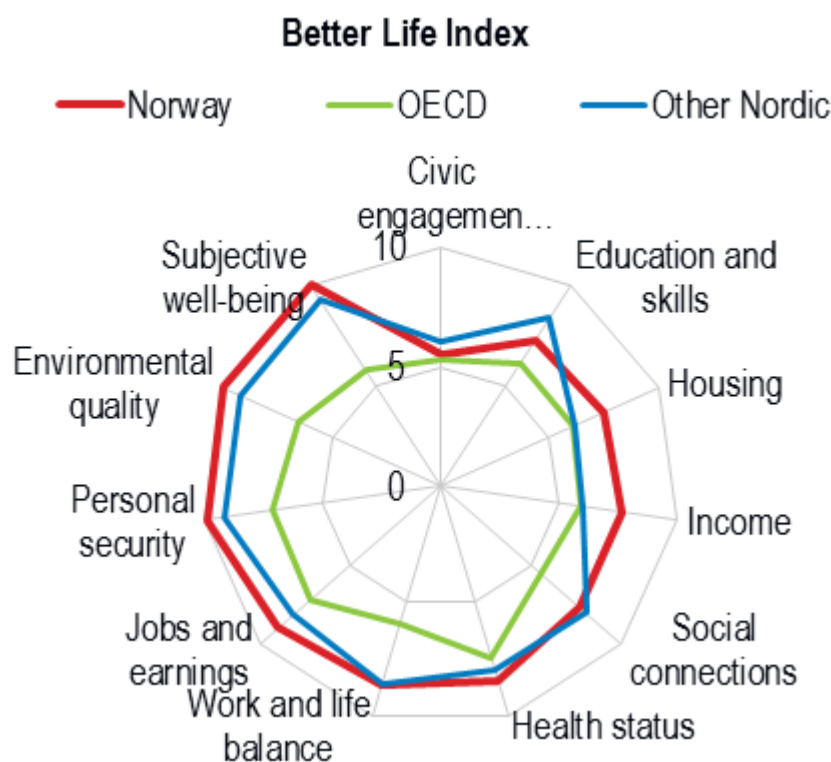
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In its latest *Economic Survey* for Norway , the OECD underscores the importance of policy facilitating transition away from oil-related activities and helping businesses seize opportunities from digitalisation and globalisation, through providing *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.