



NORWAY

September 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NORWAY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Norway, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 14, 2022, consideration of the staff report that concluded the Article IV consultation with Norway.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 14, 2022, following discussions that ended on June 9, 2022, with the officials of Norway on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 29, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Norway.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2022 Article IV Consultation with Norway

FOR IMMEDIATE RELEASE

Washington, DC – September 19, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Norway on September 14, 2022.

Norway's economy continues to grow strongly. In 2021, real GDP grew 4.2 percent, supported by record high private consumption, as the high household savings accumulated during the pandemic unwound. Public spending continued to contribute to growth. Despite production constraints due to labor shortages and global supply disruptions, capacity utilization remained high. Activity remained buoyant in the first half of 2022, benefiting from higher energy prices.

Due to high growth and external developments, core inflation came under pressure, reaching levels significantly above the 2 percent target. Real wage growth remained moderately strong, although expectations going forward are fairly high on the back of historically low unemployment. House sales remained vibrant in 2021, price inflation continued to be moderate, while investment remained sluggish, not least due to higher interest rates and substantially higher construction costs.

Ample policy space provides room to mitigate adverse shocks from risks which are relatively balanced in the short-term. Mainland real GDP growth is expected to be somewhat below 4 percent in 2022 with the forecast being especially sensitive to energy prices developments. While household consumption could be affected by high global energy prices, compensatory electricity subsidies, together with the agreed wage increase, should help support real incomes and spending. The current account is projected to remain in a high surplus, with net exports contributing positively to growth. Indirect effects from the war in Ukraine, a potentially lower demand from Europe for non-energy exports, and continued supply bottlenecks weigh on the outlook.

Executive Board Assessment²

Executive Directors noted that Norway has rebounded strongly from the COVID-19 pandemic, benefitting from sound policies and solid economic fundamentals. While the outlook remains favorable, it is subject to uncertainties and risks, including from the spillovers from Russia's war in Ukraine and pandemic developments. Norway also faces significant long-term challenges related to the aging population, the transition away from oil, and climate change. In this context, Directors supported continued use of Norway's ample buffers to respond to

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

shocks, but emphasized that over time policies should be reoriented towards addressing long-term structural challenges and promoting green and inclusive growth.

Directors noted that the fiscal stance remains appropriately accommodative but a return to a neutral fiscal stance should be targeted over the medium term. They called for better targeting energy subsidies toward lower income households. Directors encouraged the authorities to proactively address the expected strain on public finances driven by demographic trends and the transition away from oil, and a few Directors saw merit in staff's recommendation to adopt a medium-term expenditure framework guided by an operational rule. In parallel, reforms should aim at improving spending efficiency.

Directors noted that monetary policy should continue balancing overheating risks and financial stability considerations. They welcomed the Norges Bank's decision to quickly increase interest rates to respond to rising inflation pressures and encouraged continued flexibility in decision making and clear public communication.

Directors noted that the financial sector remains on sound footing. While acknowledging the improvements made to the macroprudential policy framework, they saw merit in considering additional measures, especially to address the high and interest sensitive housing related debt. Directors encouraged easing restrictions on the supply of new housing, altering regulations to boost construction efficiency, and gradually phasing out of mortgage interest deductibility. Expanding the regulatory toolkit for mitigating commercial real estate vulnerabilities should also be considered.

Directors noted that structural reforms will need to be wide-ranging, with a focus on raising non-oil productivity and boosting and diversifying labor force participation. They encouraged promoting upskilling, changing the sickness and disability benefit system, and giving more opportunities to immigrants. While commending the authorities for the progress with digitalization, Directors noted that closing remaining gaps will help further improve productivity. They welcomed Norway's commitment to an ambitious climate agenda and the efforts in helping to finance transition to renewable energy in developing countries.

Norway: Selected Economic and Social Indicators, 2019–24

	2019	2020	2021	2022	2023	2024
				proj.		
Real Economy						
Real GDP (change in percent) 1/	0.7	-0.7	3.9	3.6	2.6	2.2
Real mainland GDP (change in percent)	2.0	-2.3	4.1	3.7	2.1	2.0
Final Domestic demand	2.3	-3.6	3.4	4.6	2.3	2.1
Private consumption	1.1	-6.6	4.9	5.8	2.3	2.0
Public consumption	1.3	1.8	3.8	1.6	1.3	1.7
Gross fixed capital formation	6.3	-3.6	0.0	5.7	3.7	2.6
Exports	4.7	-8.2	5.4	3.6	3.1	2.4
Imports	5.7	-12.1	3.0	7.0	3.6	2.2
Total Domestic demand (contribution to growth) 2/	1.2	-4.3	3.7	5.2	2.6	2.2
Net exports(contribution to growth)	-0.9	2.5	0.3	-1.5	-0.5	-0.2
Unemployment rate (percent of labor force)	3.7	4.6	4.4	3.9	3.8	3.7
Output gap (mainland economy, - implies output below potential)	0.2	-2.1	0.3	0.8	0.2	0.1
CPI (end of period)	1.4	1.4	5.3	4.7	3.5	2.5
Core Inflation (end of period)	1.8	3.1	1.8	3.4	3.3	2.8
Public finance						
Central government (fiscal accounts basis)						
Non-oil balance (percent of mainland GDP)	-7.4	-12.2	-11.3	-8.6	-8.4	-8.4
Structural non-oil balance (percent of mainland trend GDP) 3/	-7.3	-11.4	-10.8	-10.3	-9.4	-9.3
Fiscal impulse	-0.1	4.1	-0.6	-0.5	-0.9	-0.1
In percent of Pension Fund Global Capital 4/	-2.7	-3.6	-3.2	-2.9	-2.7	-2.6
General government (national accounts definition, percent of						
Overall balance	7.7	-3.2	11.5	27.8	23.1	20.3
Non-oil balance (percent of mainland GDP)	-8.0	-13.3	-9.4	-9.0	-8.7	-8.7
Net financial assets	392.4	423.0	456.8	425.3	425.9	429.3
of which: capital of Government Pension Fund Global (GPF-G)	329.2	358.5	377.7	352.2	357.0	363.5
Money and credit (end of period, 12-month percent change)						
Broad money, M2	4.2	12.1	10.4	...	...	...
Domestic credit, C2	5.1	4.9	4.9	...	...	...
Interest rates (year average, in percent)						
Three-month interbank rate	1.6	0.4	0.8	...	...	...
Ten-year government bond yield	1.5	0.8	1.1	...	...	...
Balance of payments (percent of total GDP)						
Current account balance	2.9	1.1	15.0	19.4	14.5	11.3
Balance of goods and services	1.7	-0.9	15.5	24.0	17.1	13.9
Terms of trade (change in percent)	-8.0	-16.7	42.7	14.7	-8.1	-5.6
International reserves (end of period, in billions of US dollars)	65.0	73.6	83.0	83.0	83.0	83.0
Gross national saving	32.8	31.4	40.3	43.6	40.2	37.7
Gross domestic investment	29.9	30.3	25.3	24.2	25.6	26.4
Exchange rates (end of period)						
Bilateral rate (NOK/USD), end-of-period	8.8	9.4	8.6	...	...	...
Nominal effective rate (2010=100)	81.7	76.2	80.5	...	...	...
Real effective rate (2010=100)	83.7	78.2	83.1	...	...	...
Memo:						
Nominal GDP (in Billions of US Dollars)	404.9	362.2	482.2	504.7	486.4	495.1

Sources: Norwegian Authorities; International Financial Statistics; United Nations Development Programme; and IMF staff calculations.

1/ Based on market prices which include "taxes on products, including VAT, less subsidies on products".

2/ Includes the contribution from the mainland GDP residual.

3/ Authorities' key fiscal policy variable; excludes oil-related revenue and expenditure, GPFG income, as well as cyclical effects. Non-oil GDP

4/ Over-the-cycle deficit target: 3 percent of Government Pension Fund Global.



NORWAY

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

August 29, 2022

KEY ISSUES

The economy bounced back strongly from the first wave of Covid-19 pandemic, and the recovery is well entrenched in 2022. However, risks to the outlook are considerable, given the uncertainty over spillovers from the war in Ukraine, the intensity of the pandemic globally, and in Europe, in particular, and supply bottlenecks. Given the strong fundamentals, Norway is relatively shielded and there are both upside (higher energy prices and export volumes) and downside risks (lower demand from Europe for non-energy exports). The forecast is especially sensitive to where energy prices settle, whether energy supply to Europe will be disrupted, and Norway's capacity to increase gas supplies to Europe.

If risks materialize, fiscal policy should remain the main policy tool, given Norway's ample fiscal space. Otherwise, fiscal consolidation should target a return to a neutral stance in the medium-term. The challenges ahead relate to adverse demographics trends and the transition away from oil, which may put a strain on public finances if unaddressed. Further strengthening of the fiscal framework would help with fiscal adjustment over the next decades and mitigate the impact of large asset price fluctuations on fiscal policy, improving long-term sustainability. Reforms to improve the quality and cost efficiency of public services delivery will need to continue.

Monetary policy should continue to balance overheating risks and financial stability. Banks' exposure to commercial real estate (CRE) remains an important vulnerability, which has been manageable thus far, despite the slowdown during the pandemic and uncertainties regarding demand for workspace. Household debt is high and sensitive to interest rate increases, but high bank capital mitigates the risks to stability.

The new government's policy objectives are focused on instilling progressivity in the tax system, advancing green transition, encouraging full-time and permanent employment, and providing greater support for families and rural communities. While those are important goals, structural objectives should also include reforms that increase and diversify labor force participation, promote integration of foreign born, boost non-oil activity, and ensure timely restructuring and resource reallocation, and close remaining digitalization gaps to further improve productivity. Norway's leadership in addressing climate change challenges is very welcome.

Approved By
P. Gerson (EUR) and
G. Gray (SPR)

The Article IV Consultation discussions took place in Oslo during May 31–June 9, 2022. The staff team was comprised of E. Stavrev (head), S. Dell’Erba, A. Fotiou, and S. Vtyurina (all EUR). B. Slettvag (OED) joined the discussions. H. Jung and R. Srinivas (both EUR) provided administrative and data assistance. The mission met with Norges Bank Governor Ida Wolden Bache, other senior officials from the Ministry of Finance, Norges Bank, Ministry of Labor and Social Inclusion, Ministry of Petroleum and Energy, Finanstilsynet, and Statistics Norway. The mission also met with representatives of the banking sector, labor unions, real estate sector, and academics.

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