NORWAY

Norway has entered a soft patch, due to weakened confidence and subdued exports, which is expected to persist through mid-2012. The economy will subsequently resume its robust expansion as confidence returns. Consumer price inflation has remained low, reflecting moderate rises in unit labour costs and import prices, but the acceleration of output will lift it somewhat by the end of the projection period. The unemployment rate is likely to remain stable, as increasing labour demand will be met by continued high net immigration.

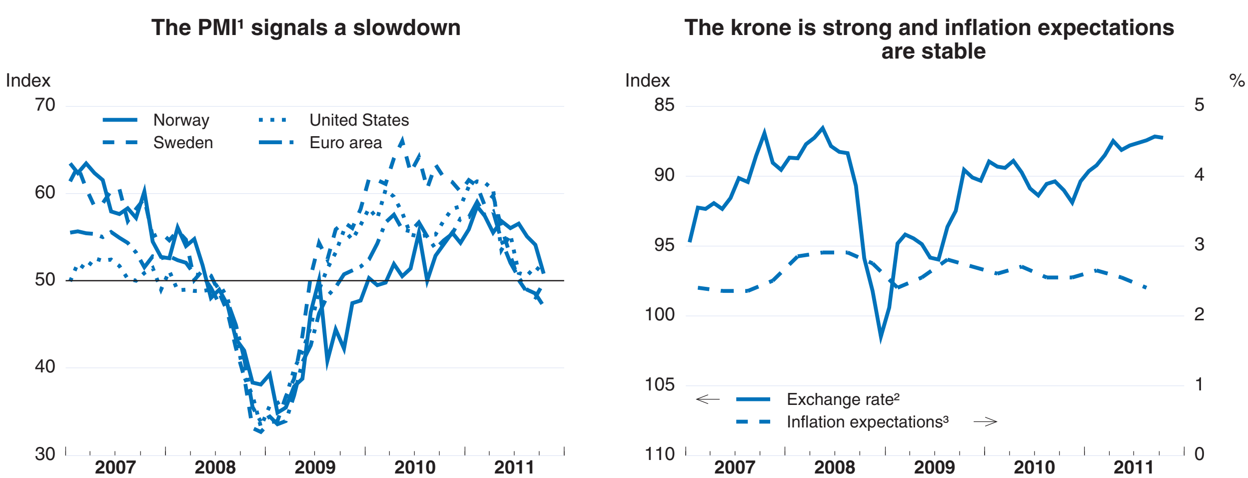
The mainland economy has lost some momentum

A weakening of confidence is holding back private consumption and investment. Faltering growth in Europe is beginning to impact exports. But the slowdown has been less pronounced than in other OECD countries, primarily owing to the strength of the petroleum industry and the fiscal stimulus provided by using the returns to the Government Pension Fund Global (GPFG).

Monetary policy will need to stay loose in the coming quarters

Inflation is below the 2.5% target, and inflation expectations are well-anchored. Interest rates abroad are likely to remain very low in the near to medium term, limiting the scope for Norges Bank to raise rates without causing an appreciation of the already strong krone. Given weaker prospects for the world economy, Norges Bank has appropriately maintained a supportive monetary stance. In the current environment, Norges Bank should keep its policy rate stable through the end of 2012 and resume the tightening cycle in early 2013. Signs of imbalances in asset markets, particularly very high house prices and household debt, should

Norway



1. Data refer to the manufacturing PMI (Purchasing Managers' Index).
2. Exchange rate is the import-weighted exchange rate (I-44) which is produced by Norges Bank and measures the value of the krone against the currencies of Norway's most important trading partners. A positive slope means the krone is appreciating.
3. Inflation expectations are the average year-on-year expectations of consumer price inflation two years ahead by economists and employer/employee organisations.

Source: Bloomberg; Swedbank; Markit and Norges Bank.

StatLink http://dx.doi.org/10.1787/888932541227

Norway: **Demand, output and prices**

	2008	2009	2010	2011	2012	2013
	Current prices NOK billion	Percentage changes, volume (2007 prices)				
GDP at market prices	2 510.9	-1.7	0.3	1.5	2.0	2.7
Private consumption	988.8	0.2	3.7	2.8	2.7	3.9
Government consumption	491.9	4.8	2.2	2.4	1.5	1.7
Gross fixed capital formation	548.0	-6.8	-7.4	6.0	5.0	4.8
Final domestic demand	2 028.7	-0.6	0.5	3.5	3.0	3.6
Stockbuilding[1]	7.0	-2.9	3.4	1.4	-0.8	0.0
Total domestic demand	2 035.7	-4.2	4.4	5.1	2.0	3.6
Exports of goods and services	1 218.0	-3.9	-1.7	-2.2	1.9	2.2
Imports of goods and services	742.8	-11.7	9.0	5.8	1.9	4.4
Net exports[1]	475.2	1.6	-3.2	-2.6	0.3	-0.3
Memorandum items						
Mainland GDP at market prices[2]	_	-1.8	2.1	2.6	2.7	3.6
GDP deflator	_	-5.6	6.7	9.0	2.0	2.2
Consumer price index	_	2.2	2.4	1.5	1.9	1.8
Private consumption deflator	_	2.5	2.0	1.2	2.0	2.0
Unemployment rate	_	3.2	3.6	3.2	3.2	3.2
Household saving ratio[3]	_	7.3	7.4	8.7	8.5	7.7
General government financial balance[4]	_	10.7	10.6	12.5	11.5	10.7
General government gross debt[4]	_	49.1	49.7	56.5	51.3	48.6
Current account balance[4]	_	11.8	12.6	16.4	16.4	15.6

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. GDP excluding oil and shipping.
3. As a percentage of disposable income.
4. As a percentage of GDP.

Source: OECD Economic Outlook 90 database.

StatLink http://dx.doi.org/10.1787/888932542728

be addressed by tightening mortgage lending regulation and unwinding the extraordinary tax advantages favouring housing investment.

The structural non-oil deficit will widen

The projection assumes that the government will fully implement the fiscal plans that are set out in the National Budget published in October 2011. This means taxes will stay at the same level over the next two years and the structural non-oil budget deficit will grow in line with the fiscal guidelines which require that over time it be 4% of the assets in the GPFG.

Confidence and growth are projected to return to high levels by 2013

The soft patch in the economy is projected to dissipate around mid-2012, when confidence is assumed to strengthen both abroad and at home. Strong increases in private consumption and investment, notably in the construction industry, will drive GDP growth through 2013. Rising domestic demand will spur employment growth, although continued high net immigration will keep wage growth at modest levels. The planned one percentage point hike in the value-added tax on food will cause headline inflation to rise temporarily above core inflation.

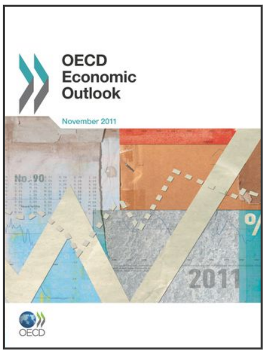
Main risks are on the external side

The terms of trade will be sensitive to swings in market sentiment towards the euro area and other major trading partners. A severe worldwide downturn would likely depress external demand and oil prices which would have significant knock-on effects on Norway's economy and government revenues.

Policy orientation should downside risks materialise

If such downside risks materialised, the OECD has identified, as part of its Strategic Response, key macroeconomic policies, as well as structural reforms which, while desirable in any case, would become essential to raise growth:

- The government should continue to follow its fiscal guidelines. Should the economy turn out to be substantially weaker than projected, this means providing discretionary fiscal support, in addition to letting the automatic stabilisers work. Contrary to the fiscal expansion of 2009, any such additional discretionary action should not increase public employment, which cannot be easily reversed and is therefore not appropriate as a temporary measure.
- In the event of a worsening global and domestic economy, especially if it triggered interest rate cuts abroad, Norges Bank, the central bank of Norway, should reduce the policy rate and maintain it at a very low level for an extended period. If necessary, measures to boost liquidity in the banking sector should be considered.
- Competition could be increased in many sectors, in particular by strengthening the Competition Authority and reducing public ownership.
- To stimulate labour supply, the rules for the early retirement scheme (AFP) in the public sector should be aligned with those in the private sector. Stricter monitoring of the assessment decisions of doctors would improve the targeting of sickness and disability benefits with no adverse effects on the insurance aspect of the programmes.



From:

OECD Economic Outlook, Volume 2011 Issue 2

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2011-2-en

Please cite this chapter as:

OECD (2011), “Norway”, in *OECD Economic Outlook, Volume 2011 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2011-2-29-en