3 Economic policy

Norway is in a strong position, with a robust economy, considerable financial assets and high employment. The positives include a high productivity level, a very profitable oil and gas industry and well-functioning institutions that have ensured sound management of natural resources and revenues. Nonetheless, Norway is facing challenges in the years ahead, as outlined in the White Paper on Long-Term Perspectives on the Norwegian Economy.

Financial assets invested abroad finance an increasing share of the fiscal budget, making the budgetvulnerable to fluctuations in financial markets and the exchange rate. War and unrest increase the need for prioritising defence, security and emergency preparedness. Besides, Norway and the rest of the world are increasingly affected by climate change. Significant measures and resources will be required to limit its impact in the years to come. Petroleum production will eventually decline and there will be more elderly people. Public expenditure growth will outpace revenue growth in the course of the next decade.

Fiscal policy shall contribute to a stable and predictable range of services for the population, within the limits of sustainable public finances. At the same time, fiscal policy plays a key role in levelling out major fluctuations in the economy. In line with the broadly anchored fiscal guideline, the fiscal policy stance shall, through Fund spending, reflect both cyclical fluctuations and the sustainable development of the welfare state. A sound welfare system for the future requires deliberate choices, both now and in the years to come.

3.1 Fiscal policy

In recent years, fiscal policy has been heavily influenced by several external events that have required increased appropriations. Russia's war of aggression in Ukraine has led to increased refugee processing expenditure, increased support for Ukraine through the Nansen Programme, and increased expenditure on defence and emergency preparedness in Norway. The war also served to increase energy prices, which in turn triggered high inflation in many countries. High inflation has led to higher interest rates, both internationally and in Norway. The Government has been committed to maintaining high employment and prioritising those who have been hardest hit. The budgets of recent years have provided an economic growth impetus.

Inflation is now declining, while unemployment remains low. Going forward, the Government is aiming to support current positive economic developments to improve people's purchasing power, and promote high employment while not working cross-purpose with monetary policy.

3.1.1 Fiscal policy stance in 2025

In the fiscal budget for 2025, the Government is proposing Fund spending, measured by the structural non-oil fiscal deficit, of NOK 460.1 billion; see Table 3.1. This represents 10.9 per cent of mainland Norway trend GDP, an increase from 10.4 per cent in 2024; see Figure 3.1.

Fund spending is equivalent to 2.5 per cent of the assumed value of the Government Pension Fund Global (GPFG) at the beginning of the year; see Figure 3.3 and Table 3.1.

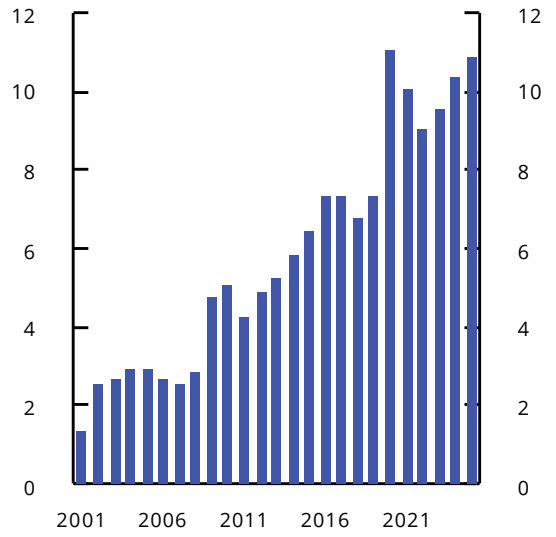

Figure 3.1 Structural non-oil fiscal deficit. Per cent of mainland Norway trend GDP

Source: Ministry of Finance.

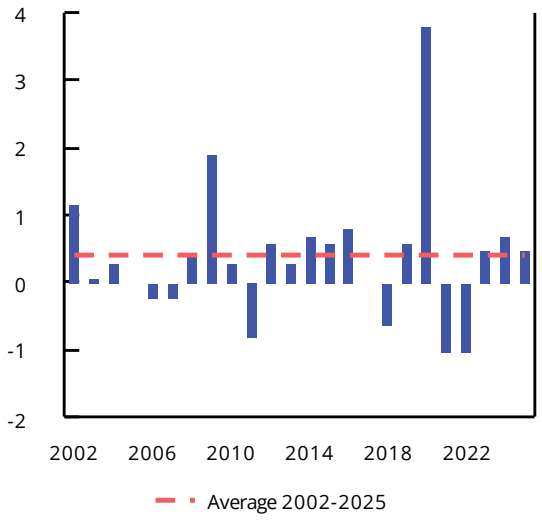

Figure 3.2 Structural non-oil fiscal deficit as a percentage of mainland Norway trend GDP. Change from previous year (fiscal impulse)

Source: Ministry of Finance.

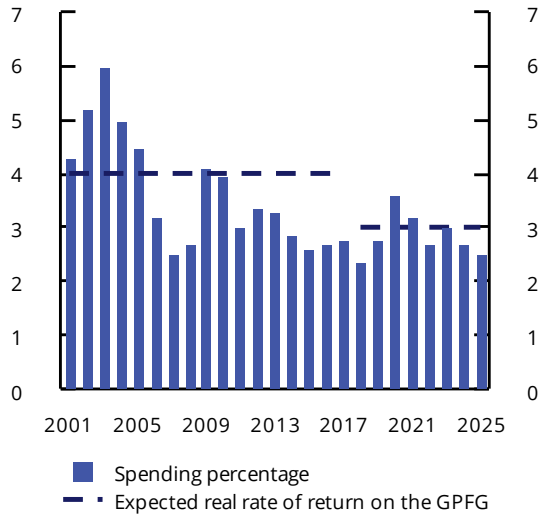

Figure 3.3 Structural non-oil fiscal deficit. Per cent of the Government Pension Fund Global

Source: Ministry of Finance.

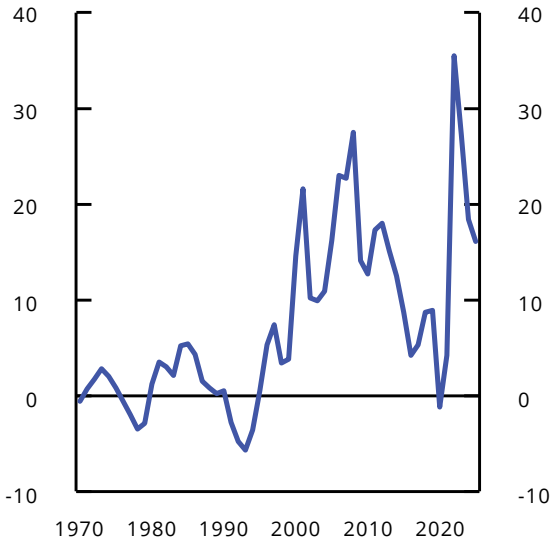

Figure 3.4 Combined surplus in the fiscal budget and the Government Pension Fund. Per cent of mainland Norway trend GDP

Source: Ministry of Finance.

Table 3.1 The structural non-oil fiscal balance[1]. NOK billion

	2023	2024	2025
Non-oil fiscal deficit	290.5	347.8	413.6
+Net interest and transfers from Norges Bank. Deviation from trend.	11.4	25.9	21.6
+Special accounting considerations	-3.8	4.2	-0.1
+Taxes and unemployment benefits. Deviation from trend	69.6	38.6	24.9
=Structural non-oil fiscal deficit	367.6	416.5	460.1
Measured in per cent of mainland Norway trend GDP	9.6	10.4	10.9
Percentage point change from previous year (budget indicator)[2]	0.5	0.7	0.5
Measured in per cent of the Government Pension Fund Global	3.0	2.6	2.5
Memo:			
Investment income in the Government Pension Fund. Estimated trend	347.1	383.1	419.5
Structural deficit, including investment income	20.5	33.4	40.5
Measured in per cent of mainland Norway trend GDP	0.5	0.8	1.0

[1] See Appendix 1 for a more detailed description of how the structural non-oil fiscal deficit is calculated.
[2] Positive numbers indicate that the budget has an expansionary effect. The indicator does not take into account that different revenue and expenditure items may differ in their effect on economic activity.

Source: Ministry of Finance.

The fiscal guideline calls for Fund spending to be adapted to major changes in Fund value over several years in order to prevent fiscal policy itself from becoming a source of instability in the economy. This also makes for more sustainable welfare services and a more predictable policy framework. Future developments in the economy and in Fund value are uncertain. Current fiscal policy should take into account that one will in the future want to increase Fund spending in the event of major economic setbacks and adapt to negative shocks to the Fund value by accepting a temporary overshooting of the 3 percent guideline for a period of time. This requires Fund spending to be below the expected real return of 3 percent in good and normal times, so that Fund spending over time corresponds to the expected real return. See Box 3.1 for a more detailed description of the fiscal policy framework.

The budget proposal assumes a Fund value of NOK 18,500 billion at the beginning of 2025. This is a good NOK 2,700 billion higher than at the beginning of 2024; see Figure 3.5.[1] However, there have been major fluctuations over the course of the year, and more than 30 per cent of the increase so far this year is due to the krone depreciation.

[1] The estimate is based on the Fund value at the end of Q2 this year, extrapolated with the expected return for the second half of the year, and taking into account expected inflows and outflows.

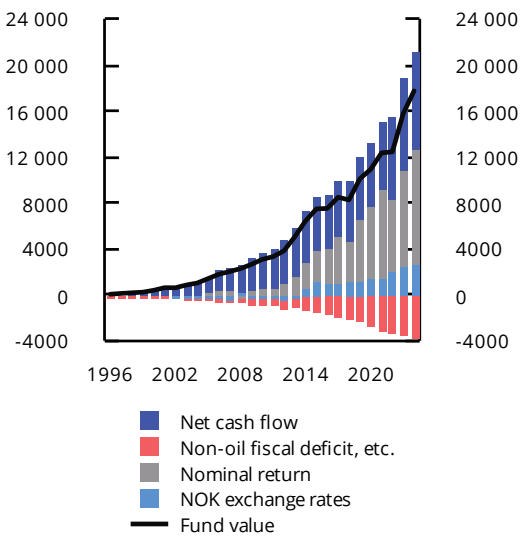

Figure 3.5 Various factors behind the change in the market value of the Government Pension Fund Global from 1996 to 2024.[1] NOK billion

[1] For 2024, the market value is shown as of the end of Q2. Nominal return is net of investment management costs.

Sources: Norges Bank Investment Management and the Ministry of Finance.

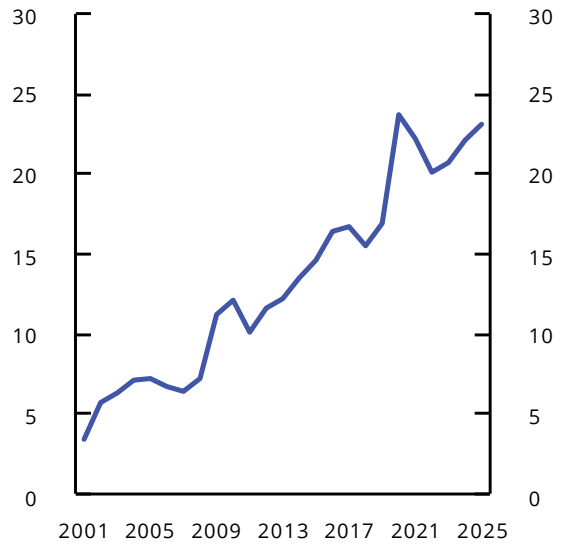

Figure 3.6 Fund spending as a share of fiscal budget expenditure.[1] Per cent

[1] Non-oil expenditure.

Source: Ministry of Finance.

Fiscal policy is more vulnerable to a sustained Fund value decline now than previously. One reason for this is that the Fund has become larger, and now finances a larger portion of the budget. While only 3 per cent of central government expenditure was financed by the Fund in 2001, it is estimated that the Fund will finance 23 per cent of expenditure next year; see Figure 3.6. In addition, inflows to the Fund from petroleum activities will decline in the years to come. See Box 3.3 for an analysis of fiscal vulnerability in the wake of uncertain Fund value.

The White Paper on Long-Term Perspectives on the Norwegian Economy estimates that expenditure will grow faster than revenues in a few years' time. By holding back somewhat on Fund spending for the next few years, the need for fiscal tightening can be deferred and contribute to more sustainable public services and transfers. See Section 3.1.3 for an in-depth discussion of the fiscal policy challenges going forward.

The actual transfer from the Government Pension Fund Global to the fiscal budget; the *non-oil fiscal deficit,* is projected to be NOK 413.6 billion in 2025; see Table 3.2.

The combined surplus in the fiscal budget and the Government Pension Fund is projected to be NOK 680.7 billion in 2025, which is equivalent to 16 per cent of mainland Norway trend GDP; see Figure 3.4 and Table 3.2.

Real underlying expenditure growth in the fiscal budget is now projected to be 1.0 per cent next year; see Table 3.3 and Figure 3.7. The relatively low expenditure growth from this year to next year needs to be considered in the context that expenditure was increased significantly this year in the Revised National Budget.

Public sector expenditure, which is comprised of central, regional and local government expenditure, is projected to represent 62 per cent of mainland Norway GDP next year. This is the same level as this year; see Figure 3.8. Tax revenue as a share of mainland GDP is roughly in line with pre-pandemic levels, after increasing in 2021 and 2022 due to high energy prices. For a more detailed discussion of public finance developments, see Sections 3.1.5 and box 3.6.

Table 3.2 Key figures in the fiscal budget and the Government Pension Fund. NOK billion

	2023	2024	2025
Total revenues	2,494.4	2,259.0	2,250.0
1 Revenues from petroleum activities	1,008.5	710.5	672.4
1.1 Taxes	623.2	416.6	388.5
1.2 Other petroleum revenues	385.2	293.9	283.9
2 Non-oil revenues	1,485.9	1,548.5	1,577.6
2.1 Taxes from mainland Norway	1,352.1	1,387.1	1,423.3
2.2 Other revenues	133.8	161.4	154.3
Total expenditure	1,806.8	1,926.4	2,020.8
1 Expenditure on petroleum activities	30.4	30.1	29.6
2 Non-oil expenditure	1,776.4	1,896.3	1,991.2
Fiscal budget surplus before transfer to the Government Pension Fund Global	687.6	332.6	229.1
- Net cash flow from petroleum activities	978.1	680.4	642.8
= Non-oil fiscal surplus	-290.5	-347.8	-413.6
+ Transfer from the Government Pension Fund Global	286.2	347.8	413.6
= Fiscal surplus	-4.2	0.0	0.0
+ Net provision for the Government Pension Fund Global	691.8	332.6	229.1
+ Interest and dividend income, etc., in the Government Pension Fund[1]	354.9	408.2	451.6
= Combined surplus in the fiscal budget and the Government Pension Fund[1].	1,042.5	740.7	680.7
Memo:			
Interest and dividend income, etc., in the Government Pension Fund Global	338.6	389.4	431.7
Market value of the Government Pension Fund Global[2]	12,413	15,761	18,500
Market value of the Government Pension Fund[2]	12,732	16,115	18,890
Retirement pension commitments under the National Insurance Scheme [2,3]	10,135	10,805	11,468

[1] Does not include foreign exchange gains or losses.
[2] At the beginning of the year.
[3] The net present value of existing accrued rights to future retirement pension benefits under the National Insurance Scheme.

Sources: Ministry of Finance and Statistics Norway.

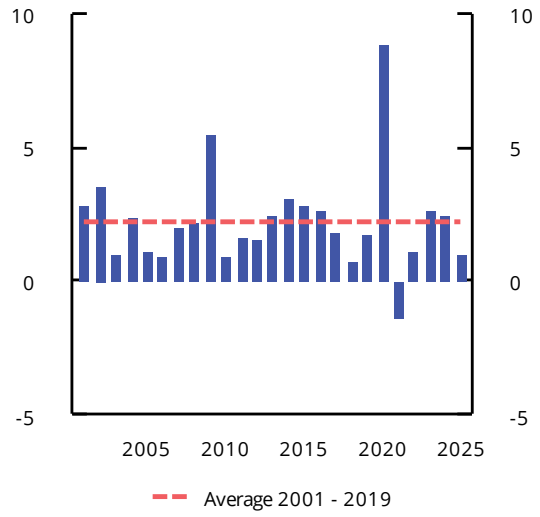

Figure 3.7 Real, underlying fiscal budget expenditure growth. Percentage change from the previous year

Sources: Ministry of Finance and Statistics Norway.

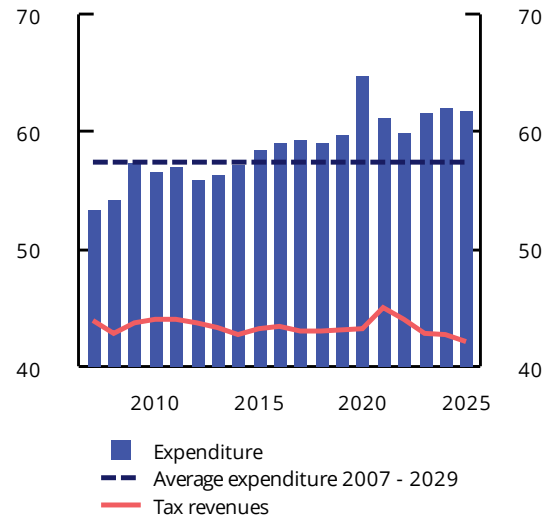

Figure 3.8 Public administration expenditure and tax revenues.[1,2] Per cent of mainland Norway GDP

[1] The central government administration constitutes, together with the regional and local government administrations, the public administration.
[2] Accrued tax revenues, excluding petroleum.

Sources: Ministry of Finance and Statistics Norway.

Fiscal policy aims to balance the consideration of offering the citizens sustainable welfare services and fundamental security with cyclical and long-term considerations relating to the sustainable development of both public finances and the growth potential of the economy. The overall cyclical outlook indicates that there is for 2025 no need for fiscal policy to provide any stimulus to boost economic activity.[2] Calculations based on the Ministry of Finance's macroeconomic models KVARTS and NORA indicate that the fiscal policy stance for 2025 will have a slightly expansionary effect on the activity level in 2025.[3] This should, in particular, be considered in the context that public sector consumption growth is projected to exceed the trend growth in the economy, which is defined as Mainland Norway economic

[2] See Chapter 2 for a description of developments in the Norwegian economy.

[3] The model calculations take into account the effect of automatic stabilisers, changes in budget items for the public administration as a whole, as well as different budget items having different effects on the economy.

growth at normal capacity utilisation. In recent years, fiscal policy has helped to maintain economic growth and has probably prevented Norway from experiencing a decline in economic activity. Economic activity next year will still be influenced by strong fiscal impulses from previous years' budgets; see Table 3.4.

The fiscal policy stance in 2025 will also serve to increase the activity level in the economy in 2026. The methodology behind the calculations and differences in estimated budget effects in KVARTS and NORA are described in more detail in Appendix 2. Section 3.1.3 provides a more detailed discussion of fiscal policy for the period ahead.

Table 3.3 Underlying fiscal budget expenditure[1]. Projections in NOK million and percentage change

	2024	2025
Fiscal budget expenditure	1,926,426	2,020,837
- Government petroleum activities	30,100	29,600
- Unemployment benefits	12,840	14,405
- Interest expenses	15,168	18,300
= Expenditure other than on petroleum activities, unemployment benefits and interest expenses	1,868,318	1,958,532
- Refugees in Norway financed through the development aid appropriation	4,941	4,101
+ Adjustment for pension premiums, etc., in health enterprises	2,545	1,512
+ Other adjustments	0	0
= Underlying expenditure	1,865,922	1,955,943
Value change in per cent		4.8
Price change in per cent.		3.8
Volume change in per cent.		1.0

1 The calculation of underlying expenditure growth excludes fiscal budget expenditure on government petroleum activities, interest expenses and unemployment benefits. In order to make expenditure comparable over time, adjustments have been made for extraordinary changes and certain accounting considerations in accordance with standard procedures.

Source: Ministry of Finance.

Table 3.4 Budget effects on mainland GDP according to KVARTS and NORA. Per cent

	Effects on mainland GDP[1]			
	2023	2024	2025	2026
KVARTS				
Budget proposal for 2023	1.0	1.4	1.6	1.7
Budget proposal for 2024		0.3	0.5	0.6
Budget proposal for 2025			0.2	0.2

2023–2025 in total[2]	1.0	1.7	2.3	2.5
NORA				
Budget proposal for 2023	0.8	0.6	0.4	0.4
Budget proposal for 2024		0.3	0.3	0.3
Budget proposal for 2025			0.2	0.2
2023–2025 in total[2]	0.8	0.8	0.9	0.9

[1] The effect on economic activity is based on how various revenue and expenditure items (accrued) for the public administration as a whole develop compared with trend growth in the economy. The deviation from the baseline scenario is combined with fiscal multipliers. The multipliers are based on the models and describe the extent to which changes in various expenditure and revenue items influence economic activity. The effects of the so-called automatic stabilisers in the budget are taken into account, i.e. that unemployment benefit expenditure will increase and that tax revenues will decline during a recession, while the reverse happens during a boom.
[2] Due to rounding, the sum of the individual elements above may differ from the total presented in this row.

Source: Ministry of Finance.

Table 3.5 Government Pension Fund Global, 3 per cent real rate of return and structural non-oil fiscal deficit. NOK billion and per cent

	Current prices			Fixed 2025 prices			Structural deficit	
	Government Pension Fund Global at the beginning of the year[1]	3 per cent of Fund capital	Structural non-oil fiscal deficit	3 per cent of Fund capital	Structural non-oil fiscal deficit	Deviation from 3 per cent trajectory	Per cent of mainland Norway trend GDP	Per cent of Fund capital
2001	386.6	-	16.8	-	39.1	-	1.4	4.3
2002	619.3	-	32.4	-	72.5	-	2.5	5.2
2003	604.6	-	36.4	-	78.1	-	2.7	6.0
2004	847.1	-	42.7	-	89.2	-	2.9	5.0
2005	1,011.5	-	45.3	-	91.6	-	2.9	4.4
2006	1,390.1	-	44.6	-	87.1	-	2.6	3.1
2007	1,782.8	-	44.7	-	83.3	-	2.5	2.4
2008	2,018.5	-	54.1	-	95.2	-	2.8	2.5
2009	2,279.6	-	94.2	-	159.6	-	4.6	4.0
2010	2,642.0	-	106.0	-	173.1	-	4.9	3.8
2011	3,080.9	-	93.7	-	147.7	-	4.1	2.9
2012	3,307.9	-	112.5	-	171.7	-	4.7	3.2
2013	3,824.5	-	125.9	-	186.1	-	5.1	3.2
2014	5,032.4	-	147.9	-	212.2	-	5.8	2.9
2015	6,430.6	-	170.1	-	238.5	-	6.5	2.6
2016	7,460.8	-	199.5	-	273.3	-	7.4	2.7
2017	7,509.9	-	209.3	-	280.9	-	7.6	2.8
2018	8,484.1	254.5	200.2	332.1	261.2	-70.9	6.8	2.4
2019	8,243.4	247.3	227.9	313.3	288.8	-24.5	7.4	2.8
2020	10,086.2	302.6	361.5	377.8	451.4	73.5	11.1	3.6
2021	10,907.1	327.2	345.6	391.8	413.8	22.0	10.1	3.2
2022	12,355.2	370.7	329.8	420.1	373.8	-46.3	9.1	2.7
2023	12,413.5	372.4	367.6	402.9	397.7	-5.2	9.6	3.0
2024	15,760.8	472.8	416.5	490.7	432.3	-58.4	10.4	2.6
2025	18,500.0	555.0	460.1	555.0	460.1	-94.9	10.9	2.5

[1] The estimate is based on the Fund value at the end of Q2 2024, projected with the expected real rate of return.

Source: Ministry of Finance.

3.1.2 Fiscal policy in 2024

Fund spending in 2024 is now projected to be NOK 416.5 billion, measured by the *structural non-oil fiscal deficit*. This is roughly in line with the projection in the Revised National Budget 2024 (RNB24); see Table 3.6. In RNB24, total expenditure increased significantly compared with the Balanced Budget for 2024. This was primarily related to defence, security and emergency preparedness, the National Insurance Scheme, hospitals and accelerated expenditure related to the Nansen Programme. The expenditure increase in RNB24 was partly covered by increased projections for structural tax revenues and temporary revenues as a result of the reversal of previously appropriated loss provisions. In addition, Fund spending increased by NOK 10 billion compared with the Balanced Budget for 2024.

Table 3.6 Key figures in the budget for 2024. Projections made at different times.[1]
NOK billion

	Balanced	Change	RNB24	Change	NB25[2]
Non-oil fiscal deficit	336.5	2.6	339.1	8.7	347.8
Structural non-oil fiscal deficit	409.8	10.2	419.9	-3.4	416.5
Per cent of mainland Norway trend GDP	10.3	0.1	10.4	-0.1	10.4
Per cent of Fund capital	2.7	0.0	2.7	0.0	2.6
Fiscal impulse (percentage points)	0.4	0.3	0.7	0.0	0.7
Real, underlying expenditure growth (per cent)	1.3	1.2	2.5	0.0	2.5
Combined surplus in the fiscal budget and the Government Pension Fund[3]	856.3	-116.9	739.4	1.4	740.7

[1] Balanced Budget 2024 adopted in autumn 2023 (Balanced), adopted Revised National Budget 2024 following deliberation of RNB24 by the Storting in June 2024 (RNB24) and National Budget 2025 (NB25).
[2] Change in structural non-oil fiscal deficit measured as a share of mainland Norway trend GDP. A positive number indicates that the budget has an expansionary effect. The indicator does not take into account that different revenue and expenditure items may differ in their effect on economic activity.
[3] Including the Government Pension Fund Global and the Government Pension Fund Norway.

Source: Ministry of Finance.

Fund spending, measured by the structural non-oil fiscal deficit as a share of mainland Norway trend GDP, is projected to increase by 0.7 per cent to 10.4 per cent from last year to this year. This Fund spending is estimated to represent 2.6 per cent of the Fund value. *The non-oil fiscal deficit*, which corresponds to the actual transfer from the GPFG, is now projected to be NOK 347,8 billion in 2024.

3.1.3 Fiscal policy going forward

The white paper on Long-term Perspectives on the Norwegian Economy highlights the need to plan for the future and to focus on facilitating the long-term sustainability of the welfare model. A key challenge is how to allocate the labour force between different industries. More

elderly people makes for an increased need for health and care services. At the same time, there will be fewer people in the 20-66 age group between now and 2060. The increased need for labour in the health and care sector will therefore largely have to be met from other sectors of the economy. This challenge may be partially mitigated by increasing labour supply or making the public sector more efficient.

The projections in the White Paper on Long-Term Perspectives on the Norwegian Economy show that expenditure growth will accelerate in a few years because of the ageing population; see the red line in Figure 3.9. At the same time, the projections show that revenues will grow more than expenditure in the very short term, although this will be reversed within a few years; see the blue line in the said figure.

If considered in isolation, Fund spending may for the next few years be stepped up somewhat within the scope of the fiscal guideline. In the short term, revenues will increase more than expenditure, and this difference is larger in this year's white paper on Long-term Perspectives on the Norwegian Economy than it was in the previous white paper in 2021. This is primarily due to a sharp increase in Fund value since then; see the discussion below. How the increased Fund income is allocated is of importance to developments in the longer run. Exercising restraint now would leave scope for deferral of demanding fiscal tightening in future years. If the higher revenues are used to permanently expand welfare schemes now, future funding needs will be increased. Measures that strengthen work incentives, or improve the growth potential of the economy and increase public sector efficiency, will reduce labour shortages and strengthen the fiscal balance over time.

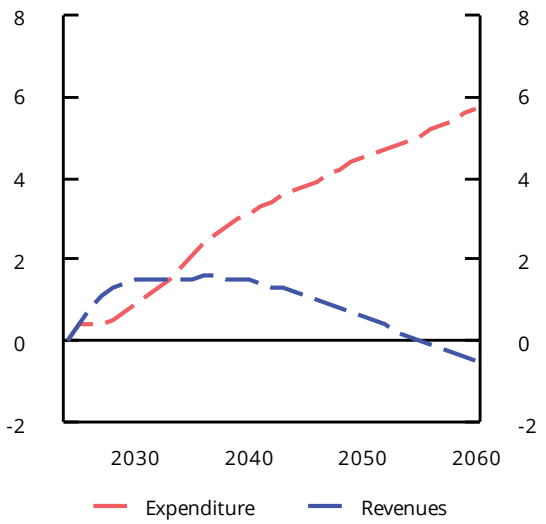

Figure 3.9 Funding needs in fiscal policy. Change in public sector revenues and expenditure towards 2060. Share of mainland Norway GDP. Percentage points.

Source: Long-term Perspectives on the Norwegian Economy 2024.

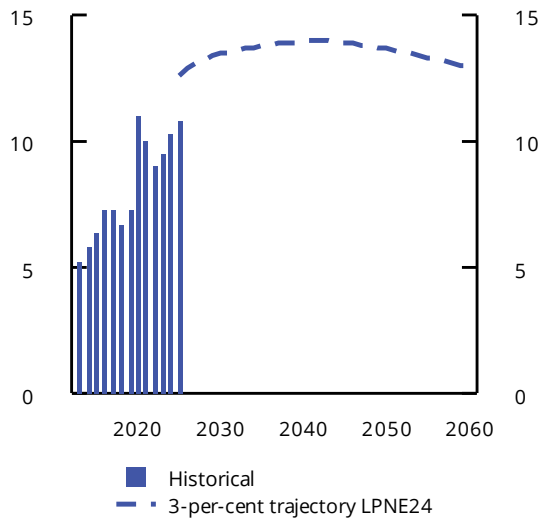

Figure 3.10 Fund spending and the 3-per-cent trajectory from the white paper on Long-term Perspectives on the Norwegian Economy 2024 (LPNE24). Share of mainland Norway GDP. Per cent

Sources: Ministry of Finance and Long-term Perspectives on the Norwegian Economy 2024.

The Fund value at the end of the year is in this report projected to be NOK 18,500 billion; about NOK 2,700 billion higher than at the beginning of the year and NOK 600 billion higher than assumed in the white paper on Long-term Perspectives on the Norwegian Economy. Historically, periods of strong stock market performance have regularly been followed by market slumps. We are now looking back at a long period without any significant market decline. Figure 3.11 compares the development in Fund value with what would have been the Fund value if the Fund had historically achieved the expected rate of return assumed for each year (4 per cent until and including 2017 and 3 per cent thereafter). The calculated trajectory is about 40 per cent below the market value. There is considerable uncertainty about future developments in Fund value. A reduction in Fund returns would have a greater impact on Fund value in the years to come, as inflows to the Fund enter into decline.

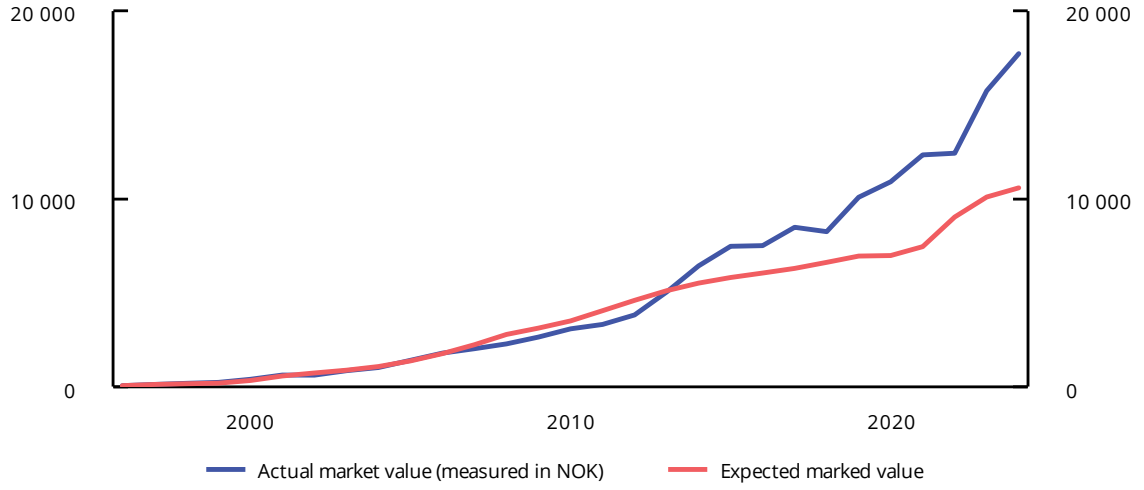

Figure 3.11 The market value of the Government Pension Fund Global and the estimated market value if the return had been in line with the expected real rate of return.[1] NOK billion

[1] The expected market value is what would have been the Fund value if the actual real rate of return had been in line with the Ministry's expectation, i.e. 4 per cent until and including 2017 and 3 per cent thereafter. Actual inflation in the currencies included in the currency basket for the Fund has been used for the conversion from real values to nominal figures. Net inflows and investment management fees have been converted to values measured in the currency basket for the Fund. The Norwegian kroner exchange rate is assumed to remain unchanged throughout the period. Until and including the end of Q2 2024.

Sources: Norges Bank Investment Management (NBIM) and the Ministry of Finance.

3.1.4 The fiscal set-up for the local and regional government sector – not translated

3.1.5 Development in public finances

The total public administration surplus[4] is projected to be NOK 696 billion in 2025. This corresponds to 12.7 per cent of GDP; unchanged from the previous year; see Table 3.10. The surplus is significantly below its peak in 2022, but it is still higher than in the preceding decade; see Figure 3.19.

Public administration surplus developments are heavily affected by revenues from petroleum activities, as well as by interest and dividend income in the Government Pension Fund. If excluding these revenues, central government has in recent years been recording a growing deficit. In accordance with the Government Pension Fund Act and the fiscal guideline, this deficit is covered by a transfer from the Government Pension Fund Global (GPFG) to the fiscal budget.

[4] Measured by net lending in central, regional and local government as a whole, and including the Government Pension Fund.

Table 3.10 Public administration net lending.[1] NOK million and per cent of GDP

	2023	2024	2025
A. Central government net lending, accrued value	879 957	700 480	745 075
Combined surplus in the fiscal budget and the Government Pension Fund	1 042 482	740 747	680 680
Non-oil fiscal deficit	-290 463	-347 808	-413 648
Net cash flow from petroleum activities	978 064	680 379	642 769
Interest and dividend income, etc., in the Government Pension Fund	354 881	408 177	451 559
Surplus in other government and social security accounts	13 575	10 751	4 993
Definition differences between central government accounts and national accounts[2]	-176 100	-51 018	59 402
B. Local and regional government net lending, accrued value	-43 517	-47 607	-49 182
Local government deficit, book value	-37 578	-49 326	-51 685
C. Public administration net lending (A+B)	836 440	652 873	695 893
Measured as a share of GDP	16,3	12,6	12,7

[1] Includes central government's accrued, but not booked, taxes in relation to, inter alia, petroleum activities. Adjustment has also been made to reflect that capital injections in commercial operations, including government petroleum activities, are recorded as lending in the national accounts.
[2] The table is based on the definitions in the national accounts, which use accrued amounts.

Sources: Statistics Norway and the Ministry of Finance.

The OECD countries generally increased their public sector deficits significantly during the pandemic. These deficits have subsequently been reduced; see Figure 3.19. The OECD estimates that the member countries as a whole will have public sector deficits equivalent to 4.1 per cent of GDP in 2025.

Including the capital in the Government Pension Fund and capital injections in central government commercial operations, public administration net financial assets are projected to be about NOK 21,600 billion at the end of 2025, equivalent to almost four times GDP; see Figure 3.20. The vast majority of this is capital in the Government Pension Fund. Very few OECD countries have positive public administration net financial assets. For the OECD countries as a whole, the public administration is estimated to have net debt equivalent to 68 per cent of GDP in 2025.

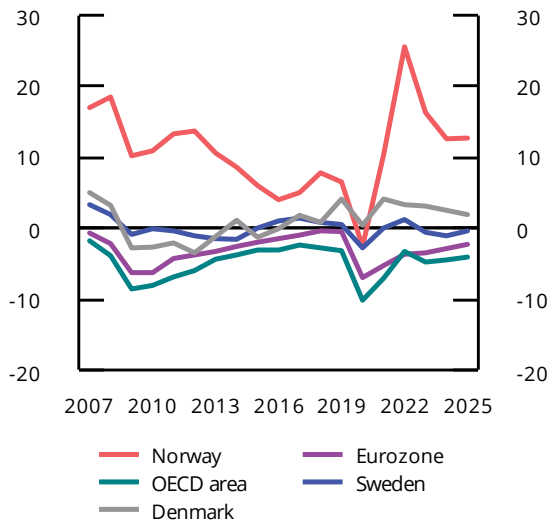

Figure 3.19 Public administration net lending. Per cent of GDP

Sources: Ministry of Finance and OECD.

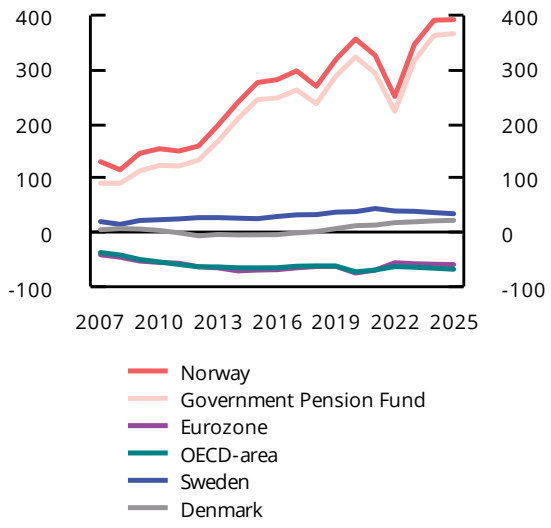

Figure 3.20 Public administration net financial assets. Per cent of GDP

Sources: Ministry of Finance and OECD.

Norway and the other Scandinavian countries have comprehensive welfare schemes. This requires a relatively high tax level. However, Norway is in a special position due to the investment income from savings in the Government Pension Fund Global. The tax level in the mainland economy is roughly in line with Sweden and Denmark, but higher than the average for OECD countries; see Figures 3.14 and 3.15. The extra room for manoeuvre provided by the GPFG and the fiscal guideline has primarily been used to increase fiscal budget expenditure. For 2025, proposed fiscal budget expenditure to be financed from the GPFG comes to about NOK 460 billion, equivalent to about 17 per cent of total public expenditure.

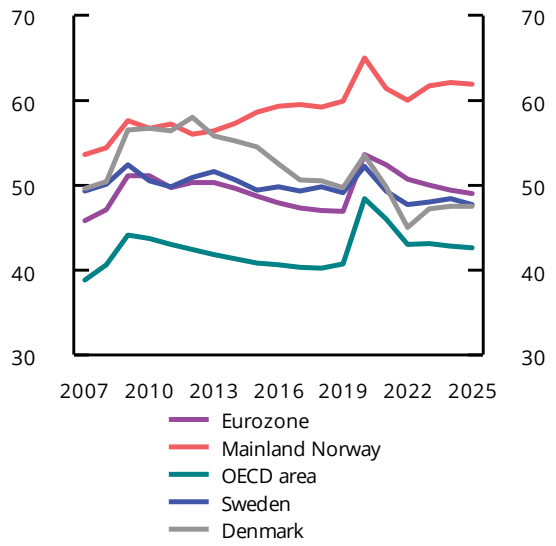

Figure 3.21 Public expenditure. Per cent of GDP

Sources: Ministry of Finance and OECD.

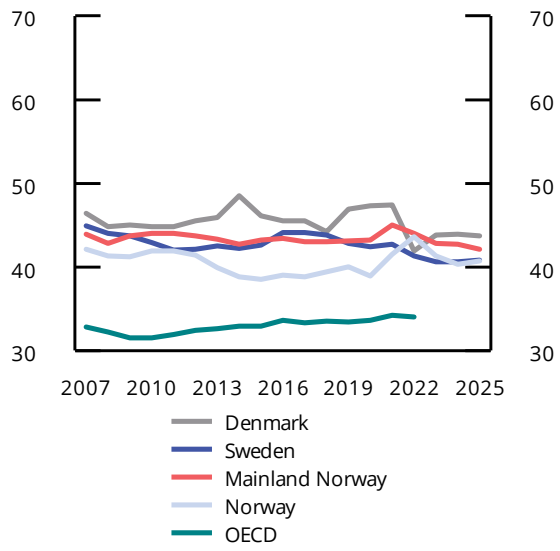

Figure 3.22 Public tax revenues. Per cent of GDP

For Sweden and Denmark, data for 2007-2022 have been obtained from the OECD. Data and forecasts for 2023-2025 have been obtained from their respective ministries of finance.

Sources: Norwegian Ministry of Finance, Swedish Ministry of Finance, Danish Ministry of Finance and OECD.

Public expenditure comparisons between countries often look at expenditure relative a country's GDP, with GDP being taken to represent an estimate of income or tax bases. Since Norway has high Fund income that is not included in the GDP figures, such a comparison provides an incomplete portrayal of the relationship between income in the economy and central government expenditure. See Box 3.6 for a discussion of the size of the public sector, where expenditure is measured against various income concepts and compared with other countries.

In Norway, public expenditure growth has outpaced mainland economic growth for a long time; see Figure 3.21. In Sweden and Denmark, public expenditure growth has been lower than economic growth over the past decade. As in other countries, Norwegian public expenditure increased during the Covid pandemic, but declined again in the first post-pandemic years. Public expenditure growth is expected to be more or less in line with mainland economic growth next year, and is estimated to represent about 62 per cent of mainland Norway GDP; see Figure 3.21.

In simplified terms, public expenditure may be divided into public sector consumption (about 50 per cent), gross fixed capital formation (about 10 per cent) and transfers to the private sector, etc. (about 40 per cent); see Figure 3.23. The largest transfer component is benefits to households, but subsidies to the business sector and transfers to charitable organisations also

account for a significant share. As illustrated by Figure 3.23, all of these public expenditure elements have grown over time. The sum of public sector consumption and investment constitutes public sector demand into the economy; see Chapter 2.1.

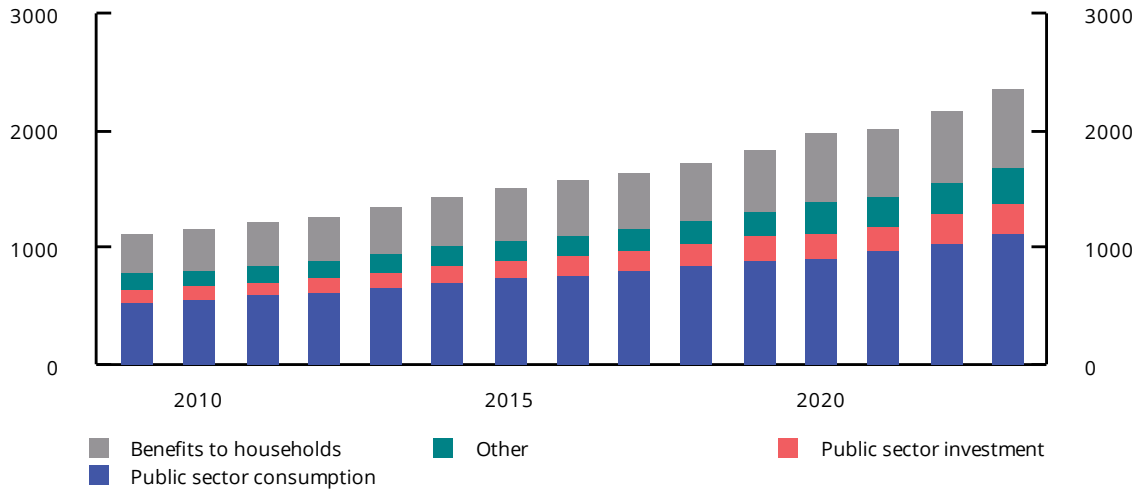

Figure 3.23 Simplified public expenditure breakdown.[1] NOK billion

[1] Public services are here defined as labour costs, intermediate goods and product procurement for households. This is approximately equal to public sector consumption in the national accounts, comprised of labour costs, intermediate goods and product procurement for households (expenditure items), plus depreciation and less any fees and charges. "Other" is comprised of interest expenses and dividends, international transfers, subsidies, etc., transfers to charitable organisations, net land purchases and other capital transfers.

Source: Ministry of Finance.

Measured as a share of mainland GDP, public sector consumption is higher in Norway than in Sweden and Denmark, and this share has increased over the past decade, while it has been more stable or declining in other European countries; see Figure 3.24. Public sector consumption is comprised of expenditure on labour costs, intermediate goods in public sector production and public sector product procurement for households (support tools, etc.). These expenditure items increase in line with public service production.

Public administration gross fixed capital formation, i.e. public expenditure on the construction of for example roads, railways and public buildings, has also increased as a share of mainland Norway GDP. This share has long been higher in Norway than in many other OECD countries. The difference has widened since 2013 because several countries scaled back investment to strengthen fiscal budgets. Figure 3.25 compares public administration gross fixed capital formation as a share of mainland Norway GDP with the corresponding shares in Sweden and Denmark.

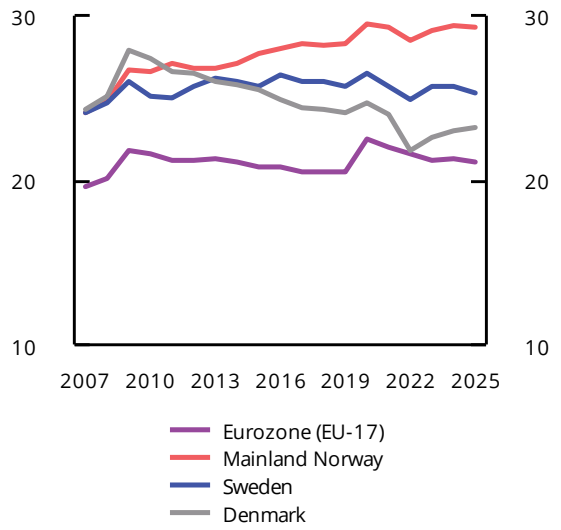

Figure 3.24 Public sector consumption. Per cent of GDP

Source: Ministry of Finance and OECD.

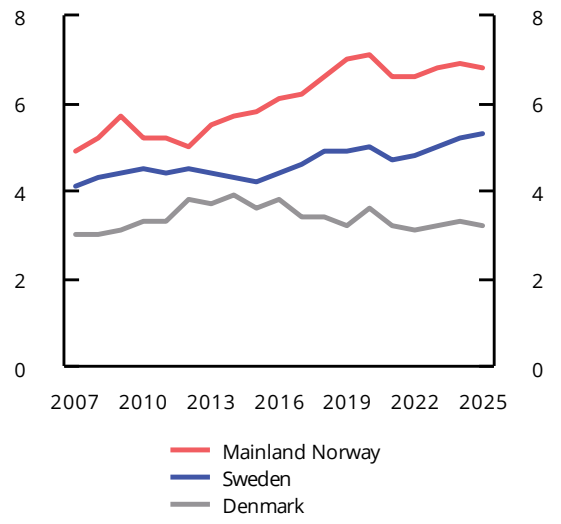

Figure 3.25 Public administration gross fixed capital formation. Per cent of GDP

Sources: Ministry of Finance and OECD.

OECD comparison of public expenditure in different areas between countries

The OECD report *Economic Surveys: Norway 2024* compares public expenditure in different areas between countries. The report shows that public expenditure is high in most areas in Norway compared with other countries; see Figure 3.26. This needs to be considered in the context of, inter alia, Norway's unique situation with high Fund income as a source of fiscal budget funding.

Norway has particularly high sickness benefit and social security expenditure, but expenditure on health, investment, subsidies and defence is also high. Pension expenditure is an exception, where Norway is roughly in line with the OECD average. This needs to be considered in the context of Norway having a relatively high age limit for unconditional entitlement to retirement pension and a neutral pension system in which taking early retirement will result in lower annual retirement pension. Furthermore, Norway has a somewhat lower share of elderly people per employee. It is important for caution to be exercised in making such comparisons. The variation in expenditure shares between countries is largely due to differences in the distribution of tasks between the public and private sectors and the level of welfare benefits such as sickness and disability benefits. The overview nonetheless provides interesting indications.

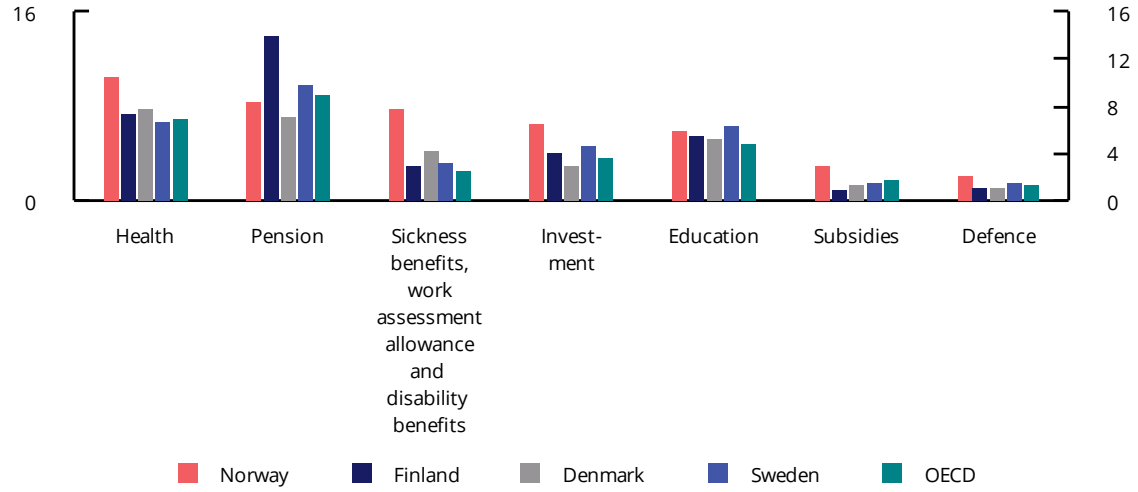

Figure 3.26 Public expenditure in different areas, 2022. Per cent of mainland Norway GDP

Source: OECD, Economic Surveys: Norway 2024.

Box 3.1 The fiscal policy framework

Like most other countries, Norway has a fiscal policy framework with fiscal balance requirements. In addition, the Norwegian framework is customised for the special Norwegian context of substantial, temporary petroleum revenues and substantial Fund income.

A key purpose of the fiscal policy framework is to convert a temporary revenue stream from the extraction of petroleum resources into a lasting revenue source. This is achieved by allocating the revenues from petroleum activities to the Government Pension Fund Global (GPFG) and, over time, spending only the expected real return on the Fund via the fiscal budget.

How the petroleum wealth is saved in the GPFG and phased into the economy is regulated in the Government Pension Fund Act. The Act ensures that central government's net cash flow from petroleum activities is in its entirety transferred from the fiscal budget to the GPFG, and that the Fund capital can only be transferred to the fiscal budget pursuant to a resolution of the Storting. Interest and dividend income from the investment management is recognised as income directly in the Fund. The transfer from the Fund corresponds to the non-oil fiscal deficit, which is authorised by the Storting during its deliberation of the fiscal budget; see Figure 3.27.

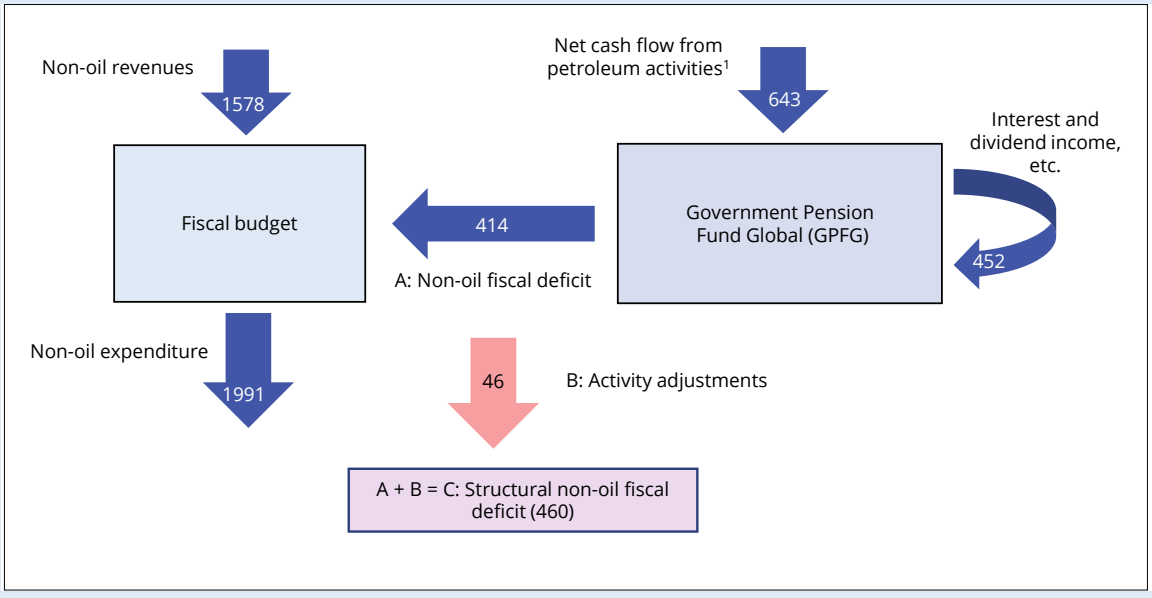

Figure 3.27 Cash flows between the fiscal budget and the GPFG. Numbers from the National Budget 2025. NOK billion

[1] Government revenues from petroleum activities are recognised in the fiscal budget before the net cash flow from petroleum activities is transferred to the GPFG, but this is simplified in the chart.
Source: Ministry of Finance.

The fiscal guideline

The fiscal guideline has guided Fund spending since 2001:

- Fund spending shall over time be in line with the expected real return on the Government Pension Fund Global.
- A strong emphasis shall be put on smoothing out economic fluctuations to ensure sound capacity utilisation and low unemployment.

Considerations and trade-offs when applying the fiscal guideline

The fiscal guideline calls for the Fund capital to be spent in a manner that provides a fair distribution between generations and that facilitates stable development in the Norwegian economy. These considerations need to be weighed against one other when assessing Fund spending.

On the one hand, Fund spending today needs to be weighed against the consideration that this wealth should also be available for spending in the future. Although this is often referred to as a matter of intergenerational distribution of the Fund capital, it also includes the consideration that current generations should have wealth available for future spending. The fiscal guideline facilitates preservation of the real value of the Fund. Spending that preserves the real value of the Fund will balance Fund spending today and in the future. A well-balanced distribution of the capital between generations also contributes to long-term economic stability.

On the other hand, consideration for a stable economic development from one year to the next suggests that significant weight should be accorded to the prevailing economic situation in the assessment of Fund spending. It is also important to ensure that the Fund spending does not in itself become a source of instability in the economy. The latter consideration means that especially large changes in Fund value should not immediately result in major changes in Fund spending, and that changes in Fund spending should instead be modified over several years to avoid creating unstable conditions and contributing to abrupt booms and busts in the economy.

The fiscal guideline links Fund spending over time to the expected real rate of return on the Fund, which is currently projected to be 3 per cent. To achieve this, it has in recent years been noted in the national budgets that Fund spending should in normal years, which will be most years, be well below 3 per cent. This is related to the need for an extra savings buffer that can be dipped into in the event of major economic setbacks or large Fund value reductions, thereby avoiding demanding policy changes involving major cuts in budget expenditure or significant tax increases.

Application of the guideline has become more challenging as the Fund has become increasingly important to the fiscal budget and the economy. In addition, it can in coming years no longer be expected that a Fund value decline will be offset by Fund inflows from petroleum activities.

The fiscal guideline is flexible. A considerable degree of discretionary assessment is required in the application of the fiscal guideline in order to strike the right balance between the relevant considerations and to ensure that the guideline works as intended.

The structural non-oil fiscal deficit and automatic stabilisers

Fund spending describes the structural non-oil fiscal deficit, which is the non-oil fiscal deficit adjusted for cyclical fluctuations and other random fluctuations in individual revenue and expenditure items; so-called activity adjustment. See Appendix 1 to the National Budget 2025 for a more detailed description.

In a boom, it is normal for tax revenues to be high and unemployment benefit expenditure to be low, while the opposite is true in a recession. The structural fiscal deficit is adjusted for such cyclical factors. By linking Fund spending to the structural deficit, fiscal policy automatically has an expansionary effect during recessions and a contractionary effect during booms. Fiscal policy thereby contributes to stabilising economic development. Such fiscal policy effects are called automatic stabilisers and can be significant in the event of major cyclical fluctuations.

Fund spending forms part of an integrated budgetary process

The Government Pension Fund Act stipulates that Fund capital can only be transferred to the fiscal budget pursuant to a resolution of the Storting. This ensures Fund spending transparency by including and identifying such spending in the fiscal budget and the fiscal accounts. This means that the Fund capital forms part of an integrated budgetary process and is not earmarked for special purposes. This prevents the Fund from becoming an alternative source of funding for expenditure that is not prioritised in the ordinary budgetary process. The Government Pension Fund Act also stipulates that any fiscal deficit shall be covered by transfers from the Fund, rather than by borrowing, provided that the Fund capital has not already been exhausted.

Box 3.2 The fiscal guideline and the role of discretionary assessment in determining Fund spending

The fiscal guideline calls for Fund spending over time to be in line with the expected real rate of return on the Government Pension Fund Global (GPFG), projected at 3 per cent. In any given year, Fund spending shall be adapted to the economic situation, and any changes in Fund value shall be phased in gradually. Fund spending in any given year will therefore deviate from the expected real rate of return.

When applying the fiscal guideline, a considerable degree of discretionary assessment is required in order to strike the right balance between the considerations reflected in the guideline. Discretionary assessment is called for in tailoring fiscal policy to the cyclical situation, and is also needed in the event of major changes in Fund value. In addition, uncertainty about future developments needs to be taken into account. As an example, the budget documents have in recent years stipulated that fiscal policy should take into account that it will be desirable to increase Fund spending in the future in the event of a major economic downturn. Moreover, it will in the event of a permanent decline in Fund value be desirable to take some time to adjust Fund spending. This requires Fund spending to be below the expected real return in good and normal times, in order to ensure that Fund spending over time is in line with the expected real return.

As an aid to the discretionary assessment, it may be useful to study alternative ways of operationalising the long-term guideline, especially during periods of major changes in Fund value. Figure 3.28 illustrates how Fund spending, as measured by the structural non-oil fiscal deficit, has developed relative to the long-term guideline. In addition, the figure shows two alternative ways of operationalising the long-term guideline. The main rule is to use the expected real rate of return on the Fund, which is projected to be 3 per cent of the Fund value, while the two alternative calculations are based on ongoing cash income from investment management in the GPFG and the profits of the companies in which the GPFG has holdings, respectively. For 2024, the alternative rules are based on projected values, while for 2025 all three are based on projected values. There is particular uncertainty associated with the projected values of the alternative operationalisations.

What the main rule and the two alternatives have in common is that they seek to preserve the real value of the Fund over time, in line with the fiscal guideline.[1] They differ in terms of the information they rely on, and in how they reflect expectations about the future. The fiscal guideline's long-term perspective is fundamentally forward-looking since it is based on the expected real return on, and market value of, the Fund, which reflect the discounted value of future income. The alternatives based on company profits and ongoing Fund income reflect actual income, and estimates of this in the very short term. Changes in market participants' views on the future outlook will be reflected more rapidly in the market value of the Fund than in ongoing Fund income and company profits, while all three operationalisations will be significantly influenced by, for example, Norwegian kroner exchange rate fluctuations.

Historically, the two alternative operationalisations would generally have indicated lower Fund spending than the expected real rate of return, and have fluctuated somewhat less from year to year. The Fund value has increased considerably in recent years, from NOK 12,414 billion at the beginning of 2023 to a projected value of NOK 18,500 billion at the beginning of 2025. This has lifted the 3-per-cent trajectory by more than NOK 180 billion in two years. The other two alternatives, which are based on estimates of ongoing income and company profits, have increased it by just under NOK 120 billion.

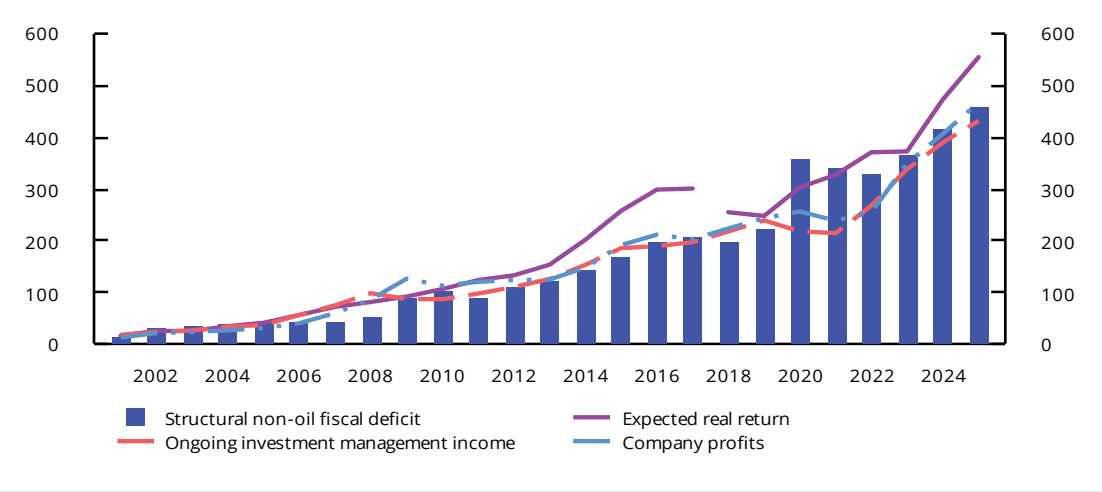

Figure 3.28 Structural non-oil fiscal deficit and different operationalisations of the fiscal guideline. NOK billion

[1] In 2001, the expected real rate of return projection was 4 per cent. With effect from the National Budget 2018, the projection was reduced to 3 per cent.
[2] The calculation is based on companies' book equity at the beginning of the year multiplied by a five-year moving average of the return on equity, less average annual share dilution over the period. Book equity is estimated by dividing market value by the relative pricing of equity (P/B). Both P/B and return on equity have been obtained from MSCI. For bonds, the real interest income effect is taken into account by deducting 2.0 per cent inflation, multiplied by the value of the bond portfolio.

Sources: NBIM, FTSE and the Ministry of Finance.

[1] If companies do not distribute all profits as dividends over time, the real value of the equity portfolio is expected to increase over time if using only ongoing income.

Box 3.3 Fiscal vulnerability when Fund value is uncertain

The fiscal guideline has contributed to a smooth phasing-in of petroleum revenues and has shielded fiscal policy from fluctuations in these revenues. The guideline links Fund spending to Fund value, which includes the revenues extracted over time, but not the value of the remaining reserves on the continental shelf; see Figure 3.29. As a greater share of the wealth is channelled into the Fund, and Fund spending finances an increasingly large share of the fiscal budget (see Figure 3.6), fiscal policy has become more exposed to international financial market developments.

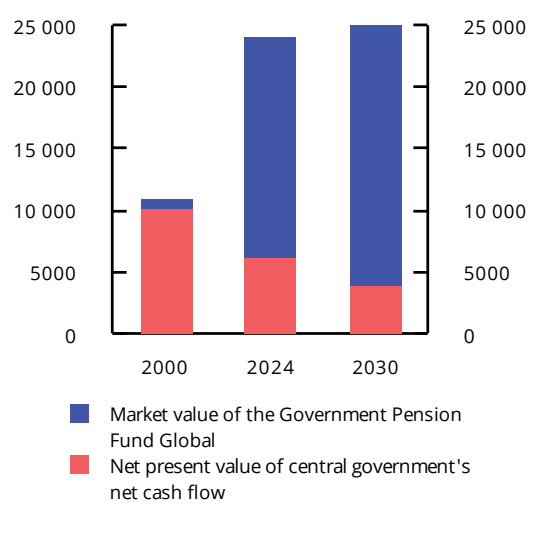

Figure 3.29 Net present value of central government's net cash flow from petroleum activities and the value of the Government Pension Fund Global at various points in time. NOK billion at 2024 prices

Source: Long-term Perspectives on the Norwegian Economy 2024.

When Fund value increases, fiscal policy needs to consider certain trade-offs. On the one hand, one would want to use the increased room for manoeuvre to fund new expenditure or to reduce taxes. At the same time, it is desirable to have stability in welfare schemes and taxation profiles over time.

In the past, when there were still large petroleum reserves on the Norwegian continental shelf, it could be assumed with a high degree of certainty that increased Fund spending would be sustainable in the longer run. This was because the high expected future cash flows from petroleum activities largely compensated for the financial market uncertainty. Going forward, cash flows are expected to come down because there are fewer resources left on the continental shelf. This makes it more likely that the Fund value will decline, which may require demanding policy changes to scale Fund spending back to the expected 3 per cent real rate of return.

The risk that Fund spending is not sustainable over time is here illustrated by using a simple simulation model.[1] The analysis is based on the projected Fund value at the beginning of 2025, as well as the projected value of central government's net cash flow from petroleum

in the years ahead. The calculations assume that Fund spending is kept constant as a share of mainland Norway GDP for the next two, three and four parliamentary terms, respectively, i.e. that actual Fund spending is not affected by Fund developments over that period. If the Fund value has declined, Fund spending will have to be adjusted at the end of the period of 8, 12 and 16 years, respectively. The modelling illustrates how likely it is that Fund spending will exceed the expected real return by the end of these periods, as well as how much fiscal tightening will on average be needed to bring Fund spending back down to 3 per cent of the Fund. The assumption of constant Fund spending for many years (as a share of mainland GDP) is not a realistic forecast, but a technical calculation assumption that provides a benchmark for examining implications of pursuing an adopted policy over time.

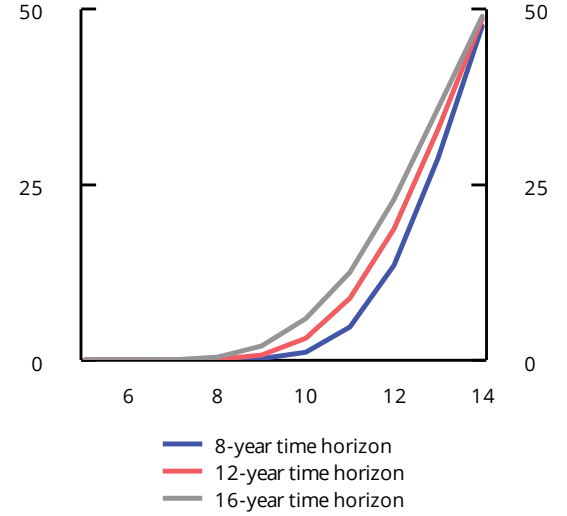

Figure 3.30 Probability that Fund spending exceeds the expected real return after 8, 12 and 16 years, respectively (vertical axis), for a certain level of Fund spending as a share of mainland Norway trend GDP (horizontal axis).[1] Per cent

[1] The calculations are based on the assumption that Fund spending as a share of mainland Norway trend GDP remains unchanged for the next 8, 12 and 16 years, respectively.

Source: Ministry of Finance.

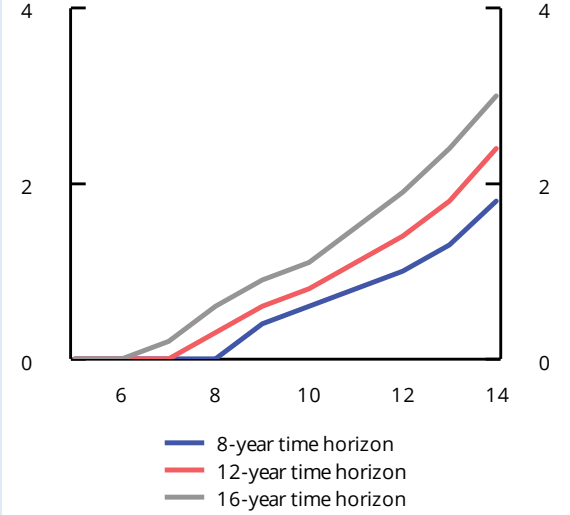

Figure 3.31 Average fiscal tightening as a percentage of mainland Norway trend GDP after 8, 12 and 16 years, respectively, if Fund spending has to be scaled back (vertical axis), for a certain level of Fund spending as a percentage of mainland Norway trend GDP (horizontal axis).[1]

[1] The need for fiscal tightening after the specified time horizon, measured as a percentage of mainland Norway trend GDP, in order for Fund spending to correspond to the expected real return on the Fund.

Source: Ministry of Finance.

Figure 3.30 shows the estimated probability that Fund spending will exceed 3 per cent of the Fund value at the end of the specified time horizon, and Figure 3.31 illustrates how much fiscal tightening would be needed on average to revert to compliance with the fiscal guideline. The lower the initial Fund spending, the higher the probability that it can be sustained, and vice versa. Moreover, the longer the time horizon over which Fund spending

is locked-in under the analysis, the higher the probability that Fund spending will not be sustainable over time. Low Fund spending can be sustained with a high degree of certainty, as the margin up to 3 per cent is large at the outset, and new Fund inflows will serve to further increase Fund value.

As future cash flows decline, the probability of having to scale back Fund spending will in any event increase in the years to come, as there will be less scope for Fund inflows to counteract a potential reduction in Fund value. The White Paper on Long-Term Perspectives on the Norwegian Economy 2024 estimates that expenditure as a share of mainland Norway GDP will increase more rapidly than revenues towards 2060. Additional Fund spending needs to be based on a trade-off between the benefits of increased spending today and the risk that such spending will not be sustainable in the future.

[1] The model is designed to study how uncertainty and fluctuations in various variables affect the economy and the fiscal budget. The model includes mainland Norway GDP, actual return on the GPFG, petroleum revenues and the structural non-oil fiscal deficit. Uncertainty associated with Fund returns, economic developments and the magnitude of revenues from petroleum production is quantified on the basis of historical data. A detailed description of the simulation model and the simulations will be provided in an upcoming working paper.

Box 3.4 Macroeconomic management of the local government sector

[This box is not translated]

Box 3.5 Many municipalities with a negative operating result have large contingency funds

[This box is not translated]

Box 3.6 How large is the public sector in Norway?

This box compares the size of the public sector in Norway with those of other countries from the following perspectives:

1. What burden does funding the public sector impose on the economy?
2. What share of national income does the public sector control?
3. How much of economic activity takes place in the public sector and what share of the employed work in the public sector?

1. What burden does funding the public sector impose on the economy?

In general, the public sector (the public administration[1]) is funded by taxes that affect labour supply, consumption, savings and investment. Some taxes have a positive effect on taxpayers, but the public sector has to be predominantly funded by distortionary taxes. These entail economic costs because they cause the price charged to the buyer for goods or services to be higher than the real cost of producing and providing such goods or services. This causes labour and capital to be used less efficiently than in the absence of taxation. The economic costs of taxation depend on both the design of the tax base and the level of various tax rates.

Comparing tax levels between countries is difficult. Most commonly, the comparison is based on total tax revenues as a share of gross domestic product (GDP). By this measure, the tax level in Norway is higher than the average for OECD countries, but roughly in line with Sweden and Denmark, cf. Figure 3.22 in Section 3.1.5. One weakness of these comparisons is that no unequivocal conclusion with regard to economic costs can be drawn on the basis of tax level differences. In countries with broad tax bases and a large share of low-distortion taxes, such as resource rent taxes, the economic costs of taxation may be lower than in other countries, even if their tax levels are the same. This is partly because broad tax bases in themselves normally serve to reduce taxation-induced distortions, and partly because a broad base means that tax rates can be lower for a given level of total tax revenues. Differences in the role played by the public sector in financing pensions may also contribute to tax level differences. In Denmark and several other OECD countries, for example, more of the pension savings are in the private sector than in Norway and Sweden.

2. What share of national income does the public sector control?

In comparisons of public expenditure between countries, it is common practice to examine expenditure as a share of a country's GDP, with GDP being used as a proxy for income or tax base. If public expenditure is calculated as a share of mainland Norway GDP, i.e. excluding economic activity on the continental shelf, the public expenditure share in Norway is high compared with other countries; see Figure 3.21 in Section 3.1.5 (or the dashed line in Figure 3.34). Such a comparison can provide a useful illustration of the role played by public expenditure in the economy, and thus what share of income is controlled by the public sector. However, this comparison does not give the full picture, since Norway

has high investment income from the savings in the Government Pension Fund Global (GPFG), which is not included in the economic activity data. Figure 3.34 shows public expenditure as a share of gross national income (GNI) for Norway, Sweden and Denmark. GNI is comprised of GDP and net capital and labour income from abroad. For Norway, the petroleum revenues saved in the GPFG are excluded from GNI in this calculation, while dividends, interest income and rent income in the GPFG are included in GNI (changes in value are not included). Measured in this way, the expenditure share in Norway is more in line with the expenditure share in comparable countries, at about 50 per cent.

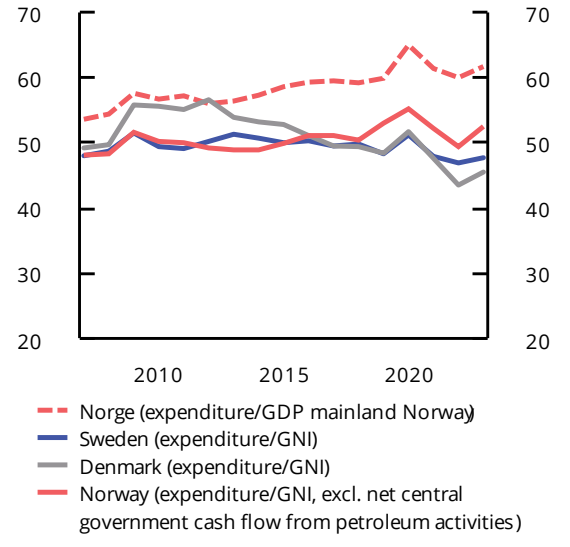

Figure 3.34 Public sector expenditure. Per cent of gross national income[1]

[1] For Norway, GNI is net of dividends from Equinor, income from the State's Direct Financial Interest (SDFI) and accrued petroleum taxes.

Sources: Ministry of Finance, Statistics Norway, Statistics Sweden and Statistics Denmark.

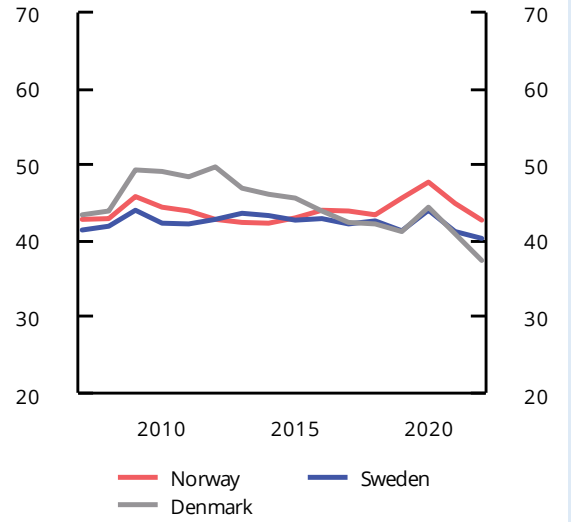

Figure 3.35 Public sector expenditure less pensions. Per cent of gross national income*

Sources: Ministry of Finance, Statistics Norway, Statistics Sweden and Statistics Denmark.

In simplified terms, public expenditure may be divided into public sector consumption and gross fixed capital formation (about 60 per cent), benefits to households (about 30 per cent) and transfers to businesses and others, etc. (about 10 per cent, including subsidies, transfers to charitable organisations, interest expenses and dividends, etc.); see Section 3.1.5. The extent to which the public sector determines the end use of the funds varies. A large share of the benefits to households are cash benefits that can be used freely by the recipient, such as pensions and various social security benefits. With regard to subsidies and transfers to charitable organisations, the use of the funds is to a greater extent determined by the public sector. In a simplified assessment of whether the public sector controls a larger share of national income in Norway than in other countries, pension expenditure can be deducted (at a minimum). As illustrated by Figure 3.35, public expenditure excluding pension expenditure is equivalent to about 43 per cent of national income in Norway. In Sweden and Denmark, this share is between 37 and 40 per cent.

3. How much of economic activity takes place in the public sector and what share of the employed work in the public sector?

In 2023, gross value added in the public administration accounted for about 18 per cent of gross domestic product (GDP) in Norway, while it accounted for about 25 per cent measured as a share of mainland Norway GDP. By comparison, the corresponding shares in Sweden and Denmark were about 20 per cent and 19 per cent.

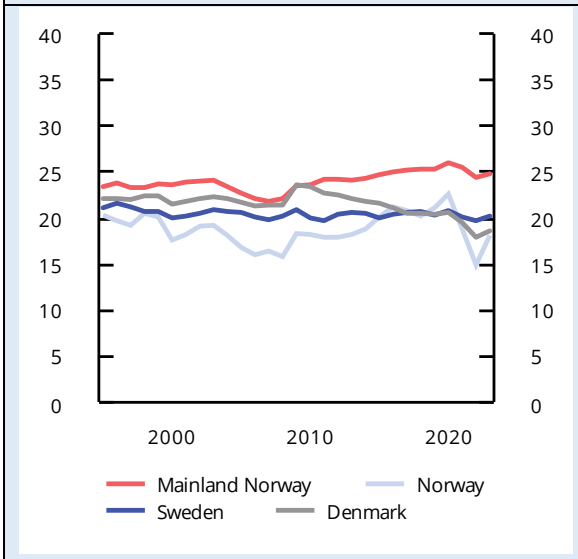

Figure 3.36 Gross value added in the public administration. Per cent of GDP. 1995–2023

Sources: Ministry of Finance and OECD.

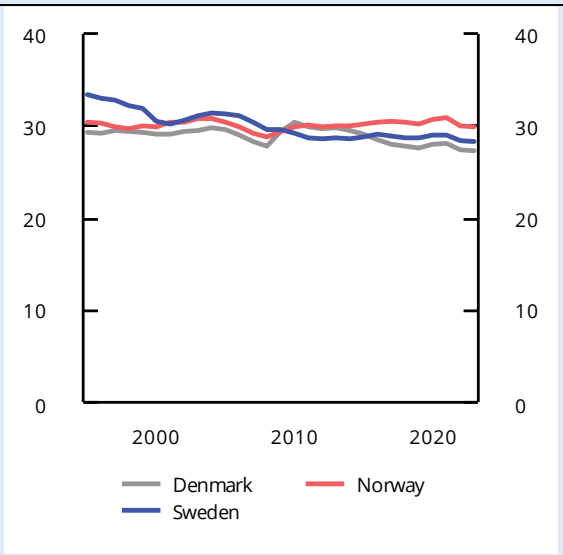

Figure 3.37 Employees in the public administration. Per cent of total employment. 1995–2023

Sources: Norwegian Ministry of Finance, Swedish Ministry of Finance, Danish Ministry of Finance and OECD.

Production activities in the petroleum industry are highly capital-intensive and profitable. An alternative measure of how much resources are tied up in the public administration may be its share of employment. As illustrated by Figure 3.37, public sector employment has long accounted for about 30 per cent of total employment in Norway. Over time, the public sector employment share has declined somewhat in Sweden and Denmark. In the last few years, a post-pandemic rebound has fuelled strong employment growth in the private sector. In the public sector, around half of employees work in health and social services, while around a fifth work in education. A similar share work in public administration, defence or social security. These shares have remained fairly stable over the past decade.

Section 3.1.5 discusses various components of public sector demand and how these have developed as a share of mainland Norway GDP. As illustrated in Figure 3.24 and 3.25, public sector consumption and investment together account for about 35 per cent of mainland Norway GDP, which is somewhat higher than in Sweden and Denmark.

[1] The "public sector" is here taken to mean the public administration (i.e. excluding government-owned or -controlled enterprises engaged in commercial activities).