



Norway: Staff Concluding Statement of the 2023 Article IV Mission

FOR IMMEDIATE RELEASE

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](#) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

Washington, DC – June 8, 2023: *The Norwegian economy continues to perform well. Output grew strongly in 2022, and it is projected to expand this year, albeit at a slower pace. While high inflation and interest rates weigh on activity, the labor market has been resilient, and Norway has enjoyed very favorable terms of trade, which should continue to support GDP growth. Risks to growth remain balanced, but there are upside risks to inflation. In this respect, fiscal policy should be more supportive of the Norges Bank's disinflationary efforts. Monetary policy has been responding in a timely manner, but to bring inflation durably towards the medium-term target of 2 percent, further tightening is needed. While the banking system is strong, the supervisory authorities should remain vigilant to potential pressures in the real estate markets and global turbulence. Progress on structural reforms has been uneven, and policies will need to address labor market inclusiveness, availability of affordable housing, completing ambitious climate commitments, and making room for new investments by containing aging-related spending.*

Context

The Norwegian economy is strong. It experienced one of the highest growth rates among advanced economies in 2022. The economy is expected to grow this year but at a more modest pace. The country has been in a unique position as the windfall gains from high petroleum and natural gas prices have so far countered global headwinds. The labor market has been resilient, with strong employment growth and registered unemployment rates close to historical lows. Growth prospects remain favorable, and imminent risks are balanced, not least due to Norway's solid fundamentals and policy management. Over the longer term, boosting the economy's potential will require policy actions aimed at strengthening labor force participation.

Fiscal policy

The short-term fiscal stance should be more supportive of disinflation efforts. The revised budget was adjusted to compensate for higher-than-expected inflation and support for Ukraine was increased, including humanitarian aid. At the same time, revenues were revised downwards due to lower-than-projected electricity prices. The expected higher structural non-oil deficit leads to a mildly expansionary fiscal stance, contributing to aggregate demand, which in the context of persistent inflationary pressures should be avoided. The government has announced an extension of the support measures to cushion the impact of high electricity prices on households until the end of next year. While spending on these subsidies is projected to decline this year due to lower electricity prices, potential savings could be realized by narrowing their coverage and calibrating them to help only vulnerable households.

Over the medium term, given aging-related spending pressures, additional measures are needed to make room for new investment and promoting climate initiatives. The recent changes to resource rent taxation are welcome. Additionally, the proposals by the Expert Committee on Tax Reform could help make the tax system simpler and more efficient, thereby creating fiscal space and supporting economic growth. The welcome proposals by the Pension Commission to link retirement age limits to life expectancy will have beneficial effects on both the sustainability of the system and labor force participation. Also, compensating old-age pensions of previously disabled people would make the pension system more equitable over time. However, to avoid potentially large fiscal costs and disincentivizing labor force participation, it should be preceded by a comprehensive reform of Norway's sick leave and disability benefits. More generally, the incentives and paths for early retirement should be further tightened and reversals avoided to boost labor force participation and the economy's potential over time.

Monetary and financial policies

With inflation elevated and risks to the upside, further monetary policy tightening is needed to contain inflation. GDP growth and the output gap are projected to be positive this year, the labor market is still tight, and consumption, backed by savings accumulated during the pandemic, is still resilient. Against this background, elevated inflation expectations, a weak currency, and broad-based inflation pose upside risks. Accordingly, tighter monetary policy is needed to contain demand, keep long-term expectations anchored, and durably bring down inflation to the 2 percent target, which will contribute to high and stable output and employment. Given the uncertainties about the transmission of monetary policy and its impact on the economy, it is important to continue to clearly communicate how economic developments affect the current and future policy stance.

The Norwegian banking system has both contributed to and benefited from strong economic growth but remains subject to risks from tightening global conditions. Risks to financial stability appear to be broadly manageable, but continued vigilance is needed given the heightened uncertainty. Creditworthy households and firms should continue to have ample access to credit, but some banks are tightening standards for commercial real estate (CRE).

While more data on the CRE sector are now available for surveillance (e.g., through a private sector database on renters and owners), and several macroprudential measures have been put in place, further broadening of the toolkit remains appropriate, such as gradually introducing a sectoral systemic risk or countercyclical buffer for CRE. Given the high household debt and elevated house prices, there is merit in making the limits on the size of mortgage loans relative to value permanent. As cyber risks are becoming a more prominent threat to financial stability, further strengthening of resilience to cyber-attacks is needed. This requires an intensive effort to identify risks, enhancing regulation and broadening cooperation among various authorities and financial-system participants, both at the national and global level. An important step taken by Norges Bank together with the Financial Supervisory Authority (FSA) is the roll out of the TIBER (Threat Intelligence-Based Ethical Red-teaming) framework to test cyber resilience in the financial system. Improvements to the AML/CFT framework are ongoing, and the recommendations from a recently concluded IMF assessment of regional cross-border threats and vulnerabilities could be usefully implemented to further enhance supervision.

Structural policies

Norway's fundamentals should be further strengthened by implementing a wide-ranging structural policy agenda. So far, progress has been piecemeal. Some steps have been taken in further upskilling the workforce, including increased vocational training and the planned introduction of youth guarantee scheme. However, while spending on retraining has been increased, this has not led to a decline in benefit recipients and their effectiveness should continue to be assessed. Participation in the generous sick-leave benefit system is still very high, draining public finances and depriving the labor market of the much-needed workforce. Also, the issue of housing affordability has become more prominent under high inflation and rising interest rates. Immediate measures that can improve the situation include increasing portable allowances and reducing the income tax for the most vulnerable. In the medium term, easing restrictions on supply of new housing and altering regulations to boost construction efficiency are needed to increase the supply of both rental and sale housing.

Norway continues to lead efforts in climate mitigation and adaptation. Among several initiatives, Norway has introduced a schedule of carbon-price increases and has recently launched large-scale publicly-supported projects for carbon-capture and storage. Further efforts are needed to fulfil Norway's 2030 ambition under the Paris Agreement.

The IMF mission thanks the authorities and other counterparts for the constructive discussions and policy dialogue.