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OECD Economic Surveys: Norway 2024

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FOREWORD

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Norway were reviewed by the Committee on 23 May 2024. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 11 June 2024.

The Secretariat's draft report was prepared for the Committee by Hansjörg Blöchliger and Peter Hoeller, under the supervision of Vincent Koen. Research assistance was provided by Natia Mosiashvili, and editorial support by Sisse Nielsen. The Executive summary and the Key Policy Insights were authored by Hansjörg Blöchliger and the special chapter, Raising the Effectiveness of Public Spending, was authored by Peter Hoeller.

The previous Survey of Norway was issued in February 2022.

Information about the latest as well as previous Surveys and more details about how Surveys are prepared is available at www.oecd.org/eco/surveys.

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Basic statistics of Norway, 2023

(Numbers in parentheses refer to the OECD average)[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2022)	5.5		Population density per km² (2022)	15.0	(39.0)
Under 15 (%, 2022)	16.7	(17.2)	Life expectancy at birth (years, 2021)	83.2	(78.7)
Over 65 (%, 2022)	18.4	(18.0)	Men (2021)	81.7	(75.9)
International migrant stock (% of population, 2019)	16.1	(13.2)	Women (2021)	84.7	(81.7)
Latest 5-year average growth (%)	0.7	(0.4)	Latest general election	September 2021	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2022)		
In current prices (billion USD)	485.7		Agriculture, forestry and fishing	1.8	(2.8)
In current prices (billion NOK)	5 126.5		Industry including construction	53.1	(28.0)
Latest 5-year average real growth (%)	1.4	(1.6)	Services	45.1	(69.2)
Per capita (thousand USD PPP, 2022)	124.3	(58.8)			
GENERAL GOVERNMENT - Per cent of GDP					
Expenditure (OECD: 2022)	46.6	(43.0)	Gross financial debt (OECD: 2022)	50.6	(113.3)
Revenue (OECD: 2022)	62.9	(39.7)	Net financial debt (OECD: 2022)	-355.8	(67.5)
EXTERNAL ACCOUNTS					
Exchange rate (NOK per USD)	10.55		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	7.32		Fuels	68.3	
In per cent of GDP			Animal	8.8	
Exports of goods and services	47.2	(31.3)	Metals	6.1	
Imports of goods and services	32.5	(31.4)	Main imports (% of total merchandise imports)		
Current account balance	17.6	(-0.1)	Machinery and electronics	23.1	
Net international investment position (2020)	309.6		Transportation	14.0	
			Metals	10.9	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	63.3	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	3.6	(4.8)
Men	66.6	(65.6)	Youth (aged 15-24, %)	11.0	(10.6)
Women	60.0	(50.8)	Long-term unemployed (1 year and over, %, 2022)	0.6	(1.2)
Participation rate (aged 15 and over, %)	65.7	(60.9)	Tertiary educational attainment (aged 25-64, %, 2022)	48.1	(40.7)
Average hours worked per year (2022)	1,425	(1,752)	Gross domestic expenditure on R&D (% of GDP, 2021)	1.9	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022)	5.1	(3.8)	CO_2 emissions from fuel combustion per capita (tonnes, 2022)	6.5	(7.8)
Renewables (%, 2022)	51.1	(12.0)	Renewable internal freshwater resources per capita (1 000 m³, 2020)	0.5	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020)	0.0	(56.5)	Municipal waste per capita (tonnes, 2022)	0.8	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2021, OECD: latest available)	0.285	(0.316)	Education outcomes (PISA 2022 score)		
Relative poverty rate (%, 2021, OECD: 2020)	7.9	(11.8)	Reading	477	(476)
Median disposable household income (thousand USD PPP, 2021, OECD: 2020)	41.6	(26.6)	Mathematics	468	(472)
Public and private spending (% of GDP)			Science	478	(485)
Health care (2022)	7.9	(9.2)	Share of women in parliament (%, 2022)	45.0	(32.5)
Pensions (2019)	9.5	(9.5)	Net official development assistance (% of GNI, 2017)	1.1	(0.4)
Education (% of GNI, 2021)	6.7	(4.4)			

[1] The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

[2] OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive Summary

The economy has slowed but inflation persists

The economy has slowed. Inflation remains high but is projected to decline further.

Growth is projected to slow further before edging up again (Table 1). Domestic activity will strengthen gradually with disinflation and some monetary easing. Lower financing costs and housing shortages will spur housing investment. Uncertainty surrounding the projections remains high.

Table 1. The economy will recover

(*Annual growth, unless specified*)	2022	2023	2024	2025
Mainland GDP volume[1]	3.7	0.7	0.8	1.8
GDP volume	3.0	0.5	1.2	2.1
Private consumption	6.2	- 0.8	0.7	1.6
Gross fixed capital formation	5.2	0.0	- 2.8	5.8
Exports	4.5	1.4	3.4	3.2
Imports	12.5	0.7	1.0	4.4
Unemployment rate (% of labour force)	3.2	3.6	4.0	4.1
Consumer price index	5.8	5.5	3.7	2.8
Current account (% of GDP)	30.3	17.6	14.4	14.8
Budget balance (% of GDP)	25.6	16.3	12.4	12.2

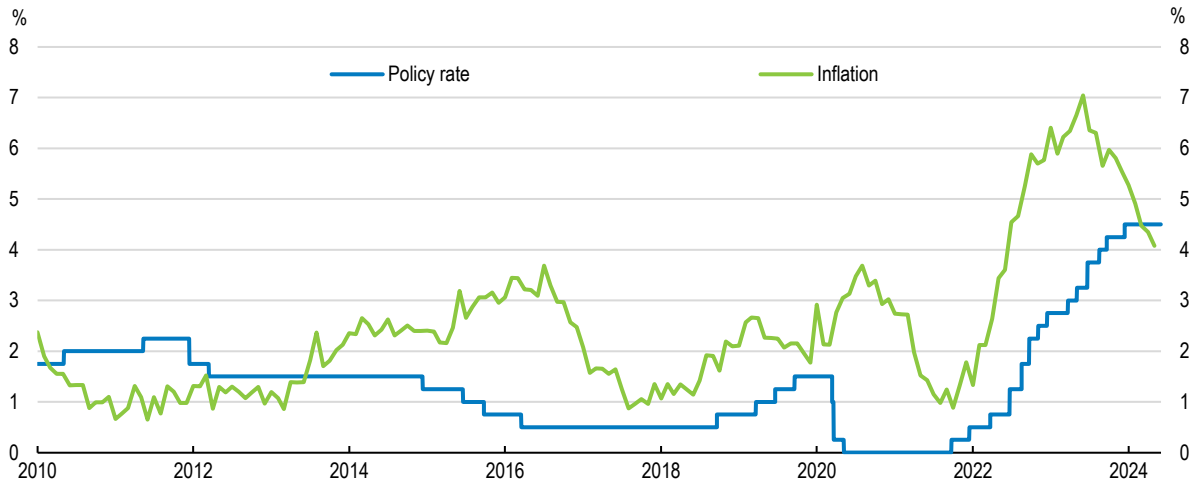
Note: 1. GDP excluding oil and shipping.
Source: OECD Economic Outlook 115 database (updated).

Despite some easing, the labour market remains tight. The unemployment rate remains low at 4.0% in April. Labour force participation has risen again after a decades-long decline. However, labour shortages notably in the technical and health care sectors remain high. The decline in real wages may have come to a halt.

Inflation is coming down (Figure 1). It peaked in October 2022 at 7.5%, spreading to domestic goods and services. Second-round effects are increasingly driving inflation. So is exchange rate depreciation, with the krone down by around 8% against the currencies of the main trading partners in 2023. However, inflation is expected to decline following the tightening of monetary policy.

Figure 1. Inflation is falling

Consumer price inflation and key policy interest rate



Note: Inflation refers to national CPI adjusted for tax changes and excluding energy products (ATE).
Source: Statistics Norway; Norges Bank.

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Monetary and macroprudential policies have been tightened

The central bank has kept the policy interest rate unchanged since late 2023. It has moderately tightened macro-prudential rules, notably in the face of housing market risks.

Interest rates have peaked. In December 2023, the central bank raised the key policy rate to 4.5%, the 14th and so far last increase since the cycle started in late 2021. The monetary stance is appropriate.

The financial system looks stable overall. The banks are liquid and highly profitable, yet their exposure to commercial real estate firms remains a vulnerability with higher interest rates and weakening construction activity. Housing market risks remain elevated as households are the most indebted in the OECD, and debt service costs continue to rise.

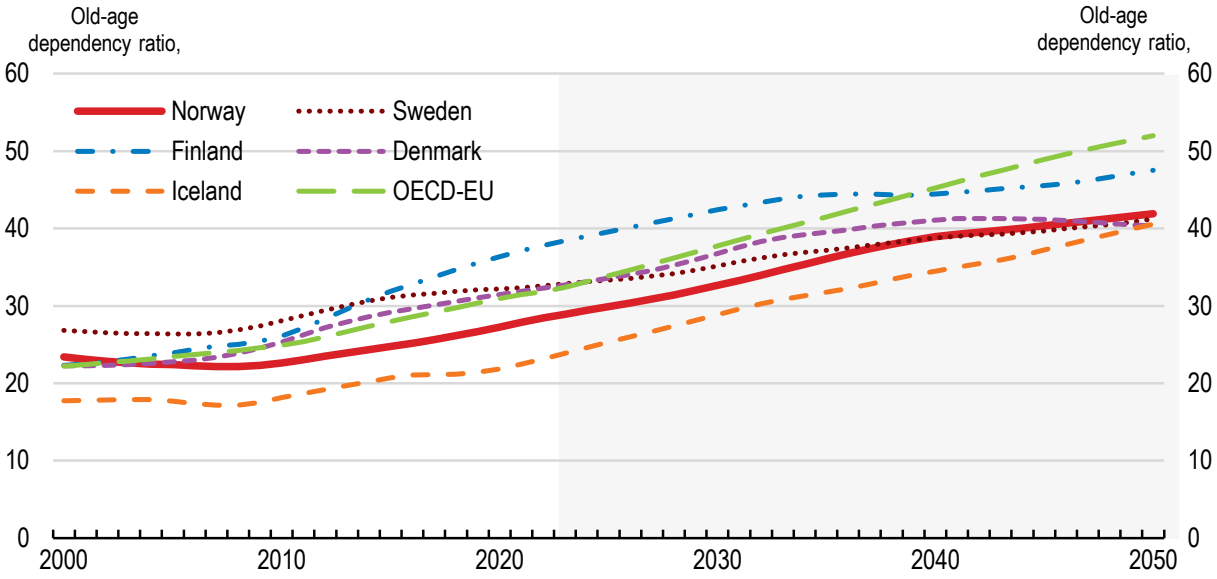
Fiscal policy should be tightened more

Fiscal policy is expansionary, and dwindling oil revenues could pose a risk to long-term sustainability of the public finances.

The general government non-oil deficit reached around 10% in 2023. The fiscal rule stipulating that the structural non-oil deficit should over time be in line with 3% of the oil fund's value has been observed. Going forward, fiscal space for new spending initiatives is likely to diminish as petroleum revenues will decline.

Ageing costs are rising. Norway's population is getting older and growing more slowly (Figure 2). The government projects ageing costs to rise by around 2.5% of GDP by 2050. The recently adopted measures to encourage later retirement and the increase in the maximum pensionable age in the public sector will reduce fiscal pressure and help increase employment.

Figure 2. Norway is ageing, though less than other OECD countries



Note: The old age dependency ratio is the number of individuals aged 65 and more to the population aged between 15 and 64.
Source: United Nations, World Population Prospects 2022.

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Norway's tax burden tops the OECD average despite high oil revenues. Tax reforms since 2022 have made the tax system more equitable but increased overall tax pressure. The marginal tax rate on savings and investments is high, with the risk of burdening small and family businesses.

Public spending efficiency should be increased

Government spending is rising fast and very high in international comparison. It has risen more than mainland GDP and tax revenues. Budgets are established for a single year only, making longer-term planning difficult. Norway could benefit from applying a medium-term expenditure framework, introducing a spending rule, and establishing a full-fledged fiscal council.

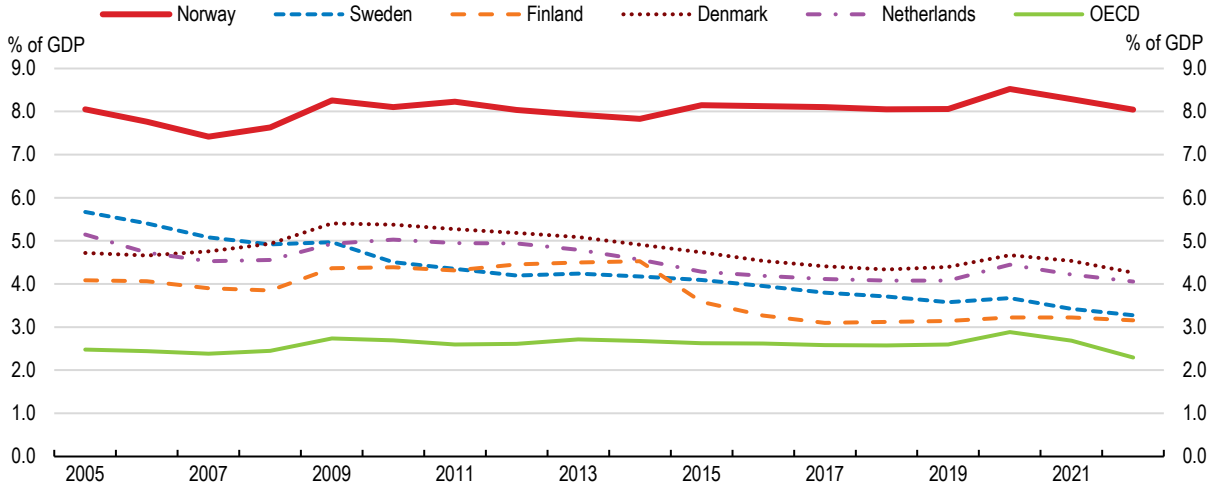
Regional policy should become more cost-conscious. The government aims at maintaining a decentralised settlement pattern. Municipal mergers should be restarted to reap scale economies, at least for small municipalities. Obstacles to municipal co-operation should be removed and better incentives to do so should be provided.

Sickness and disability benefit reform has had limited traction so far. Spending on these schemes is still four times the OECD average (Figure 3) and they are a major channel for exit from the labour force. As medical assessment for the disability scheme is often carried out by the claimant's own general practitioner, admission rates are very high. The very generous sick leave compensation could be reduced.

Infrastructure investment is very high. It includes however projects with low benefit-cost ratios, which could be remedied by imposing a minimum benefit-cost ratio. More ex-post evaluations of investment projects should be undertaken.

Figure 3. Public spending on disability and sickness far exceeds the OECD average

Public spending on sickness and disability benefits



Note: Mainland GDP for Norway. The OECD aggregate represents the simple average of its members for which data are available.
Source: OECD, National Accounts database.

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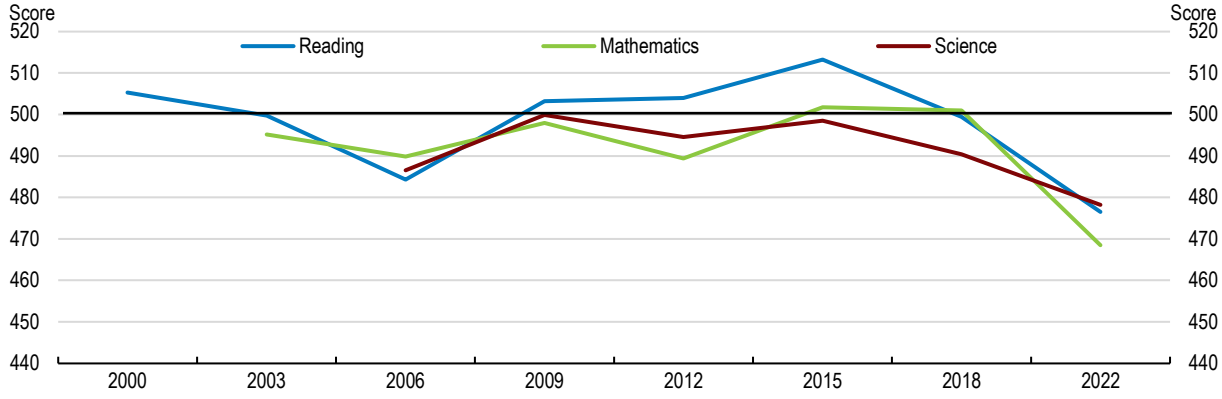
Fostering strong and relevant skills to raise productivity and employment

Labour productivity growth, at 0.5%, remains below the OECD average, although Norway is still one of the most productive countries. Stronger and more relevant skills could reinvigorate productivity growth.

Shortages of skilled labour have become more acute, notably in the technical and health sectors. Occupations that require vocational or higher education are among the most difficult to fill. A forthcoming reform of upper-secondary education aims at tightening the links between education institutions and the labour market.

The quality of fundamental skills is declining to a worrying extent. While Norway scored above the OECD average between the 2009 and 2018 PISA waves, it is now below (Figure 4). Girls fare better than boys, and this difference is larger than on average in the OECD. Differences across schools are negligible, while within-school differences are large. The role of socio-economic background for success is low. To contain cost, the stringent pupil-teacher ratio could be lifted and co-operation among municipalities strengthened.

Figure 4. PISA results have declined



Source: OECD, PISA 2022 results.

StatLink https://stat.link/o13my8

Vocational education and training (VET) should be strengthened. While Norway has a well-established work-based VET track, apprenticeships start late in a student's career. Drop-out rates remain high. Norway's VET system lacks a comprehensive tertiary level and offers limited progression opportunities.

Labour market relevance of tertiary education could be improved. Despite reforms over the past few years, there is a dearth of qualified labour especially in the technical and health sectors, and women's participation in STEM areas is low. Collaboration between universities and the business sector is weak, and corporate funding of tertiary education almost non-existent.

Power supply should be increased

Electricity demand is projected to exceed planned supply by 2030. The rising imbalance between generation in the North and consumption in the South leads to large price differences.

New investment could help lift the supply of power. New green industries and rising power exports require the expansion of generation and transmission capacity. Yet land-use conflicts are often an obstacle to more hydro and wind generation. A recent reform strengthened municipal veto rights and the local share in tax revenues from generation.

Cross-border transmission capacity should be strengthened. Integration of national power grids can help improve security and stability of electricity provision in Norway and neighbouring countries. Grid extension across borders should be facilitated, notably in the North Sea, and a fully integrated wholesale electricity market created.

Decarbonising the economy

Norway has committed to reduce carbon emissions by at least 55% from 1990 levels through climate cooperation with the European Union. It should do so in a sustainable and cost-efficient manner.

Norway's per capita carbon emissions are declining. Industry accounts for the highest relative share of emissions, while emissions from energy generation and the rapidly electrifying car fleet are below the OECD average. Agricultural methane and nitrous oxide emissions exceed the OECD average, and they remain untaxed.

Climate policies need to be strengthened further. Cutting emissions in Norway is expensive, notably in industry. Crediting emission cuts abroad against domestic emission targets, as allowed by the Paris agreements, could help reduce the cost of climate action. The government also started to invest in adaptation, for instance better flood control.

Main findings and key recommendations

Main findings	Key recommendations
Monetary, financial, and fiscal policies	
Inflation remains high and is expected to decline only gradually, amidst continuing high uncertainty.	Maintain a sufficiently restrictive monetary policy stance to bring inflation down to around 2% over the medium term.
The fiscal stance is expansionary.	Reduce fiscal stimulus to support monetary policy, mainly by reining in spending.
Housing markets have cooled, but house prices remain high. Housing affordability is low. Tax treatment of owner-occupied housing is one of the most favourable in the OECD.	Remove obstacles to expand housing supply notably in urban areas, by allowing for denser city space and greenfield development close to public transport hubs.
Notwithstanding recent cuts, income taxation continues to discourage work. Marginal tax rates can be high due to wealth taxation.	Further reduce income taxation, notably for low-income earners. Increase allowances in wealth taxation and/or reduce rates while taxing all assets at market prices.
Policies to improve productivity and employment	
There is a dearth of qualified labour especially in the technical and health sectors. The low share of students in tertiary vocational education and training (VET) and high dropout rates constrain VET's potential to meet labour market demands.	Strengthen the tertiary level in VET, by extending the current short cycle and/or by opening university colleges to upper-secondary VET graduates.
Decarbonising the economy	
Carbon emissions are declining but remain only just below the OECD average. The cost of reducing carbon in Norway is very high.	Carry out careful cost-benefit analysis for carbon-reducing policies and prioritize policies with a lower reduction cost per tonne of carbon. Gradually broaden and increase carbon taxation and consider taxing methane and nitrous oxide. Credit emission reductions achieved through international low-carbon emission programmes against national targets, at least partly
Demand for electricity is growing, while supply and transmission capacity are lagging. Electricity price differences across regions have widened, pointing at a lack of transmission capacity between the north and south of Norway.	Simplify and shorten the licensing and permit process for power generation and transmission.
Raising the effectiveness of public spending	
Expenditure rules help contain spending. Norway is among the few countries that have not implemented any such rule.	Implement an expenditure rule that aims at containing spending as a share of GDP.
A medium-term fiscal framework is lacking.	Introduce a medium-term fiscal framework.
Municipal mergers have been stopped. Cooperation among municipalities is still limited in some core sectors.	Enlarge the operational scale of small municipalities, through mergers or co-operation.
Despite considerable efforts, fragmentation of health care between municipal health centres and hospitals persists.	Pursue efforts to improve the coordination of care between municipal health centres and hospitals.
The share of poorly performing students has risen.	Sharpen the targeting of the grant system. Reduce the teacher shortage and continue to raise the quality of teaching.
Spending on education is very high in international comparison.	Lift the stringent pupil-teacher ratio and strengthen co-operation among municipalities.
Often infrastructure projects with a low benefit-cost ratio are selected.	The benefit-cost ratio should be given more importance in the selection of infrastructure projects.
Sick leave compensation is very generous. Employers pay little in terms of sick leave compensation.	Expand employer payments for long-term sickness leave and consider reducing the sick leave compensation rate towards the level of the other Nordic countries.
Chances of returning to work decline steeply the longer individuals remain on sick leave.	Strengthen early intervention, especially for young people, so that they do not end up in the disability scheme.
Medical assessment for the admission to the disability benefit scheme is still often carried out by the claimant's own general practitioner.	Add an independent medical assessment, for instance, by a doctor appointed by social security.
Exposure of agricultural producers to market signals is weak and output-related measures are prominent.	Move away from the most economically distorting and environmentally damaging forms of agricultural support, and consider reducing overall support.

1 Key Policy Insights

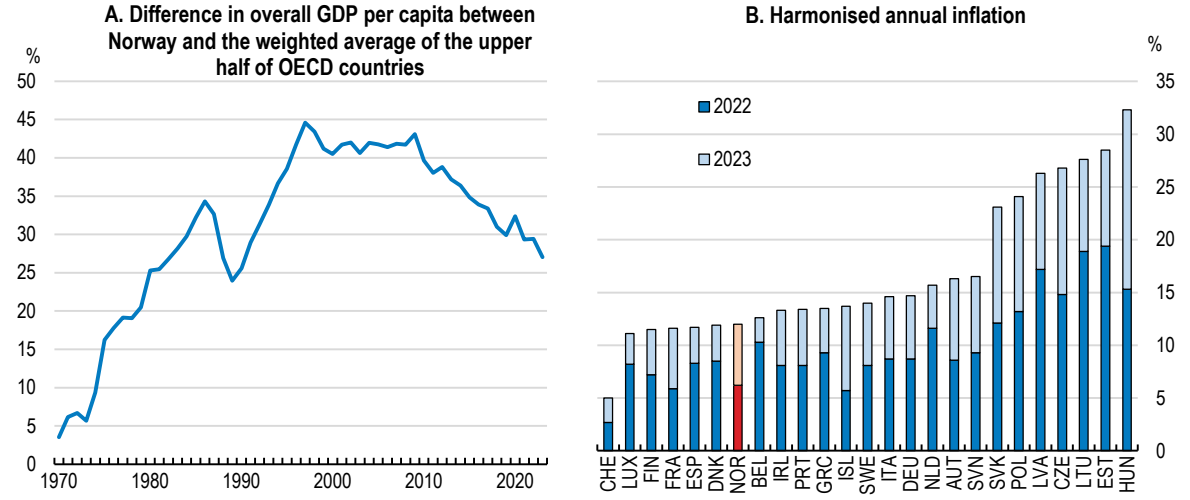
Norway's economy is slowing as high inflation and interest rate increases continue to weigh on domestic demand. The labour market is tight but wages have risen less than prices so far, while high wage compression helps maintain a highly egalitarian economy. Inflation is declining but remains well above target and broad-based. The fiscal stance is expansionary and should be tightened to support monetary policy. While progress has been made to improve skills, skills mismatch remains high, and qualified labour is lacking notably in the technical sectors and in health care. The planned expansion of electricity generation and transmission lags projected demand, and Norway could soon become a net power importer. Higher and broader taxation of greenhouse gas emissions, coupled with investment in cost-effective actions abroad, would help to achieve further emission cuts more efficiently.

Introduction

Norway continues to enjoy high living standards. GDP per capita has long been far above the OECD average, boosted by high oil and gas revenues and sound fiscal and macroeconomic management (Figure 1.1, Panel A). Thanks to the huge domestic energy sources, the country has weathered the energy crisis better than most other countries. Skills are high and quite evenly distributed across the population. Norway is also one of the most egalitarian economies of the OECD thanks to high labour force participation, a compressed wage distribution, and small pay and employment differences between men and women. High employment, a relatively high retirement age and a well-diversified pension system will help Norway cope with ageing better than many other OECD countries. Households are protected from economic vagaries with universal health care, free education, and generous social benefits. Trust in institutions and in other people is among the highest in the world. And on top of that, Norway boasts one of Europe's most diverse and pristine biospheres.

However, Norway was not sheltered from the shocks that hit OECD economies over the past few years. Inflation started to build up in late 2021; it has reached levels not seen since the 1980s, and has broadened, with second-round effects now taking over (Figure 1.1, Panel B). Rising transport, housing and food prices fuel inflation and burden households, notably low-income ones. The fiscal stance is not being tightened fast enough after high spending during the pandemic, and therefore fails to contribute sufficiently to the central bank's efforts to return inflation to the target. The krone depreciated by around 8% against main trading partners over 2023, adding to inflationary pressures. Real interest rates are rising, slowing investment. The simultaneous trend rise of the unemployment and job vacancy rate points to growing imbalances in the post-pandemic labour market and a lack of skilled labour, holding back the transition to a productive, digitalised and green economy. While petroleum exports have been buoyant, geopolitical tensions still affect small open economies like Norway in various ways.

Figure 1.1. Norway's lead has been eroding and it has not been spared inflation



Source: OECD, National Accounts database; and OECD, Consumer Prices database.

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Besides having to manage the recent macroeconomic turbulences, Norway faces several long-term challenges. Productivity growth has been much below the OECD average over the past decade or so, and it has slowed again after a brief acceleration before the pandemic, jeopardising sustainable wage increases in the future. As a result, the lead in GDP per capita has been shrinking rather dramatically (Figure 1.1, Panel A). Exports of the non-oil sector continue to decline, remaining much below countries of similar size and wealth. Although Norway is currently quite young compared to most other OECD countries, the ratio

of old people to those working will rise like elsewhere, putting pressure on pensions, health and long-term care. Absences due to sickness and disability are by far the highest in the OECD, thereby reducing participation, limiting return to work, and raising spending on social benefits. Finally, Norway will struggle to reach its objective to become a low-emission society by 2050 without additional policy measures.

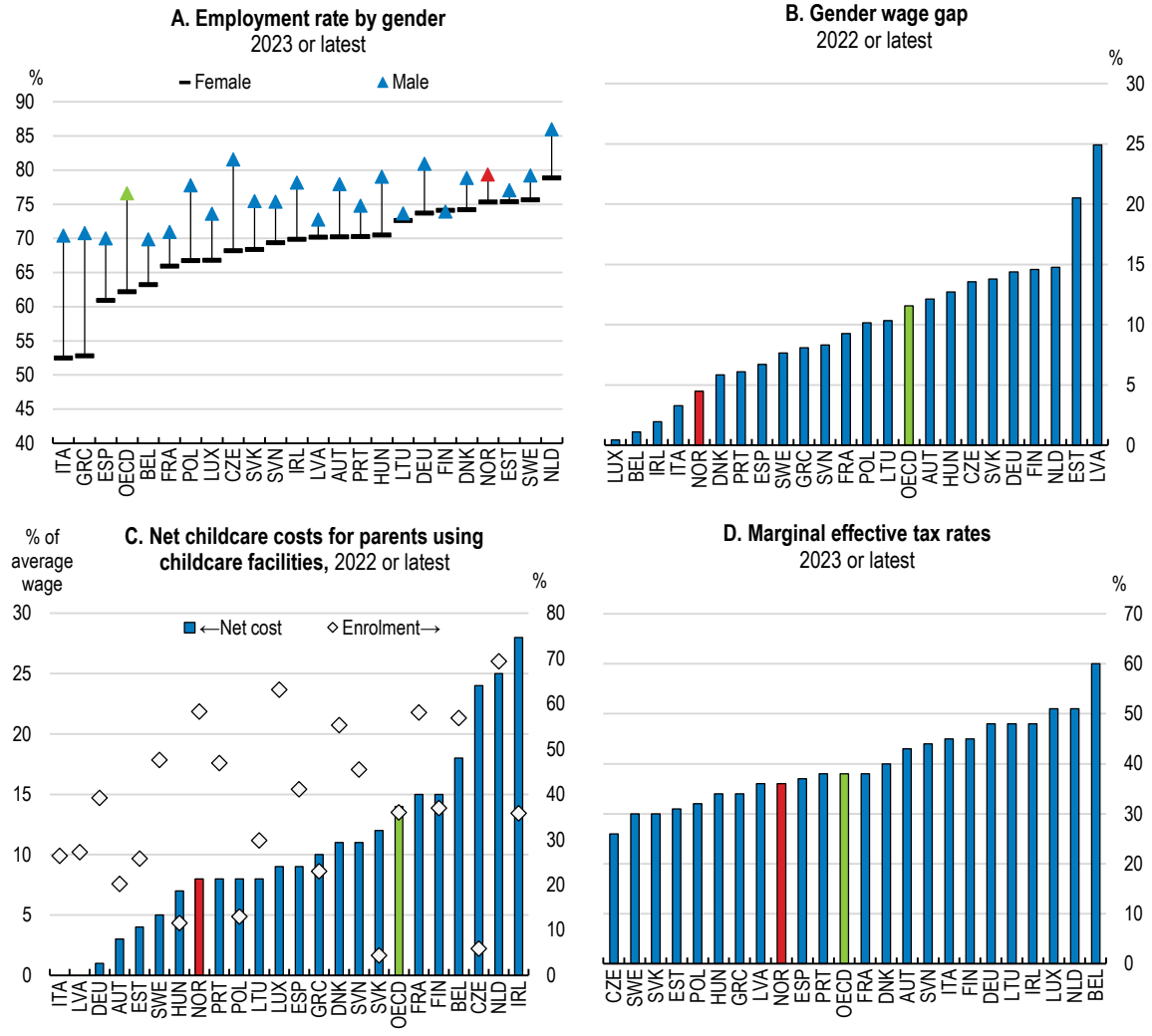
Norway is the OECD's public spending champion, partly reflecting the extensive coverage and generosity of the welfare system and ambitious regional development objectives. Currently, the Norwegian fiscal position is in excellent shape thanks to ample oil revenues and a fiscal framework that has allowed their accumulation in a sovereign wealth fund. However, challenges are looming. Coping with the depletion of oil resources and the fiscal consequence of ageing requires to increase the cost effectiveness of many public spending programmes, while leaving some room to reduce the high tax burden. The in-depth chapter identifies policy options to curb spending. These include: strengthening the fiscal framework by implementing medium-term budgeting, an expenditure rule and broadening the remit of the fiscal council; making regional policy more cost-conscious; reinforcing co-ordination and co-operation in the health care and education sectors; and improving incentives to contain spending in the sickness and disability schemes. Agricultural subsidies should be pruned and harm the environment less. Judicious reforms should improve spending control, while at the same time also lifting economic performance.

Opportunities for women and men are more equal in Norway than in most other OECD countries (Figure 1.2). Overall employment and participation rates are among the highest in the OECD and hardly differ among men and women, similar to other Nordic countries. Differences in pay (the gender wage gap) are among the lowest in the OECD and in Europe surpassed by only a few countries. The cost of childcare is low at around 8% of average wages, and enrolment in childcare facilities is high. As such, the availability and affordability of early childhood education and care supports mothers' participation in the labour market and lowers barriers for working parents, especially for women. Effective marginal tax rates on second earners, often women – the share of additional gross earnings lost to either higher taxes or lower benefits when a person takes up or increases employment – are only slightly below the relatively high OECD average, reflecting a progressive income tax system and the means-testing of some benefits.

Against this background, this Survey has the following key messages:

- Maintain a sufficiently restrictive monetary policy stance to bring inflation down over the medium term. Avoid fiscal stimulus so that fiscal policy supports monetary policy, and strengthen the fiscal framework.
- Raise productivity and employment through structural reforms, notably to ensure the education system delivers stronger and more relevant skills.
- Reform public spending thoroughly, including by bringing spending on a lower trajectory while increasing its impact on the well-being of households and the productivity of firms.

Figure 1.2. Norway provides broadly similar opportunities to women and men



Note: Panel A: employment rate of population aged 15-64. Panel B: difference between men's and women's median gross earnings as a share of men's median gross earnings for full-time dependent employees. Panel C: user cost, net of any allowances, to full-time working parents with two children using full-time centre-based childcare. Panel D: share of gross earnings at the average wage when increasing hours worked from 50% to 100% of employment, for a second earner with two children and a partner working full-time at the average wage; effective tax rates include social assistance, temporary in-work benefits, and housing benefits; they do not include childcare benefits.
Source: OECD, Labour Force Survey; OECD, Social and Welfare Statistics database; OECD Taxes, Wages and Benefits.

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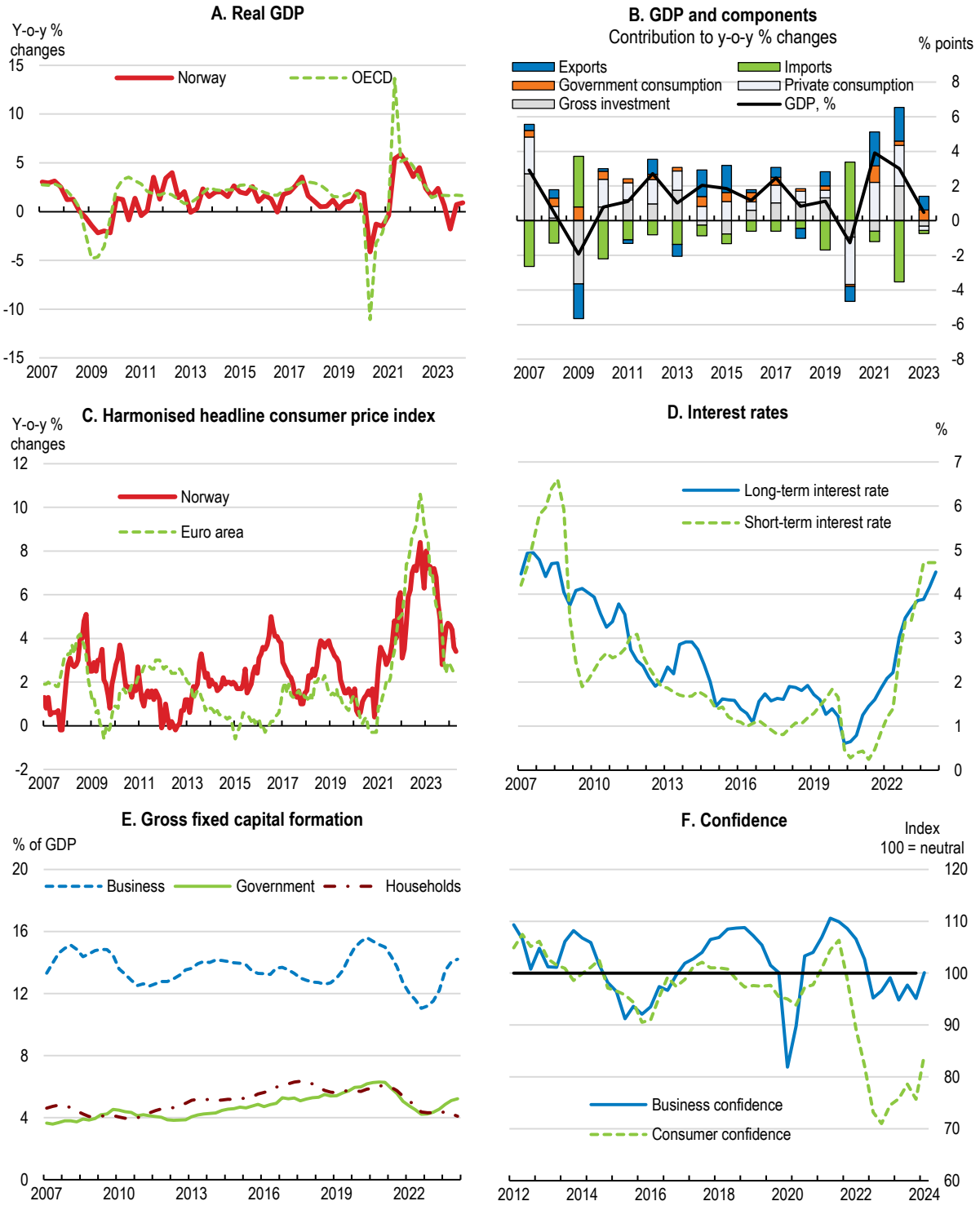
Macroeconomic developments

The economy has slowed

The economy has slowed (Figure 1.3). Overall GDP growth fell to 0.5% and mainland GDP growth to 0.7% in 2023 (see Box 1.1)for the concepts of mainland and overall GDP). High inflation and interest payments and a tax hike on electric vehicles have weighed on private consumption, while savings built up during the pandemic provided support. Non-oil business investment, which had reached high levels, weakened, and housing investment contracted considerably owing to higher interest rates, while oil investment surged. As the labour market remained tight, wages increased strongly but were outpaced by inflation in 2023. Unit labour costs have risen strongly partly due to weak productivity growth, sustaining cost pressures. The fall in global energy prices in 2023 reduced the terms of trade and petroleum revenues,

but they remain high by historical standards, contributing to a large budget surplus. Foreign demand for Norwegian energy remains strong to replace Russian oil and gas supply.

Figure 1.3. The economy has slowed amidst tightening financial conditions



Note: Panels A and B: GDP refers to overall GDP. Panel F: above 100 means increasing confidence and below 100 means weakening confidence.

Source: OECD, National Accounts database; OECD, Consumer Price Indices database; OECD, Economic Outlook No. 115 database; Statistics Norway and CEIC.

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Monetary policy tightening – with the key policy rate rising from zero in late 2021 to 4.5% in late 2023 – has contributed to weaker demand and weighed on business and consumer sentiment. Inflation is trending down, with annual headline inflation having fallen below 5% since late 2023. Underlying inflation has also eased but remains elevated, partly because of a weaker krone. Real interest rates have become positive. House prices both in the residential and commercial sector – a key driver of inflation earlier on – have been cooling but picked up in early 2024. The electricity subsidy scheme has been extended to the end of 2024, supporting household income at considerable fiscal cost (around 0.1% of GDP).

Mainland GDP growth is expected to edge up to 0.8% in 2024 and to rise to 1.8% in 2025 as domestic activity expands gradually due to lower inflation and some monetary easing (Table 1.1). Headline inflation is projected to decline to around 3% by the end of 2025, still above the target of 2%, helped by lower energy prices and slowing demand. Investment will benefit from an improvement in global economic prospects and the implementation of climate-related projects. Lower financing costs and housing shortages will progressively stimulate housing investment, following the sharp decline in 2023. A still tight labour market, despite slightly rising unemployment, will keep nominal wage growth strong. Higher profits in the manufacturing sector, the front-runner in wage settlements, also point to high wage growth.

Table 1.1. Macroeconomic indicators and projections

	2020	2021	2022	2023	2024	2025
	Current prices NOK billion	Percentage changes, volume (2021 prices)				
Mainland GDP at market prices[1]	3 067.3	4.5	3.7	0.7	0.8	1.8
Total GDP at market prices	3 461.6	3.9	3.0	0.5	1.2	2.1
Private consumption	1 504.0	5.1	6.2	- 0.8	0.7	1.6
Government consumption	904.7	3.6	1.1	3.4	2.1	2.1
Gross fixed capital formation	949.7	0.7	5.2	0.0	- 2.8	5.8
Final domestic demand	3 358.3	3.5	4.6	0.5	0.1	2.9
Stockbuilding[2]	135.5	- 0.8	0.8	- 0.3	0.0	- 0.4
Total domestic demand	3 493.9	2.5	5.4	0.1	0.1	2.4
Exports of goods and services	1 115.0	6.1	4.5	1.4	3.4	3.2
Imports of goods and services	1 147.3	1.8	12.5	0.7	1.0	4.4
Net exports[2]	- 32.3	1.4	- 1.6	0.6	1.3	0.1
Memorandum items						
GDP deflator	_	20.2	28.2	- 10.6	2.0	3.7
Consumer price index	_	3.5	5.8	5.5	3.7	2.8
Core inflation index[3]	_	1.7	3.6	5.8	3.9	2.9
Unemployment rate[4] (% of labour force)	_	4.4	3.2	3.6	4.0	4.1
Household saving ratio, net (% of disposable income)	_	13.8	4.9	5.1	6.0	8.1
Output gap (in % of potential GDP)	_	- 1.1	1.0	0.1	- 0.5	0.0
General government financial balance (% of GDP)	_	10.3	25.6	16.3	12.4	12.2
Current account balance (% of GDP)	_	13.2	30.3	17.6	14.4	14.8

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.
4. Labour Force Survey.
Source: OECD Economic Outlook 115 database (updated).

The economic outlook is surrounded by persisting uncertainties and risks. Given its place on the map, Norway is very directly exposed to risks related to Russia. Geopolitical fragmentation and less open trade policy could disrupt supply chains and dent activity in small open economies like Norway. Higher borrowing costs could intensify housing market risks, notably related to high household indebtedness due to the high share of variable-rate loans. On the upside, households could spend more of the excess savings accumulated during the pandemic, spurring consumption, while faster than foreseen labour market

integration of Ukrainian refugees could help ease labour market pressures. A selection of lower-probability but high-impact events that would have a qualitative impact on the outlook are described in Table 1.2.

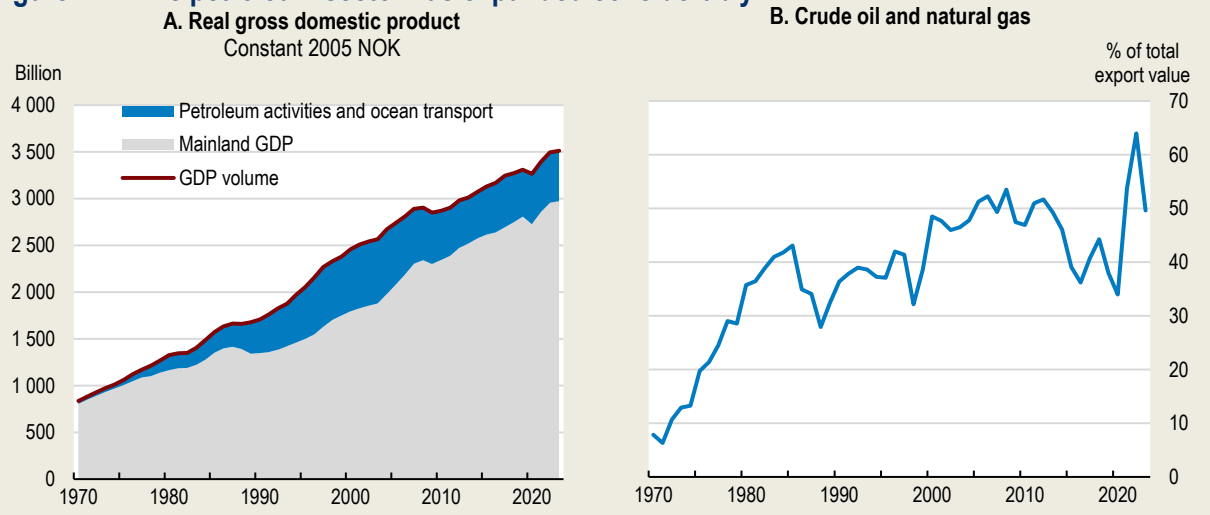
Table 1.2. Events that could lead to major changes in the outlook

Shock	Potential economic impact
House and real estate prices plummet, pushing up non-performing loans.	Household consumption falls, banks exposed to commercial property firms record large losses, and the economy contracts.
The market value of the oil Fund sees a large and sustained fall.	Fiscal policy would have to tighten to comply with the fiscal rule (3% of the value of the Fund to cover the non-oil budget deficit). Activity, income, and employment would decline considerably.
Norway is hit by a large and successful cyber-attack.	Financial infrastructure and other critical networks are being knocked down, severely affecting trade and financial intermediation.

Box 1.1. Measuring GDPs in Norway

Norway uses two distinct measures of Gross Domestic Product (GDP): on the one hand standard or "overall GDP" encompassing all economic activities, and on the other hand "mainland GDP" excluding offshore petroleum activities and ocean transport (Figure 1.4, Panel A). The need to distinguish both GDP concepts goes back to the early 1970s with the discovery and subsequent exploitation of the sizeable oilfields on the Norwegian continental shelf. Since then, the petroleum sector has rapidly become a substantial part of Norway's economy (Panel B). Due to the highly volatile nature of oil and gas revenues, the "mainland economy" is often seen as the proper indicator for structural analysis, notably as the government has shifted its focus towards reaching long-term economic and environmental sustainability.

Figure 1.4. The petroleum sector has expanded considerably



Note: In Panel A, mainland GDP consists of all domestic production activity except extraction of crude petroleum and natural gas, transport via pipeline, and sea and coastal freight and passenger water transport. The components in constant prices do not exactly add up to overall GDP due to their separate chaining. The contribution of mainland GDP and petroleum activities to overall GDP volume were thus approximated based on the volumes of each component.
Source: Statistics Norway.

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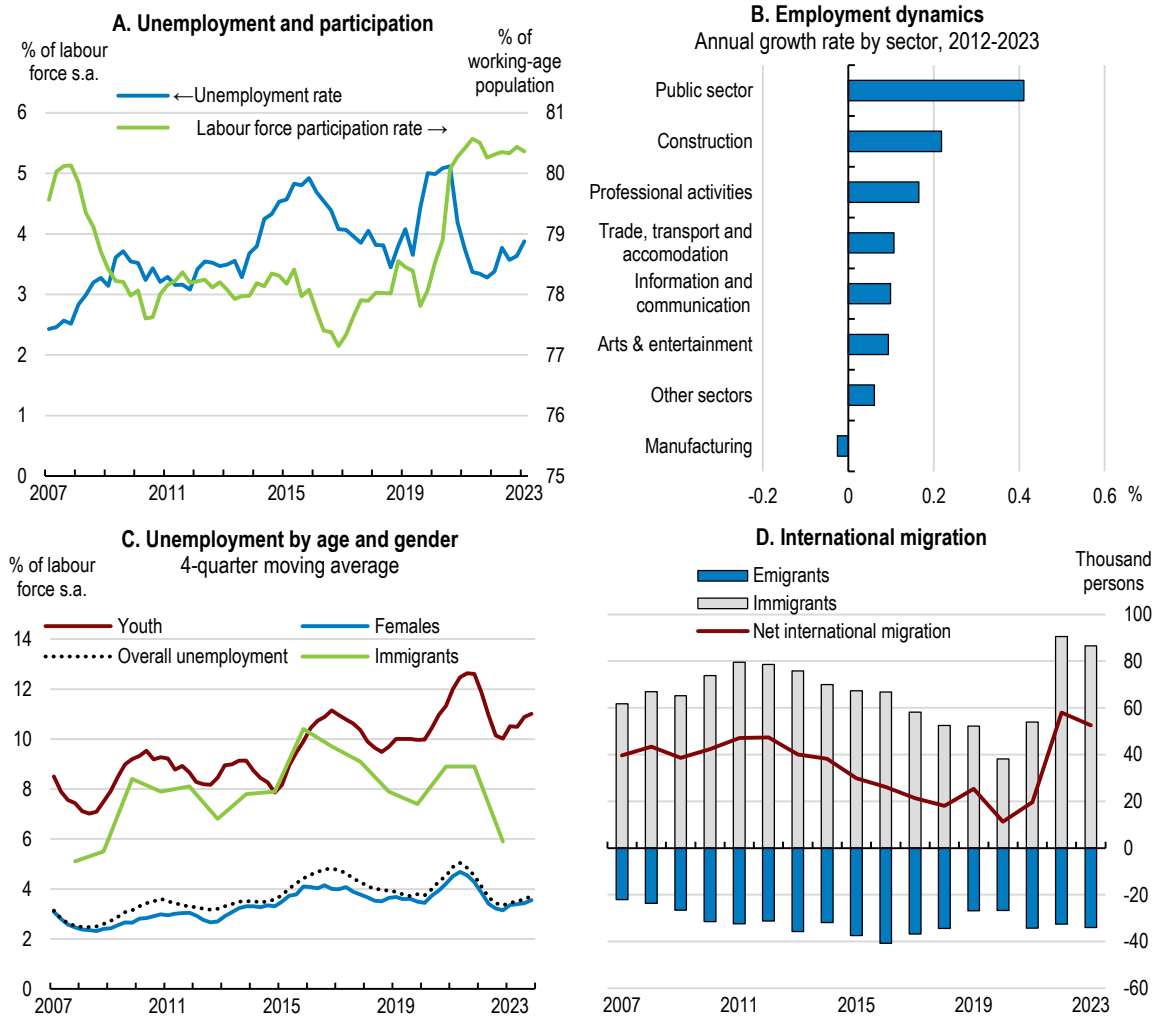
Petroleum activities and ocean transport gradually expanded to 7% to 8% of GDP during the 1970s. They increased rapidly following the second oil shock in the early 1980s, quickly making up around 45% of exports and reaching 19% of overall GDP. The share of petroleum in GDP then remained relatively stable between the 1990s and the 2010s, hovering around 20%. Following Russia's invasion of Ukraine in 2022, when many countries sought alternatives to Russian oil and gas, Norway has recorded all-time high petroleum and related products export receipts (Figure 1.4, Panel B).

The labour market remains tight

Despite some easing, the labour market remains tight (Figure 1.5). Unemployment, which fell rapidly in the wake of the post-pandemic recovery, has been edging up since 2022 but from a low of 3.2%. Women have a lower unemployed rate than men, but differences are small and shrinking. Employment has expanded most in the public sector and in construction over the past decade, while it declined in manufacturing. After a steep increase following the pandemic, labour force participation remains high at over 80%. Following a gradual decline over the past decade, immigration reached record levels in 2022, partly because of the inflow of Ukrainian refugees, while declining a bit in 2023. Unemployment among immigrants is trending down, pointing at the robust state of Norway's economy and well-designed integration policies.

Figure 1.5. The labour market remains tight



Note: Panel C: immigrants are defined as individuals born abroad.
Source: OECD, Labour Force Survey; Eurostat; and Statistics Norway.

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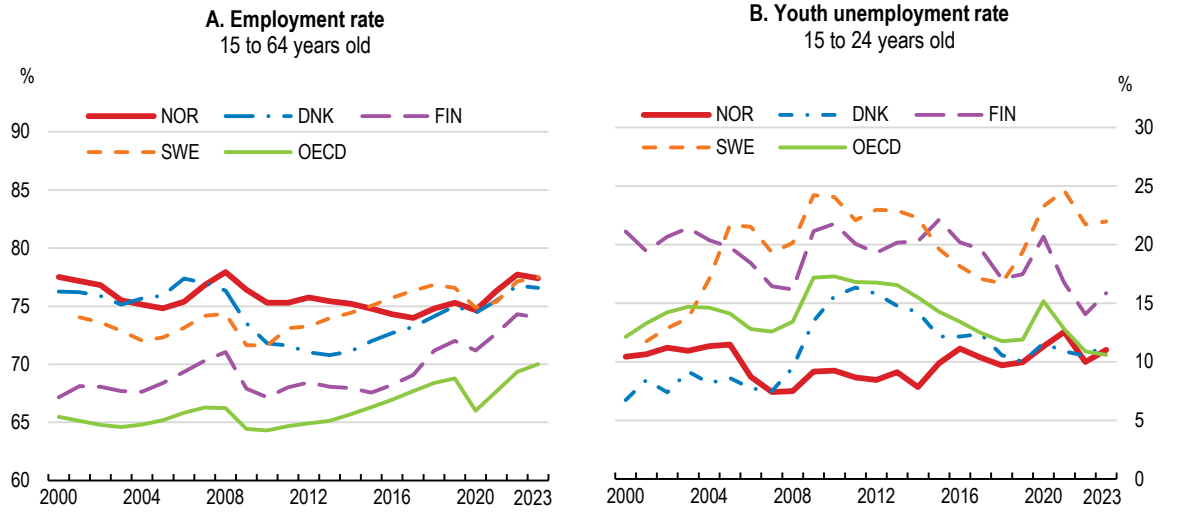
Following a steady decline over the past decade, employment rates rose strongly in 2021 and 2022, mainly among the young, and have remained fairly stable since (Figure 1.6). Even so, the gap between youth and overall unemployment has been widening slightly. In 2021 the Increasing Employment Commission noted that a part of the young were increasingly detached from the labour market and identified several

underlying drivers, notably a lack of skills, insufficient activation policies and a relatively generous sickness and disability system (NOU, 2021[1]). The extent to which the recent reversal of the trend is structural or cyclical remains to be seen. As discussed further below, the government should step up labour market reforms to maintain high employment, including improving skills through stronger VET and adult learning; active labour market policies including wage subsidies; and a reform of the sickness and disability benefit system to prevent young people from dropping out permanently from the labour market, as recommended by the Commission (Chapter 2). The government continues to support employment notably through education reforms (Ministry of Education, 2023[2]).

Figure 1.6. Employment is growing again, especially among the young



Source: OECD, Labour Force Statistics.

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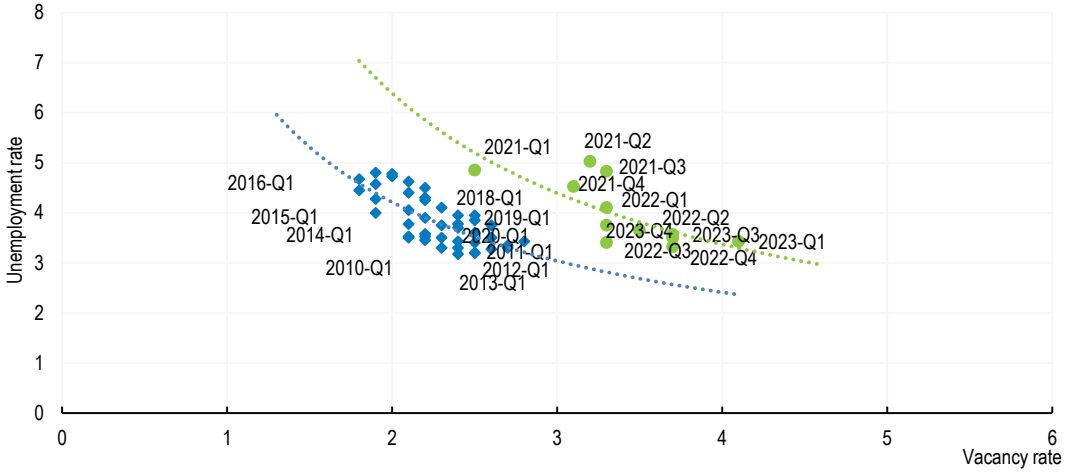
The post-pandemic recovery has seen growing labour market imbalances. The relationship between unemployment and job vacancies has worsened, as the sum of vacant jobs and unemployed workers has increased since around 2021: the Beveridge curve has shifted outwards, although results should not be overinterpreted because the post-pandemic period is still relatively short (Figure 1.7). This partly reflects a high skills mismatch, as employers notably in health care and various technical areas struggle to recruit qualified labour. Despite overall high skills levels, lack of qualified workers and underqualification seems to be an issue in Norway. One-third of employers say they tried unsuccessfully to recruit/fill a job opening over the past year, while more than 40% of unemployed adults have not completed secondary education. The digital and green transitions as well as population ageing will further increase demand for qualified labour and require tailored labour-market policies, notably to increase the supply of jobs in the technical and health sectors (Ministry of Education, 2023[2]).

Labour immigration from Poland, Lithuania, Sweden, and other countries has sharply increased since 2020 as economic conditions were highly favourable in Norway. Ukrainian refugees under temporary protection accounted for a considerable share of new arrivals (Box 1.2). To address labour shortages and the lack of skilled labour, Norway further increased quotas for third-country national (non-EEA) workers in 2023, gave more priority to skilled immigration and facilitated immigration procedures more generally. While the employment rate of immigrants is around the OECD average (68% versus 67%), immigrant women have higher employment rates than in almost any other OECD country, illustrating that a robust labour market and well-developed childcare and family support services are key for labour market integration of immigrant women (OECD, 2023[3]). Against this background, Norway should continue to facilitate immigration of qualified labour; accelerate the recognition of foreign diplomas; and continue to offer services like universal childcare that help parents access the labour market more easily.

Figure 1.7. Labour market imbalances have grown

Unemployment and vacancies, 16-64 years old, four-quarter trailing moving average rates



Source: Statistics Norway; OECD Labour Force Statistics.

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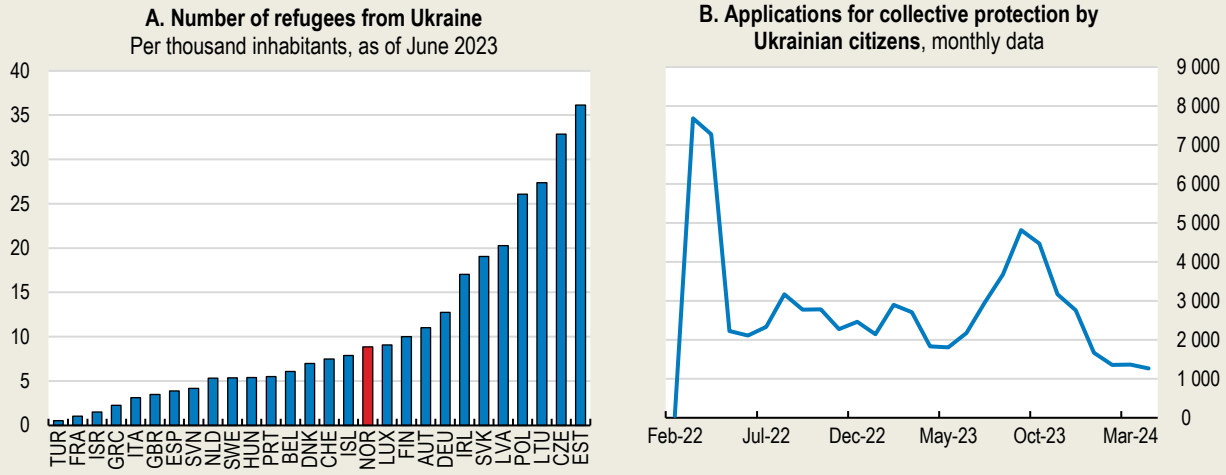
Box 1.2. Receiving and integrating Ukrainian refugees in Norway

Amidst the devastation caused by Russia's large-scale war of aggression against Ukraine, more than 10 million people have become either internally displaced or refugees in the OECD area. In Norway, around 75 000 Ukrainian refugees had found shelter by early 2024, more as a share of the population than in any other Nordic country except Finland (Figure 1.8, Panel A). Since October 2023, the number of new arrivals in Norway has been gradually slowing (Panel B). More generally, the overall number of Ukrainian refugees in EU countries is declining, which can be attributed to both return movements to Ukraine and onward migration, particularly to non-European OECD countries. Scenarios of future refugee inflows vary a lot, owing to the uncertain development of the war.

Figure 1.8. Many Ukrainian refugees found shelter in Norway



Note: Refugees from Ukraine with granted refugee status, temporary protection, or a similar status since 24 February 2022.
Source: OECD, International Migration Outlook 2023; Norwegian Directorate of Immigration (UDI).

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Like most OECD countries, Norway has implemented specific policies to manage the influx and facilitate the integration of refugees from Ukraine, akin to the EU's temporary protection directive. Beneficiaries of temporary protection immediately receive a residence permit, as well as access to employment, accommodation, health, and education for persons under 18 years, alongside other rights. Access to some benefits has been tightened in early 2024 in line with other Nordic countries. A critical issue remains housing, whose lack in areas with strong employment opportunities discourages jobseekers, while some social benefits are linked to staying in asylum centres far from jobs. According to some observers, recognition of foreign diplomas is also relatively slow. This could explain why the employment rate of Ukrainians is relatively low at 20% (against 50% in Denmark). A recent White Paper on integration proposes steps to strengthen the formal qualification of refugees, among other policy initiatives (Ministry of Labour and Social Inclusion, 2024[4]).

Source: (OECD, 2022[5]); (OECD, 2023[3]), (OECD, 2022[6]) (Ministry of Labour and Social Inclusion, and Ministry of Justice, 2024[7]).

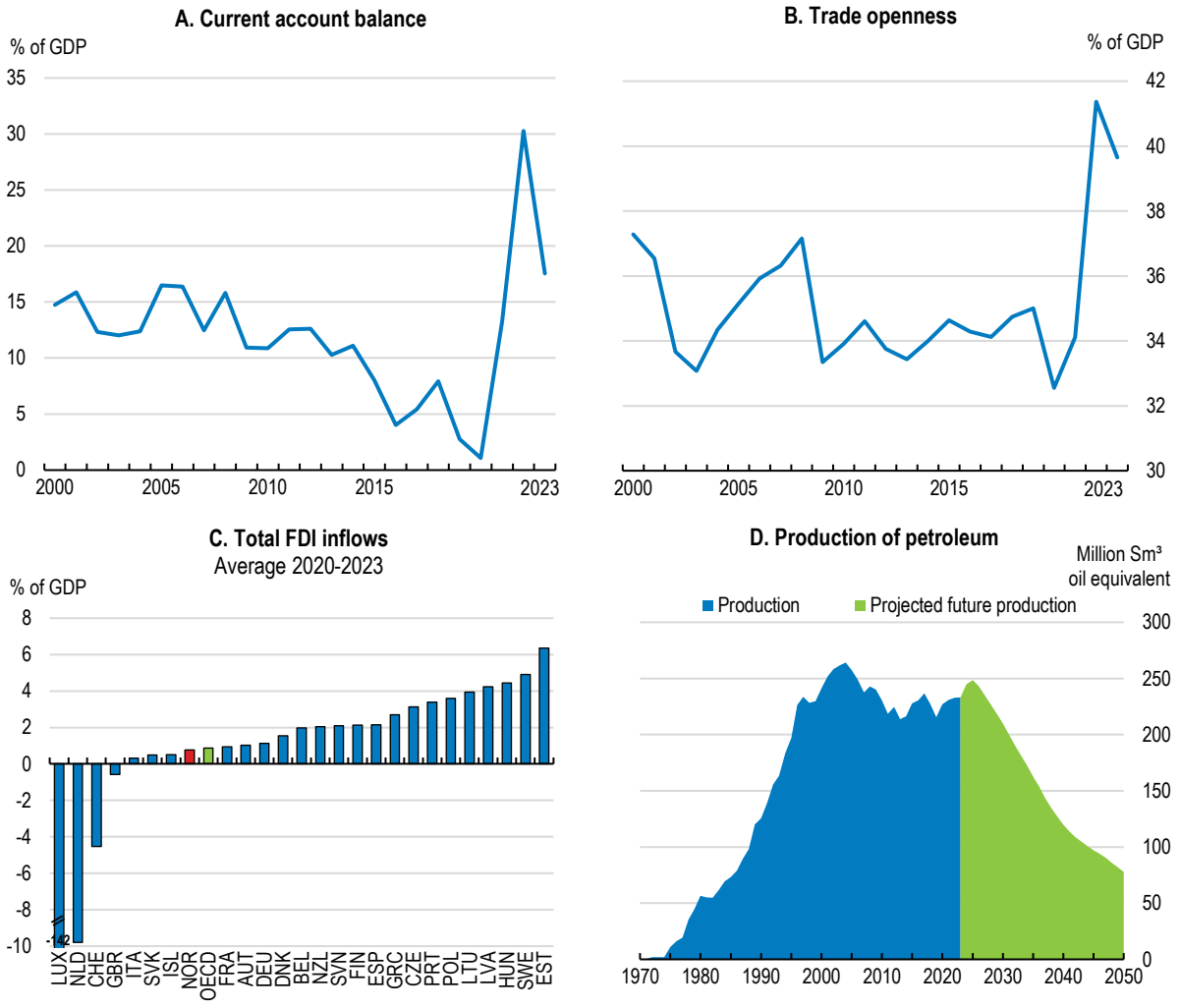
Foreign trade is ever more shaped by the oil sector

Developments in foreign trade closely follow those in the petroleum sector. Norway's current account balance is traditionally in large surplus owing to ample oil and gas revenues but fluctuating strongly in line with oil price developments (Figure 1.9). After the pandemic in 2020, the current account balance shot up from just above 1% of overall GDP to almost 30% within two years, while receding again in 2023. Trade openness, averaging around 35%, is below what could be expected for a small open economy, yet the indicator increased substantially in 2021 with rising oil exports, and in 2022 when the sanctions on Russia drove up petroleum prices and export revenues. Foreign direct investment inflows remain modest, as the oil and energy sectors – where most investment takes place - are in domestic public ownership. Going forward, the role of oil and gas in the economy is likely to decline: "peak petroleum" was reached in 2001, and production is expected to drop rapidly over the next 25 years (Figure 1.9, Panel D).

Exports and their destination countries have evolved over the past decade (Figure 1.10). Oil and oil-related industries (ships, oil platforms) made up around 60% of total goods exports in 2023, similar to 2012. Water transport (shipping) is the largest service sector, while services related to the oil sector are becoming more important. Export sectors like telecommunication equipment, medical instruments and digital services are gradually expanding, helping to diversify the economy, while business services and tourism are declining. An overwhelming and expanding share of Norwegian goods and services exports goes to Europe, as this is where petroleum and related goods are mostly exported to. Trade with Russia, Belarus and Ukraine was weak before the war at around 3% of exports and 2% of imports, although the sanctions following Russia's invasion of Ukraine brought local trade with Russia to a standstill in the North of Norway.

With oil exports becoming so large, the share of manufacturing exports in GDP has declined to around 4%, much less than in the other Nordic countries, and GDP per capita growth is lower than in countries endowed with fewer natural resources. Despite the high quality of its institutional and macroeconomic framework, Norway might to some extent be exposed to the risk of "resource curse" (Box 1.3). In the long term, notably with the expected decline in extraction (Figure 1.9), the contribution of the petroleum sector to exports and economic growth is expected to subside (OECD, 2022[8]). Against this background, the country should prepare the transition away from the oil and gas sector and the diversification towards activities with a higher productivity potential by strengthening structural reforms as described below and as highlighted in earlier OECD *Economic Surveys* (see also the section on productivity).

Figure 1.9. The external balance strongly depends on oil



Note: Panel B: trade openness is measured as the average of goods and services imports and exports divided by overall GDP.
Source: OECD, Balance of Payments statistics; OECD, National Accounts database; OECD, FDI Statistics; Ministry of Energy and Norwegian Continental Shelf Directorate.

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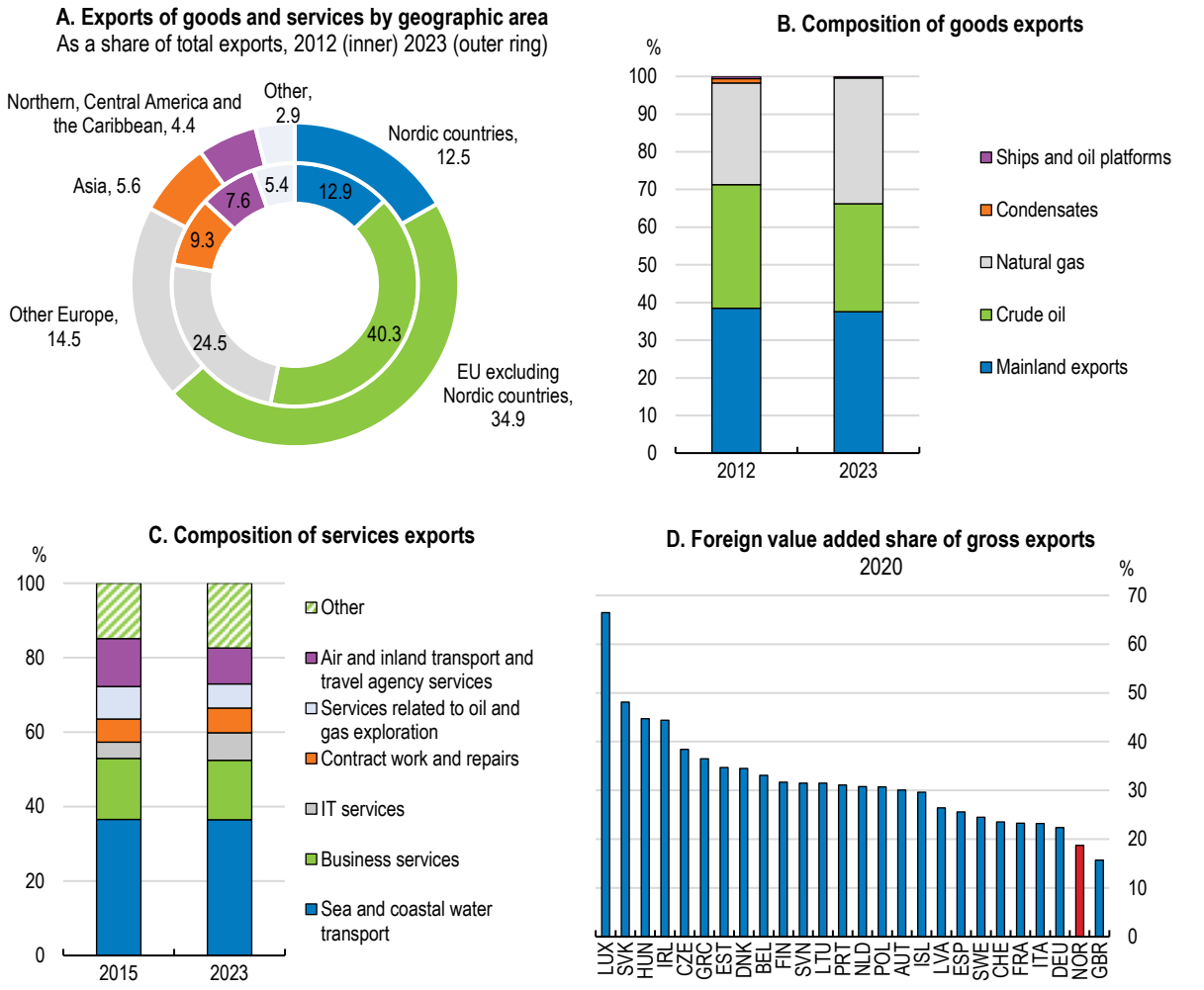
Figure 1.10. Exports by sector and country



Note: Panel A: services exports do not include financial service exports. Nordic countries include Denmark, Finland, Faroe Islands, Iceland, and Sweden.

Source: Statistics Norway; and OECD, Trade in Value added database.

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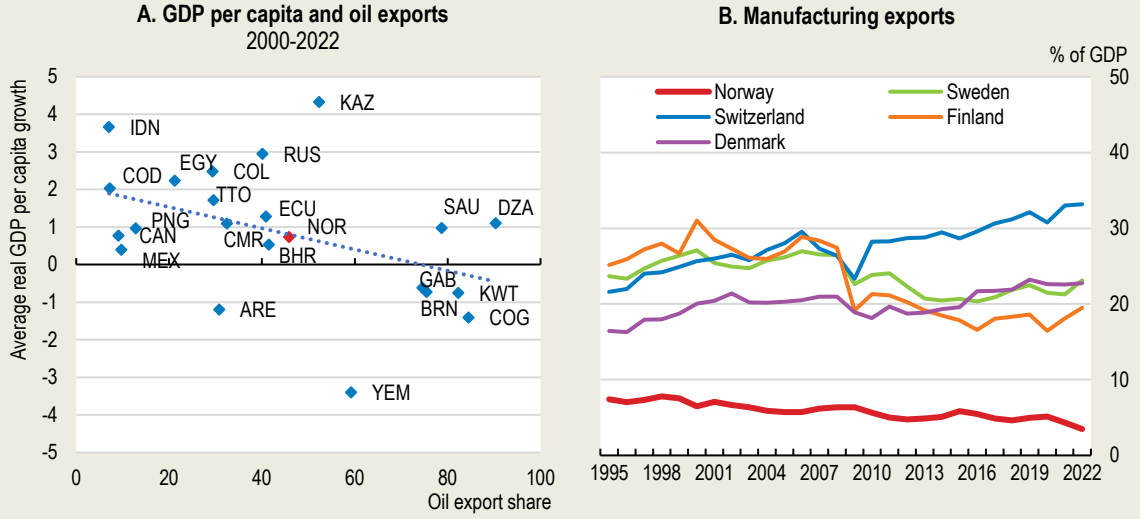
Box 1.3. Does Norway fall prey to the resource curse?

The term "resource curse" was coined to describe the negative relationship between a country's natural resource endowment and long-term economic development (Figure 1.11). More specifically, a higher oil export share is associated with lower GDP per capita growth in the long run (Kakanov, Blöchliger and Demmou, 2018[9]). Various explanations for the resource curse exist. They range from institutional factors such as weak rule of law and property rights; structural factors such as a lack of innovation and productivity growth in the natural resource sector; or else macroeconomic factors such as the challenge to run effective stabilisation policies when resource revenues are highly volatile, sometimes exacerbated by an inappropriate exchange rate regime. Commodity price booms could induce "Dutch disease", which is a specific form of resource curse driven by the appreciation of the oil exporter's currency, entailing a decline in competitiveness of the manufacturing sector.

Norway puts its resource wealth to good use. The quality of institutions is among the highest in the world, keeping rent seeking and political capture at bay and distributing the oil riches effectively and widely. Macroeconomic management of oil revenues is sound, notably with the creation and

management of the sovereign wealth fund (Government Pension Fund Global) and the associated fiscal rules that ensure both stability and sustainability of fiscal policy (see fiscal section). Complementarities and spillovers also ensure that developments in the oil sector benefit manufacturing to some extent (e.g. oil exploration fosters ship and platform construction). Even so, Norway's long-term growth has been below similar countries with a lower share of oil and gas exports, and the high-productivity manufacturing sector in Norway is much smaller than in other countries, continuing to decline. As such, Norway needs to foster structural reforms to avert the resource curse.

Figure 1.11. Norway may not fully escape the resource curse



Note: Panel A: average annual growth of GDP per capita versus average share of oil in goods export revenue between 2000 and 2022. Panel B: overall GDP for Norway.
Source: World Bank, World Development Indicators; IMF World Economic Outlook, October 2023.

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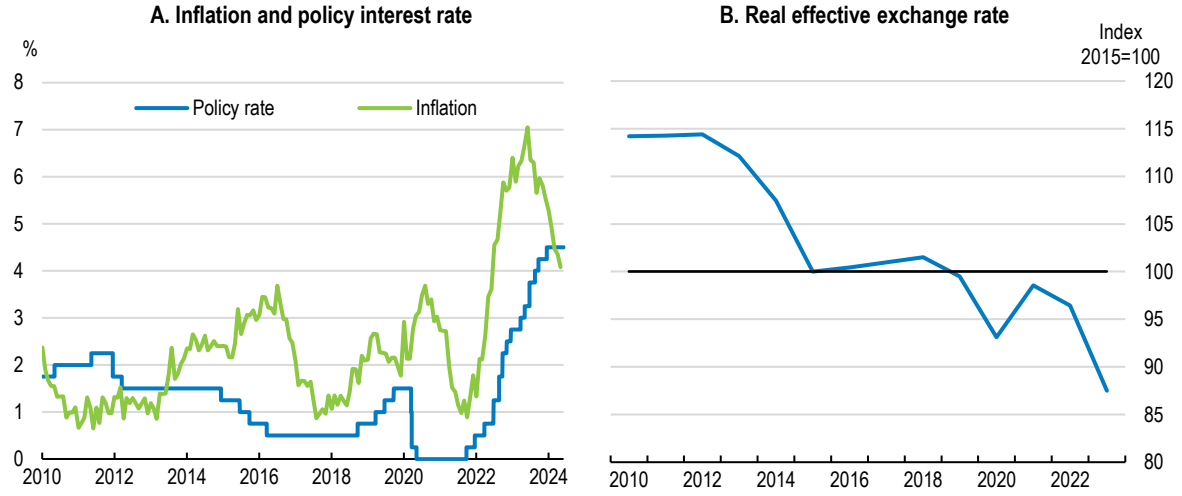
Source: (Kakanov, Blöchliger and Demmou, 2018[9]) (IMF, 2018[10]).

Monetary and macroprudential policy tightening has peaked

Inflation is falling but remains above target

In December 2023, the central bank raised the key policy rate to 4.5%, the 14th and so far, last increase since the tightening cycle started in late 2021 (Figure 1.12). Policy rate adjustments have tended to be comparatively slow over much of the cycle, leading to a negative interest rate differential between Norway and its main trading partners. Against this backdrop, and with the US dollar and the euro holding up strongly, the krone depreciated by around 8% over 2023 against the currencies of main trading partners, like in some other small open economies including Sweden and Canada. Real interest rates based on measures of inflation and inflation expectations have been rising by around 1.5 percentage points since the beginning of 2023 and stood at around 1% at the end of the year, while real wage growth remained negative at -0.3% in 2023. The central bank estimates Norway's neutral real interest rate (corresponding to a zero output gap, inflation at target and neutral monetary policy) at between -0.5% and +0.5%, although some estimates point at a higher rate of up to 1.5% (Norges Bank, 2023[11]).

Figure 1.12. Monetary policy has been tightened and the krone has weakened



Note: Panel A: inflation refers to national CPI adjusted for tax changes and excluding energy products (ATE); Panel B: consumer price index deflated measure of competitiveness (a rise reflects declining price competitiveness).
Source: Statistics Norway; Norges Bank; OECD, Competitiveness Indicators.

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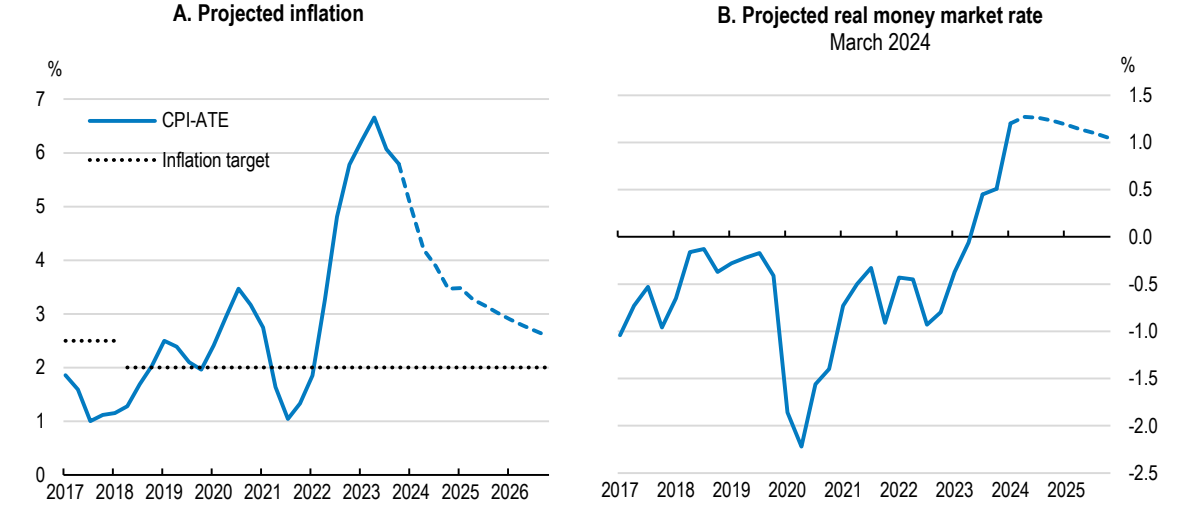
Inflation is set to decline further but to remain above target this year and next. Real interest rates have become positive for the first time in years and are expected to decline from mid-2024 (Figure 1.13). Uncertainty around the economic outlook and household's reaction to higher consumer prices, higher interest rates and lower house prices remains wide (Norges Bank, 2023[12]), making it difficult to offer a time horizon for bringing inflation back to the 2% target. As the labour market remains rather tight and the 2024 wage agreements indicate higher wage growth than initially projected (5.2% against 4.9%), inflation could remain persistently above target. As such, the central bank projects little monetary easing until the end of 2024 (Norges Bank, 2024[13]). Against this background, the central bank should keep monetary policy tight enough to bring back inflation to around 2% by the latter half of 2025.

Figure 1.13. The central bank projects further disinflation but positive real interest rates



Note: Norges Bank projections. Panel A: recorded and projected CPI-ATE inflation; Panel B: projected money market rate over the next four quarters less projected CPI-ATE (adjusted for tax changes and excluding energy products) inflation over the same period.
Source: Norges Bank, Monetary Policy Report 1/2024.

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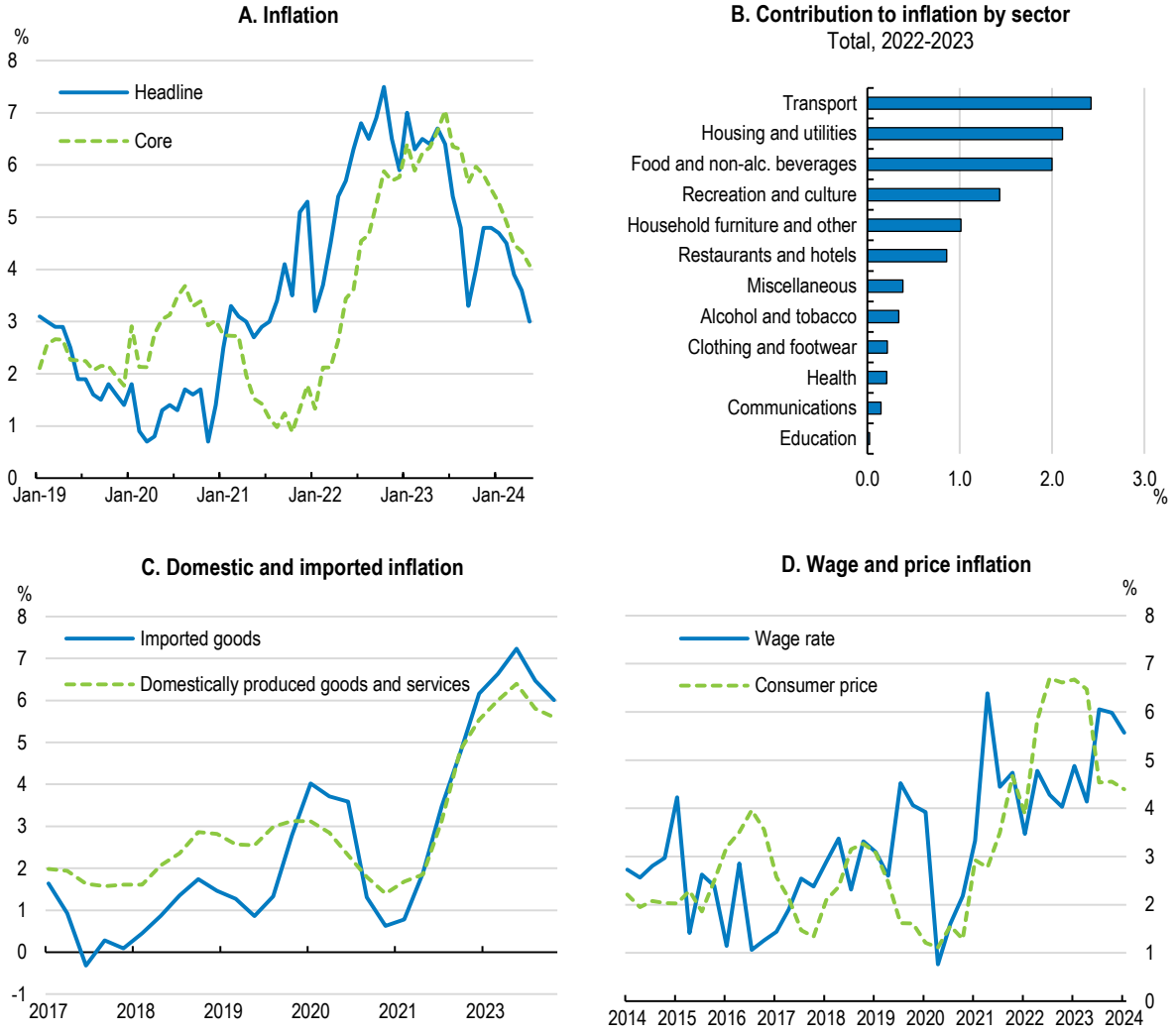
Consumer price inflation is declining but remains high (Figure 1.14). Headline inflation peaked at around 7% in late 2022 and has gradually been receding since, yet it remains much above the central bank's 2% target. As in many European countries, Norway's inflation surge was initially propelled by energy prices, which almost doubled between mid-2021 and mid-2022. Inflation remains broad-based, with both goods and services contributing to price hikes, while the fall in energy and grocery retail prices since 2023 is pulling down inflation (Norges Bank, 2024[14]). Core inflation, which excludes food and energy prices, is easing as well, belatedly. "Second round" effects, notably via wage developments, have taken over, potentially hampering the slowdown of inflation more than initially expected (Norges Bank, 2023[15]).

Figure 1.14. Inflation is declining but has broadened



Note: Panel A: national CPI and national CPI adjusted for tax changes and excluding energy products (CPI ATE). Panel B: weighted contribution of each spending item to overall inflation. Panel C: national CPI adjusted for tax changes and excluding energy products (ATE).
Source: OECD Prices database; Norges Bank, Monetary Policy report 1/2024; OECD, Economic Outlook No.115 database.

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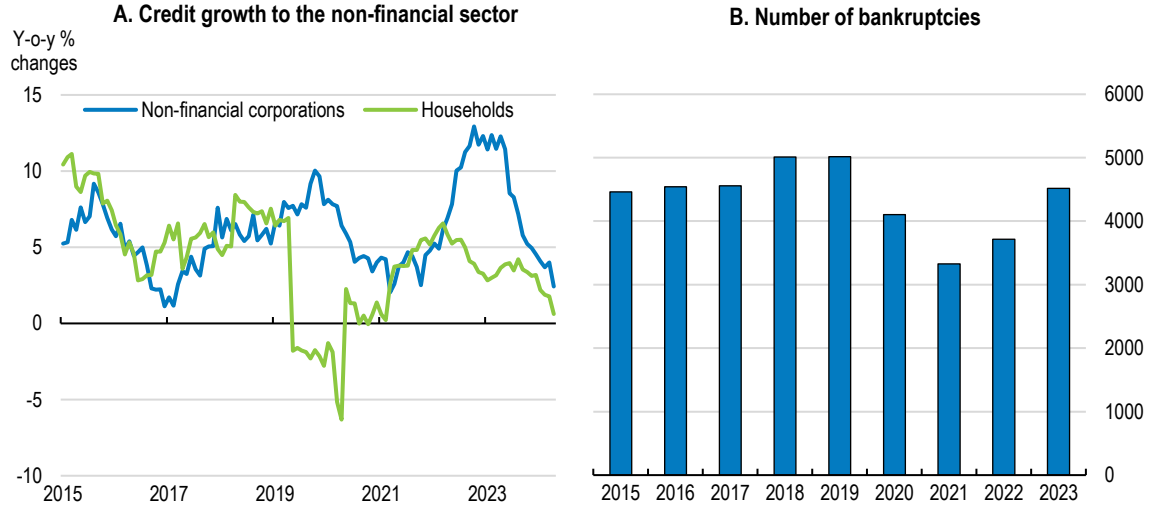
The financial system looks resilient, but higher interest rates expose risks

Norway's financial system increasingly feels the pinch of higher interest rates and a slowing economy. Credit growth is easing, and corporate insolvencies are on the rise, although from a low base (Figure 1.15). Creditworthy households and firms still appear to have ample access to credit. Banks' exposures to

commercial real estate firms (CRE) remain a vulnerability in the Norwegian financial system, like in Sweden (OECD, 2023[16]). CRE firms face higher interest rates and decreasing construction activity, making debt service more difficult (Norges Bank, 2023[17]). Household debt remains the highest in the OECD, and if the associated financial risks were to materialise, they could quickly spill over to other sectors such as banks or the consumption goods industry. However, growth of household debt has fallen below income growth.

Figure 1.15. Credit is slowing



Source: Statistics Norway.

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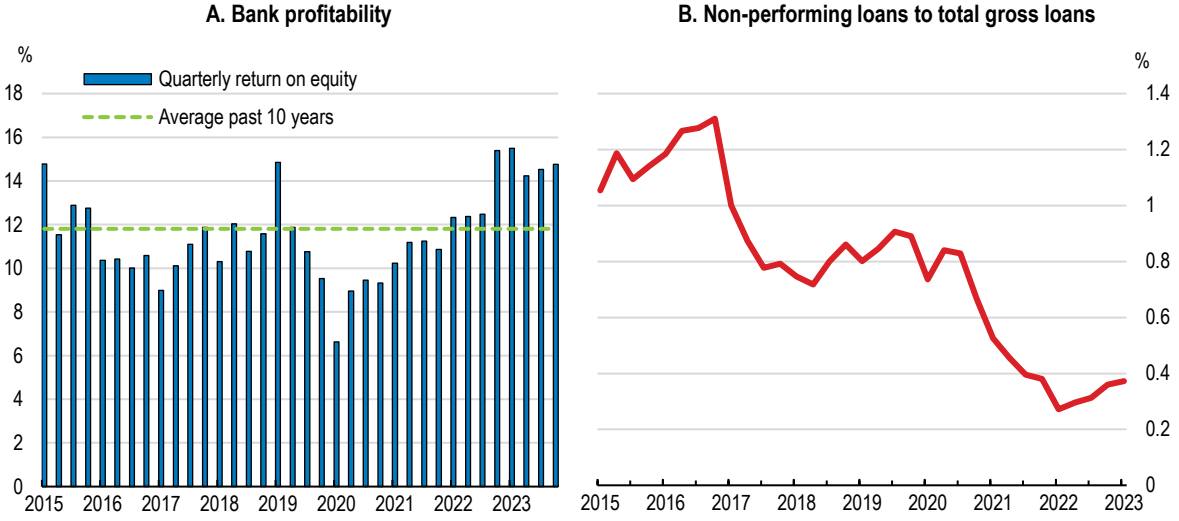
Macroprudential policy is no longer being tightened. Since March 2023 the counter-cyclical buffer has remained unchanged at 2.5%, after having been gradually increased from 1% since June 2021. The maximum loan-to-value ratio remains at 85%, and the maximum ratio of debt to annual income at 500%. The most important policy adaptation in 2023 concerned the change of the debt-servicing capacity requirement. Borrowers must now be able to tolerate a 7% interest rate or a 3 percentage point interest rate increase, whichever is higher, compared with the previous requirement of a 5 percentage point rise in interest rates.

Banks look solid, liquid and highly profitable (partly because the interest rate spread between assets and liabilities has risen), satisfying capital and liquidity requirements by an ample margin (Figure 1.16). Large banks' return on equity has been rising since 2020, reflecting higher net interest income and low credit losses. The share of non-performing loans has trended down since the mid-2010s (Panel B). Yet the central bank expects that the number of CREs not able to service their loans will increase in the coming years (around half of banks' corporate assets comprise lending to CREs). Higher losses are also expected on loans to households owing to higher interest expenses. Norwegian banks are highly interconnected, including with banks in other Nordic countries, through their crossholdings of covered bonds (one bank's funding is another's liquidity reserve), creating a systemic vulnerability as financial problems could more easily spread across banks. Yet stress tests conducted by the central bank and the financial supervisory authority suggest that banks could absorb a sharp economic downturn and continue to lend to households and firms.

Figure 1.16. Banks look sound and well-capitalised



Note: Panel A: return on equity after tax.
Source: Norges Bank, Financial Stability Report 1/2024; IMF, Financial Soundness Indicators.

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Financial infrastructure security has become a core policy issue, as cyber-risks and threats have considerably expanded in recent years, although Norway has been spared a disastrous cyber-attack so far. As such, financial infrastructure security is seen in a wider context of critical networks such as for transport, power, and data transmission, with a cross-sectional and cross-agency regulatory framework intended to safeguard critical basic functions (NSM, 2023[18]). Within that framework, the Ministry of Finance has identified two core functions, namely "the ability to finance the public sector" and "safeguarding financial intermediation capabilities". Financial sector authorities are working closely together to maintain the financial infrastructure and develop contingency plans such as alternative payment systems. Against this background, further developing the financial security architecture will help Norway to fend off attacks on key financial infrastructure.

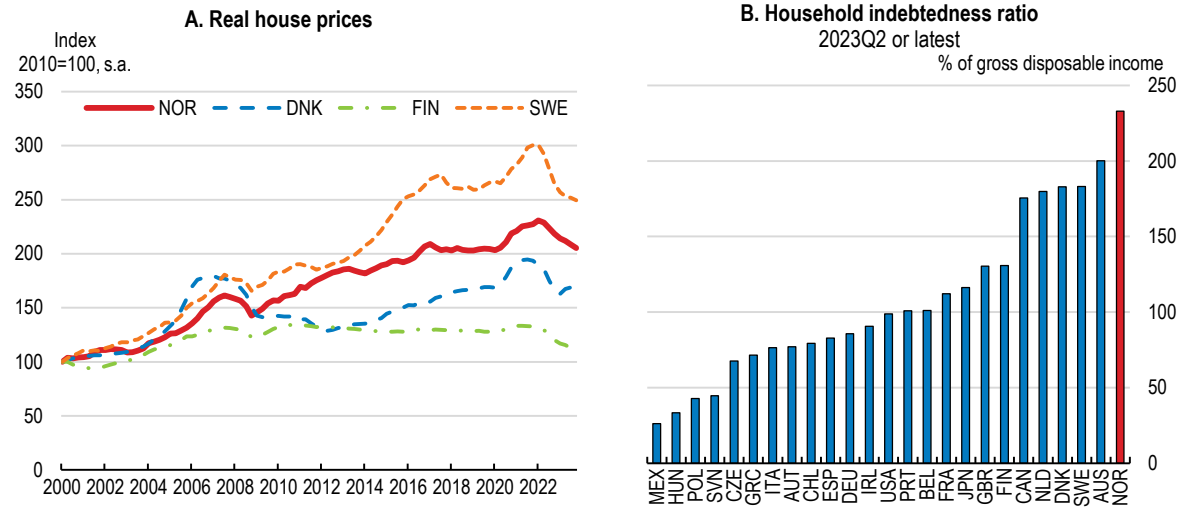
The housing market cooled but supply falls short of demand

The housing market cooled through 2023 as income growth slowed and financial conditions, notably rising interest expenses and refinancing costs, worsened. Real house prices dropped by around 8% from their late 2022 peak (Figure 1.17, Panel A), although the decline may have come to a halt in early 2024. An estimate of the "fundamental" house price index by Norway's Housing Lab research unit suggests that at the end of 2023 the country's house prices were overvalued by around 7% compared to around 15% at the end of 2021. While the decline of house prices has so far not spilled over to the economy, further house-price correction could damp consumption through negative wealth effects, precautionary saving responses and reduced housing expenditures, adding to the effect of higher mortgage interest payments.

Debt service costs continue to rise (Figure 1.18). With the OECD's highest debt-to-income ratio (Figure 1.17 , Panel B) and a net worth-to-income ratio below the OECD average, Norwegian households are particularly vulnerable to worsening financial conditions. Moreover, the high share of adjustable mortgages means that interest rate hikes spill over quickly to household debt service costs, thereby exacerbating housing affordability issues. If house prices were to start falling again, some households' debt might no longer be covered by the respective property values. High mortgage debt is at least partly the result of highly favourable tax treatment of owner-occupied housing, as documented in the 2022 OECD *Economic Survey of Norway* (OECD, 2022). A gradual phase-out of the favourable tax treatment could help reduce

the financial risks associated with high household debt (see tax section). In Denmark, scaling back the mortgage interest rate deduction has reduced equilibrium house prices and household indebtedness (OECD, 2021[19]).

Figure 1.17. House prices have undergone a correction, but household debt remains very high



Note: Panel A: ratio of nominal house price index to consumers' expenditure deflator; Panel B: total outstanding debt – mostly mortgages - of households as a percentage of gross disposable income.
Source: OECD, Analytical House Prices database; OECD, Household Dashboard.

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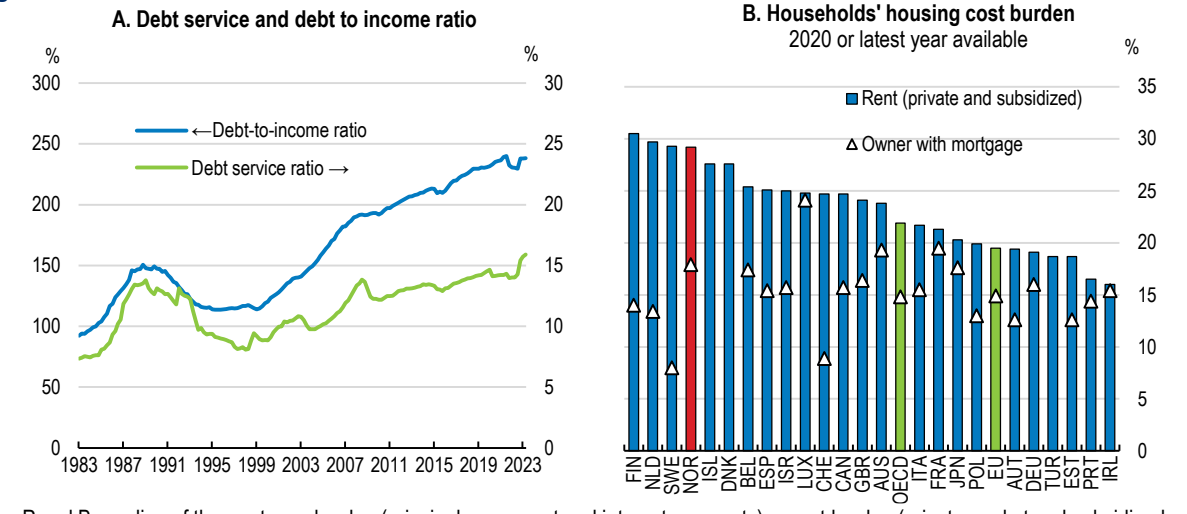
Figure 1.18. Debt service costs continue to rise



Note: Panel B: median of the mortgage burden (principal repayment and interest payments) or rent burden (private market and subsidized rent) as a share of disposable income.
Source: Norges Bank, Financial Stability Report 1/2024; OECD, Affordable Housing Indicators.

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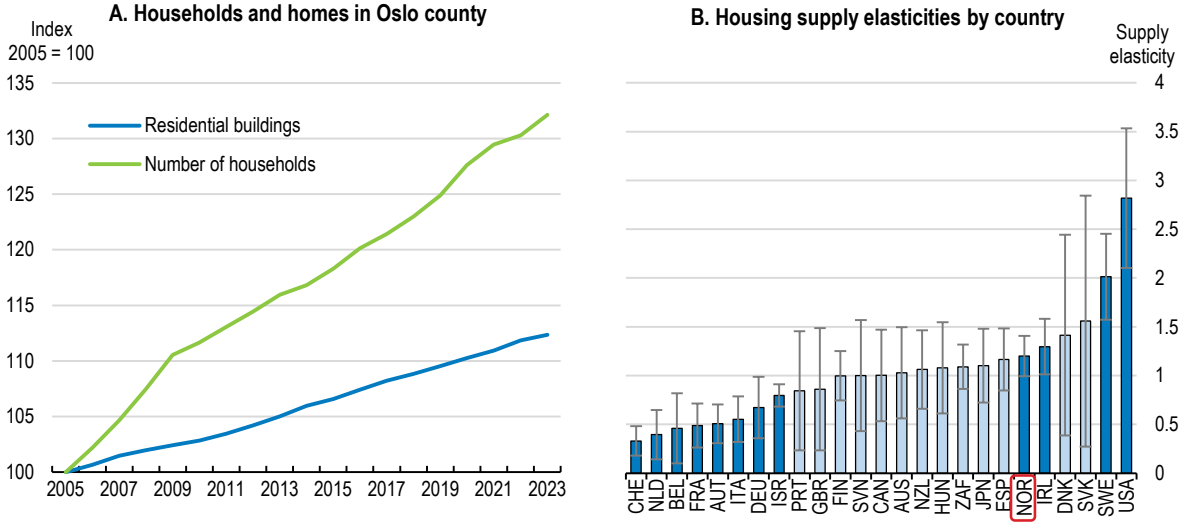
Housing supply remains constrained, notably in the capital area and other larger conurbations. While on average housing supply reacts relatively well to rising demand across the country (Figure 1.19, Panel B), a stringent green belt policy in larger conurbations and restrictions including bans on the conversion of arable land for other uses, limit supply in certain places (Tiitu, Naess and Ristimäki, 2021[20]). As a result, Norway has a very low urban expansion in international comparison (OECD, 2021[19]). Moreover, Norwegian cities set height limits on apartment blocks and non-residential buildings and have relatively

few tall buildings per urban population compared with other rich countries, thereby limiting inner densification, as shown in the 2022 OECD *Economic Survey of Norway*. By limiting possibilities for both greenfield development close to built-up areas and densification of existing built areas, these restrictions contribute to an inflexible housing supply. The need for flexible supply responses will become more critical as trends such as population ageing, immigration, decreasing household size as well as work from home are weighing on demand patterns. Norway could help increase housing affordability by fostering housing supply, notably through the upgrading of low-density areas and selected green field developments close to public transport hubs.

Figure 1.19. Housing supply is constrained, driving up prices



Note: Panel A: residential buildings include detached houses, houses with two or more dwellings, and residences for communities; number of households refers to one or more family households as defined by Statistics Norway. Panel B: bars indicate the point estimate and the vertical lines show the corresponding confidence interval. Light blue bars indicate coefficients that are statistically equal to one.
Source: Statistics Norway; (Cavalleri, Cournède and Özsöğüt, 2019[21]:), *How responsive are housing markets in the OECD? National level estimates*.

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Fiscal policy should be more forward-looking

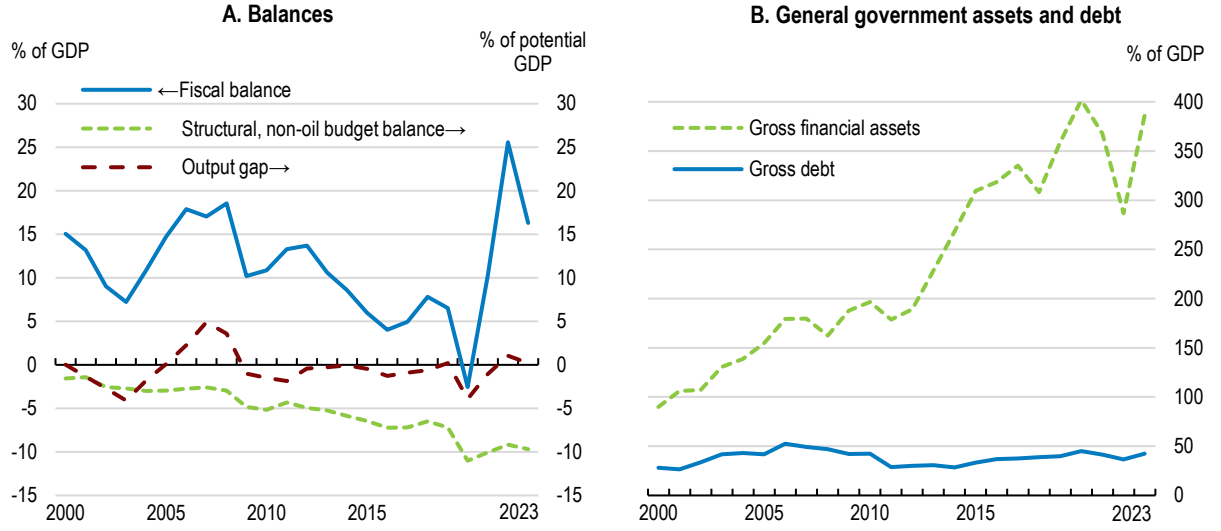
A large fiscal surplus thanks to soaring oil revenues, but fiscal space will shrink

Norwegian fiscal policy outcomes are strongly shaped by the petroleum sector. Public spending is partly funded through a fiscal system that allows the country to run substantial mainland-economy budget deficits. Petroleum net revenues are transferred in full to the sovereign Fund (Government Pension Fund Global). A fiscal rule stipulates that transfers from the Fund to the budget shall, over time, equal the expected real return of the Fund, estimated at 3% annually. This rule has been observed in the past (though in 2020 when Covid-19 required extraordinary measures the transfers from the Fund exceeded the longer-term norm). The rule generally entails net accruals to the Fund. The non-oil structural budget deficit has constantly risen from 4% of GDP in 2010 to close to 10% in 2023. Fund withdrawals cover ever more spending, currently around 20% of the overall budget. Nevertheless, tax revenues are large and mainland Norway's ratio of general government revenue to GDP is also among the highest in the OECD.

The budget surplus shot up to 26% of GDP in 2022, dropping to a still considerable 16% in 2023, owing to expanding oil revenues (Figure 1.20). The structural non-oil deficit rose from 9.2% of potential GDP in 2022 to 9.7% in 2023. As such the fiscal stance as measured by developments of the structural non-oil balance was expansionary. The initial structural non-oil budget deficit for 2023 was revised up substantially over

the year, mainly because of unexpected wage growth in the public sector; support to Ukraine; a higher number of refugees; and support to households to cope with high energy prices. Consistent with the higher non-oil deficit, the take-out rate from the Fund rose from the initially planned 2.5% to 3%, close to the long-term fiscal rule. At the beginning of 2024, the total value of the sovereign Fund reached USD 1 655 billion, around 400% of mainland GDP or USD 278 000 for every Norwegian citizen. The "efficiency dividend" initiative of the former government, designed to create additional fiscal space, was shelved.

Figure 1.20. The rise and fall of oil revenues has driven fiscal outcomes in the past two years



Note: Panel A: structural non-oil balance computed as a share of mainland trend GDP; Panel B: assets and liabilities related to tax revenues are excluded.
Source: OECD, Economic Outlook No. 115 database; Ministry of Finance, Budget 2024.

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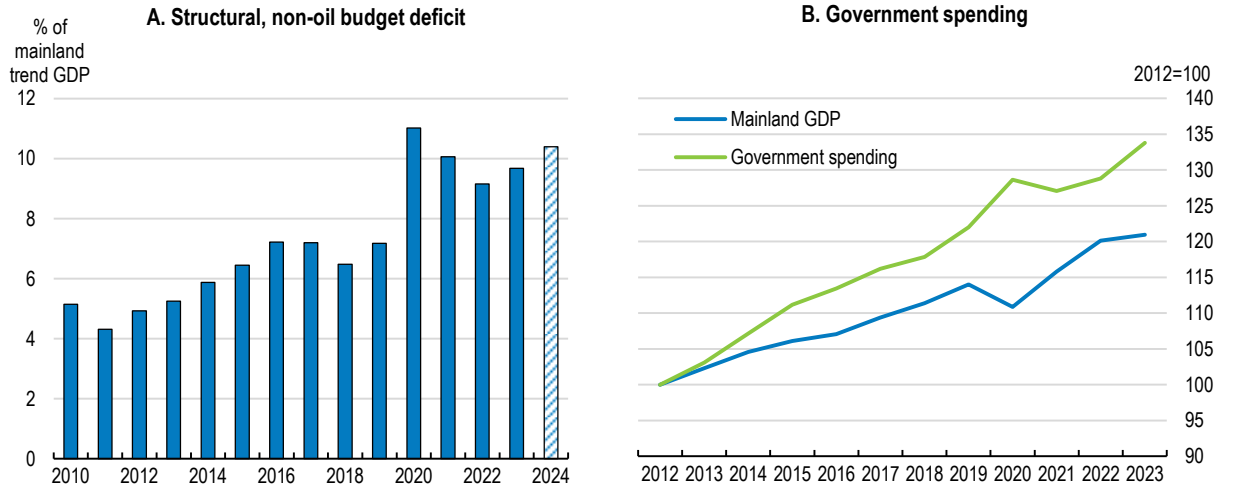
Going forward, fiscal policy will hardly change tack. The 2024 budget foresees a rise of the structural non-oil deficit to 10.4% of GDP, corresponding to a fiscal impulse (expansionary fiscal stance) of around 0.7% of GDP (Figure 1.21, Panel A). This deficit is expected to remain below 3% of the value of the Fund. The budget includes few compositional changes, except a planned decline in the share of public investment (which remains higher than in most other countries at around 6.9% of GDP) and a sharp increase in defence spending to 2.2% of GDP (Ministry of Defense, 2024[22]). Spending rose more than GDP and tax revenues over the past decade (Panel B). Norway has not yet established a medium-term expenditure framework (MTEF), so no spending plans are available beyond 2025. Against the risk of declining returns of the Fund over the coming years, fiscal policy ought to become more contractionary, to create fiscal space for the future. Also, Norway could benefit from the introduction of a MTEF (Chapter 2).

Long-term projections carried out in 2021 by the Ministry of Finance estimate that the fiscal space created by taxes and fiscal-rule-abiding wealth-fund transfers will approximately halve by 2040 (updated projections, including a risk analysis, are to be released by June 2024). Revenues are likely to only cover structural spending growth associated with demographic changes and funding of national insurance schemes. This implies no room for new spending initiatives. Over the next 15 years or so, the fiscal gap is expected to deepen by almost 6% of GDP due to higher spending, lower tax revenues, lower oil revenues and lower returns of the wealth fund. Against this backdrop, the introduction of a spending rule could help rein in spending excesses while maintaining fiscal space for new policy initiatives. Spending rules are associated with (and ever more seen as causally linked to) improved fiscal performance such as improved budget balances, lower debt, and lower public spending volatility (Brändle and Elsener, 2023[23]) (Fall et al., 2015[24]). Additional supervision mechanisms such as a fiscal council with a broader remit could help improve the effectiveness of the fiscal framework (see Chapter 2).

Figure 1.21. Structural non-oil deficits are rising anew



Note: Panel B, volumes, deflated by mainland GDP deflator
Source: Ministry of Finance, Budget 2024; OECD, National Accounts database.

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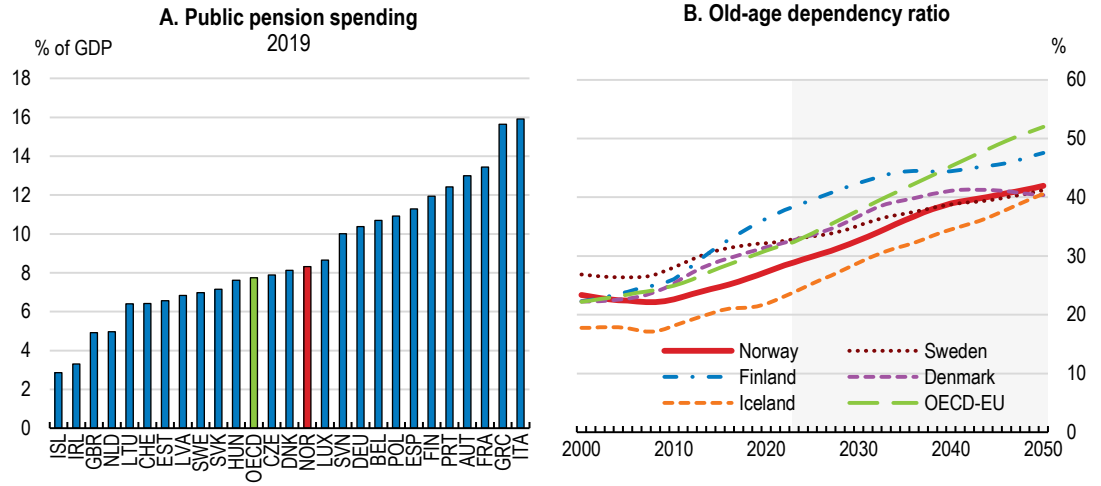
The fiscal cost of ageing will increase further

Norway is relatively young, owing not least to considerable labour immigration. Life expectancy and self-rated health status are among the highest in the OECD, both for men and women, partly thanks to a healthy lifestyle. The work life is rather long with the statutory retirement age at 67 years; participation remains above the OECD average, notably following the post-pandemic recovery; and older workers are well-integrated into the labour force. The pension system is well-diversified, comprising the core pay-as-you go national insurance pension system (*folketrygden*), occupational pension funds and individual tax-favoured savings. Nonetheless, public spending on pensions as a share of GDP exceeds the OECD average (Figure 1.22, Panel A). The 2011 pension reform in the private sector and a similar public sector reform in 2018 increased incentives to remain in work, thereby considerably expanding the fraction of those beyond 62 years in employment (Hernæs et al., 2023[25]). In this context, ageing costs are set to rise less than in many other OECD countries.

Figure 1.22. Norway is getting older



Note: Panel A: total public cash benefits spent on old age and survivors; mainland GDP for Norway. Panel B: number of individuals aged 65 and more divided by the population aged between 15 and 64.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2022), World Population Prospects 2022, Online Edition; OECD, Social expenditure database.

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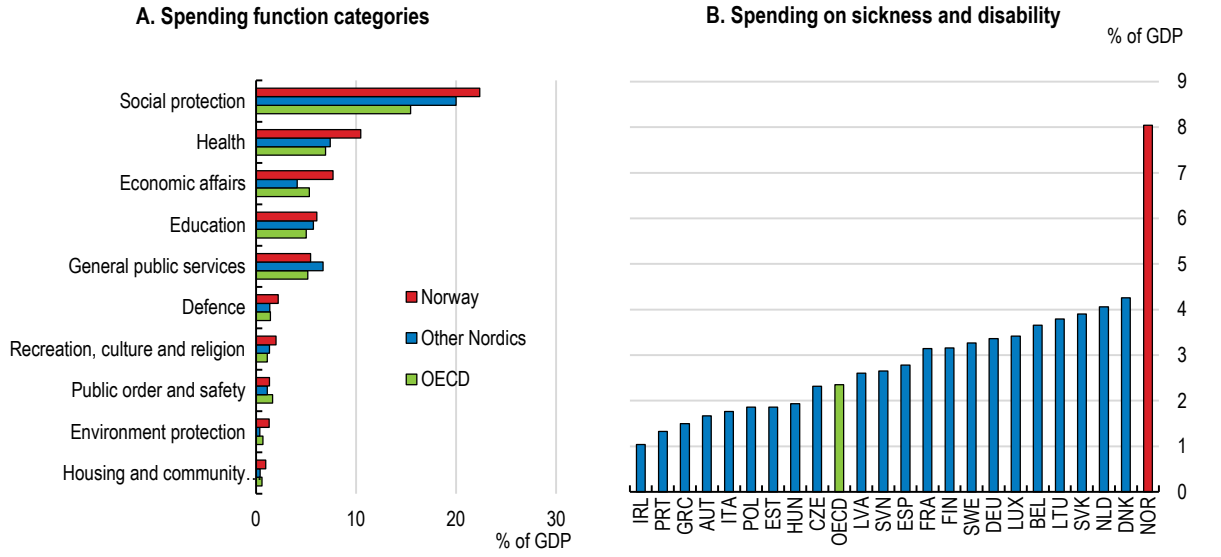
Even so, the country will not escape the economic and fiscal impact of ageing. The old-age dependency ratio is expected to rise as population growth and immigration slow and the share of active cohorts contracts (Figure 1.23, Panel B). The government projects the fiscal cost of ageing to rise by around 2.5% of GDP by 2050, notably because of higher spending on health and long-term care, pensions, and sickness and disability benefits. Some provisions still allow for early retirement without a corresponding lower pension pay-out, although in 2023 the government and social partners agreed to phase out certain early retirement schemes. In March 2024 Parliament adopted a reform to raise the pension age in line with the increase in life expectancy from the 1964 cohort onwards and lift the pensionable age limit in the public sector from 70 to 72 years, largely in line with the proposals of the Committee on pension reform from 2022 (Ministry of Labour and Social Inclusion, 2024[26]). Moreover, the pension system will be evaluated comprehensively every 10 years.

Figure 1.23. Sickness and disability benefits are the most generous in the OECD

General government spending, 2022 or latest



Note: The spending levels do not necessarily reflect overall levels of service, inter alia, due to variation across countries in the degree of private-sector provision particularly in health care and education. There are differences across countries in the use of tax (as opposed to spending) instruments and how transfers are taxed. In both panels, GDP for Norway refers to mainland GDP.
Source: OECD, National Accounts database.

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Pension reform could have a larger than expected economic and fiscal impact as it may reach beyond those directly affected by an increase of the statutory retirement age. Working couples tend to retire at the same time to spend more (leisure) time together after retirement, even if there is a non-negligible age difference between the two. Once the pension age is increased and one partner decides to work longer, the other partner often also decides to remain in work. Around one third of decisions to work longer after the 2011 pension reform seem to be related to what can be named “leisure complementarity” (or, correspondingly, “work complementarity”) rather than to the change in the pension age and related financial incentives for the individual person (Galaasen and Kruse, 2023[27]). Pension reforms could hence have a considerably larger effect on retirement and employment than estimated by models that do not consider this interaction.

The high and rising level of sickness and disability benefits poses a particular problem to the public finances (Chapter 2). Spending on Norway’s sickness and disability system makes up around 22% of total public spending or 8% of GDP, more than in any other OECD country and rising further (Figure 1.23). The current level of sick leave support is very generous, often providing 100% wage compensation. The rate of

sickness leave, notably long-term absence, has increased since the pandemic. Long-term absences do not only create a burden on the public finances but severely increase the risk of dropping out of the labour market, and they are a pathway to early retirement. As sickness and disability benefits are widely recognised as in need of reform, an Increasing Employment Committee presented a set of proposals in 2021, notably strengthening participation obligations and extending the period of employer funding to incentivise employers to bring employees back to work. The government should follow up on these proposals to help people reintegrate into the labour market. A potential model could be the Danish work-oriented "flexjob" scheme (Chapter 2, Box 5), designed to assist individuals with reduced work capacity and allowing employers to adapt job tasks to accommodate employees' abilities, with the government subsidising wages for reduced work hours (OECD, 2019[28]) (NOU, 2021[29]).

Overall, Norway's long-term fiscal profile is to a large extent shaped by the expected contraction of petroleum revenues and decline of the value of the oil fund as a share of mainland GDP (Figure 1.9). Also, population growth implies that Fund revenues must be distributed across a larger population, thereby covering a smaller proportion of total public expenditure (Figure 1.24). In an update of the baseline scenario developed by the Ministry of Finance in 2021, with growth remaining low due to persistently low productivity, gross government assets would reach around 420% of GDP by 2030 and then gradually fall. Correspondingly, to comply with the 3% fiscal rule, structural non-oil deficits would have to fall from currently 12.5% of potential GDP to around 9% by 2060, assuming a constant non-oil tax-to GDP ratio. Lower returns to the Fund and a smaller cash-flow from petroleum activities would accelerate the decline of the Fund's value as a share of mainland GDP and imply even lower structural non-oil deficits. Past recommendations and actions taken with respect to monetary, financial and fiscal policies are summarised in Table 1.4, and the fiscal impact of recommended reforms is shown in Box 1.4.

Box 1.4. Quantifying fiscal policy recommendations

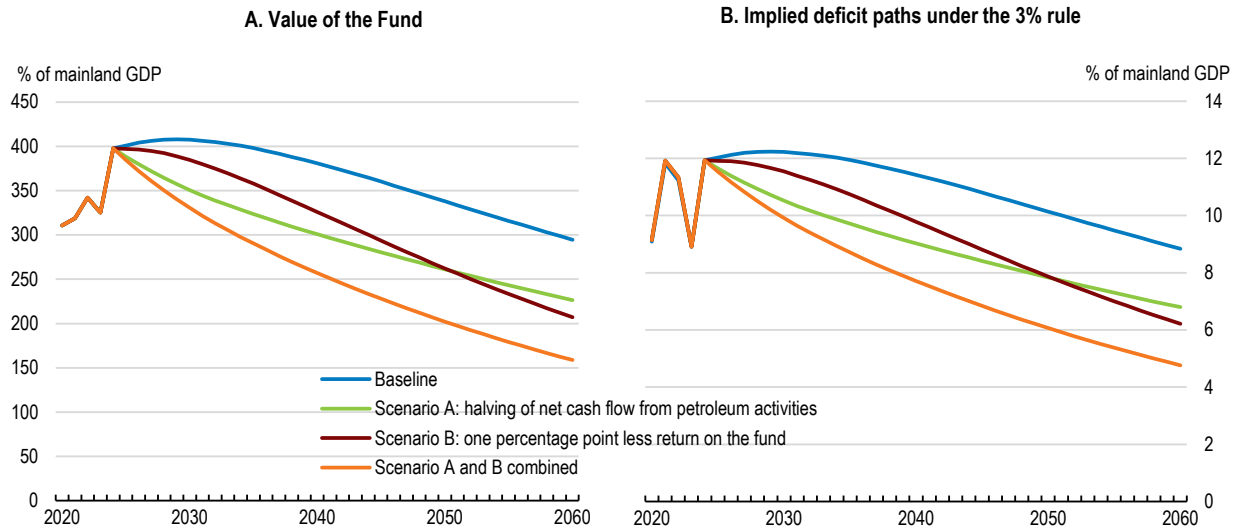
The following estimates roughly quantify the fiscal impact of selected recommendations within a 5 to 10-year horizon, using simple and illustrative policy changes. The reported effects do not include behavioural responses and growth effects.

Table 1.3. Illustrative fiscal impact of recommended reforms

Recommendation	Policy measure	Impact on the fiscal balance, % of GDP
Reduce income and wealth tax	Reduce income tax rate by 5% for all income groups and increase the basic allowance in the wealth tax.	-1.6
Taxation of housing	Tax imputed rents at the ordinary 22% income tax rate and increase wealth tax valuations for owner-occupied dwellings to align with the 20% discount rate applied to shares and commercial property in 2023	1.8
Reduce sickness and disability benefits	Reduce disability benefit recipients from 10% of working age population to 7%, and sickness absence from around 17 to 11 days per employee per year	2.5
Total fiscal impact		**+2.7**

Note: The recommendation related to improving education outcomes is included in the structural quantification, but its fiscal impact cannot be quantified.
Source: OECD own calculations.

Figure 1.24. The value of the Fund as share of mainland GDP is likely to decline



Note: The scenarios are an update of the estimates in the previous OECD Economic Survey of Norway in 2022, which were based on Ministry of Finance estimates from 2021. New Ministry of Finance estimates were under preparation at the time of writing.
Source: Calculations based on Ministry of Finance data.

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Table 1.4. Past recommendations and actions taken in monetary, financial, and fiscal policies

Recommendations	Actions taken
Monetary and financial policies	
Maintain a close watch on price and wage inflation and continue to normalise monetary and fiscal conditions.	Monetary policy has been tightened.
Stand ready to tighten macroprudential tools if strong house-price growth resumes.	The debt-servicing capacity requirement has been tightened.
Consider a measure for imputed rents in the consumer price index that more fully reflects housing market developments.	No action taken.
Improve data on price developments in commercial real-estate, given the sector's importance to banks' balance sheets.	Norges Bank provides more granular insight into banks' exposure to CREs.
Fiscal policy and public finance	
Retain a prudent approach to fiscal budgeting in the coming years.	Fiscal policy has been slightly expansionary over the past years.
Consider augmenting the fiscal system with a medium-term expenditure framework.	Preparatory work to consider introducing a medium-term expenditure framework has started.
Use more productivity-enhancing measures in public services, including spending reviews. Use cost-benefit analysis more extensively in public investment and retain the pruning of budget allocations through "efficiency dividends".	In 2023 the Ministry of Finance published a general framework for spending reviews. The "efficiency dividend" budget reform has been abandoned.
As a general principle of tax reform aim to reduce reliance on the more distortive forms of taxation, especially labour income tax.	Marginal tax rates on low and medium incomes have been reduced, while they were increased for those with high wealth.
Reconsider the use of across-the-board cuts in electricity taxation and subsidies that benefit high, as well as low-income households to address concerns about the cost-of-living effects of price increases.	No action taken. The electricity subsidy scheme for all households has been extended to end-2024.

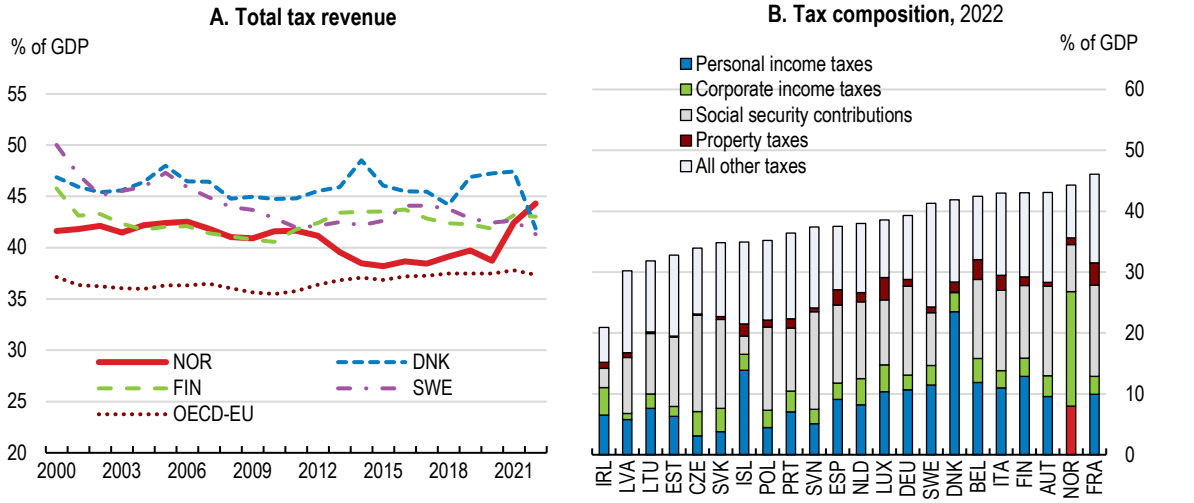
Revenues rely strongly on natural resource taxation

Norway's tax burden is among the highest in the OECD. Unlike most other countries, the tax system is heavily geared toward revenues from natural resource taxation, notably from the petroleum sector (revenues from the latter go to the Fund rather than the state budget). The corporate income tax rate currently stands at 22% and maintaining it at a low level has been a perennial objective of governments of different colour, because business taxes tend to reduce investment, distort financing towards debt and

have unclear distributional consequences (NOU, 2018[30]). At less than 0.5% of GDP, taxation of immovable property plays a marginal role, as municipalities are allowed but not obliged to levy this tax, and around 10% do not (however, immovable property is subject to the central government wealth tax). After a gradual decline over the past decade or so, overall taxation levels have been climbing again, mostly because of large increases in petroleum revenues (Figure 1.25).

Tax reforms since 2022 have made the tax system more equitable but also increased overall tax pressure. Marginal tax rates on low and middle wage income have been reduced, thus encouraging increased labour supply, and the basic allowance has been significantly increased. Total taxes on high wage income were somewhat increased by broadening income brackets, while tax rates were kept unchanged. This supports middle- and lower-income households' disposable incomes, thereby addressing concerns about cost-of-living pressures. Wealth taxation was increased while the tax allowance was expanded, strengthening progressivity. Following these tax hikes, the marginal tax rate on savings and investment is high and could - since wealth taxes weigh upon capital instead of returns - lie above 100% if returns are low (NOU, 2022[31]). A new resource tax on aquaculture was introduced in 2023 and one on wind power in 2024, mirroring the taxes on hydropower in place since 1997 (Amundsen, 2024[32]). Subsidies for electric cars were scaled down in 2023 as VAT relief for cars above NOK 500 000 or around EUR 45 000 ("Tesla rebate") was abolished. In line with proposals of the Tax Commission, Norway should further reduce income taxes, notably for low incomes, to increase work incentives. It should also reduce the net wealth tax by expanding allowances and/or reduce tax rates, to spur investment in small and family businesses, while taxing all assets at market prices.

Figure 1.25. The tax take is on the rise and heavily geared towards natural resource taxes



Note: Panel A: OECD-EU stands for the unweighted average of 22 OECD countries that are EU members. Panel B: all other taxes include VAT, other taxes on goods and services and taxes that cannot be allocated across categories.
Source: OECD, Global Revenue Statistics database.

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The taxation of owner-occupied housing remains among the lightest in the OECD, as shown in the previous OECD *Economic Survey of Norway* (OECD, 2022[8]), contributing to high housing demand and house prices. Norway, contrary to most other countries, allows mortgage interest deductions with no corresponding taxation of imputed rent accruing to owner-occupied dwellings. Norway also charges no capital gains tax on the sale of primary residences. Finally, housing wealth is taxed more lightly than other wealth and capital. As such, the marginal tax rate on a debt-financed primary residence is negative (i.e., the return to debt-financed homeownership is *higher* after taxation than before it). No housing tax reforms were introduced since the previous *Survey*, except for a somewhat higher net wealth taxation of primary residences above a certain value and taxation of secondary homes at 100% of market value. The

government should follow the proposals of the Tax Commission in 2022 to reform housing taxation, notably to introduce a tax on imputed rent on owner-occupied dwellings or to phase out deductibility of mortgage interest payments. Successful reform in other OECD countries may also provide inspiration (Box 1.5).

Box 1.5. Reforming the taxation of housing: OECD country experience

Norway is among the countries that boost housing demand through generous mortgage interest relief. Phasing that out can reduce house prices by substantial amounts in countries where supply lacks flexibility because much of the value of mortgage interest relief gets capitalised into land prices. In Denmark, scaling back the mortgage interest rate deduction has reduced equilibrium house prices and household indebtedness. Similarly, studies in the United States show that eliminating mortgage interest relief reduces house prices and increases homeownership. In the long term, lower house prices make housing markets more inclusive by facilitating homeownership of a wider share of the population and by driving down rents. In the medium term and before prices adjust, phasing out mortgage interest relief comes at a loss to homeowners who benefited from the tax advantage. The resulting political economy challenge means that countries that have reduced or eliminated mortgage interest relief have typically done so gradually (France, the Netherlands, the United Kingdom).

The Dutch tax system was long offering exceptionally favourable conditions to homeowners with large mortgages, while applying substantial levies on housing transactions. Reforms have brought several benefits. *First*, reducing the favourable tax treatment of mortgage-funded homeownership lowered household indebtedness, contributed to greater economic stability and resilience, while also curbing house price increases. *Second*, lowering transaction taxes made the housing market more fluid, facilitating residential mobility and labour reallocation. The two reforms went well together in a tax package, as they had opposite effects on overall tax revenues. In addition, a series of measures have gradually narrowed the favourable treatment of mortgage borrowing under the personal income tax. A significant first step taken in 2013 was to restrict interest relief to mortgages that must be reimbursed over time. Tax relief was excluded for “balloon mortgages” where much or all of the principal is repaid at the term in a lump sum and which had contributed to very high household indebtedness. A further reform was launched in 2014 to reduce the maximum mortgage relief rate by 0.5 percentage point per year until 2040 (from a starting point of 52% in 2014). In 2017, the government decided to accelerate this phase-out, taking it to 3 percentage points a year from 49% in 2020 to 37% in 2023.

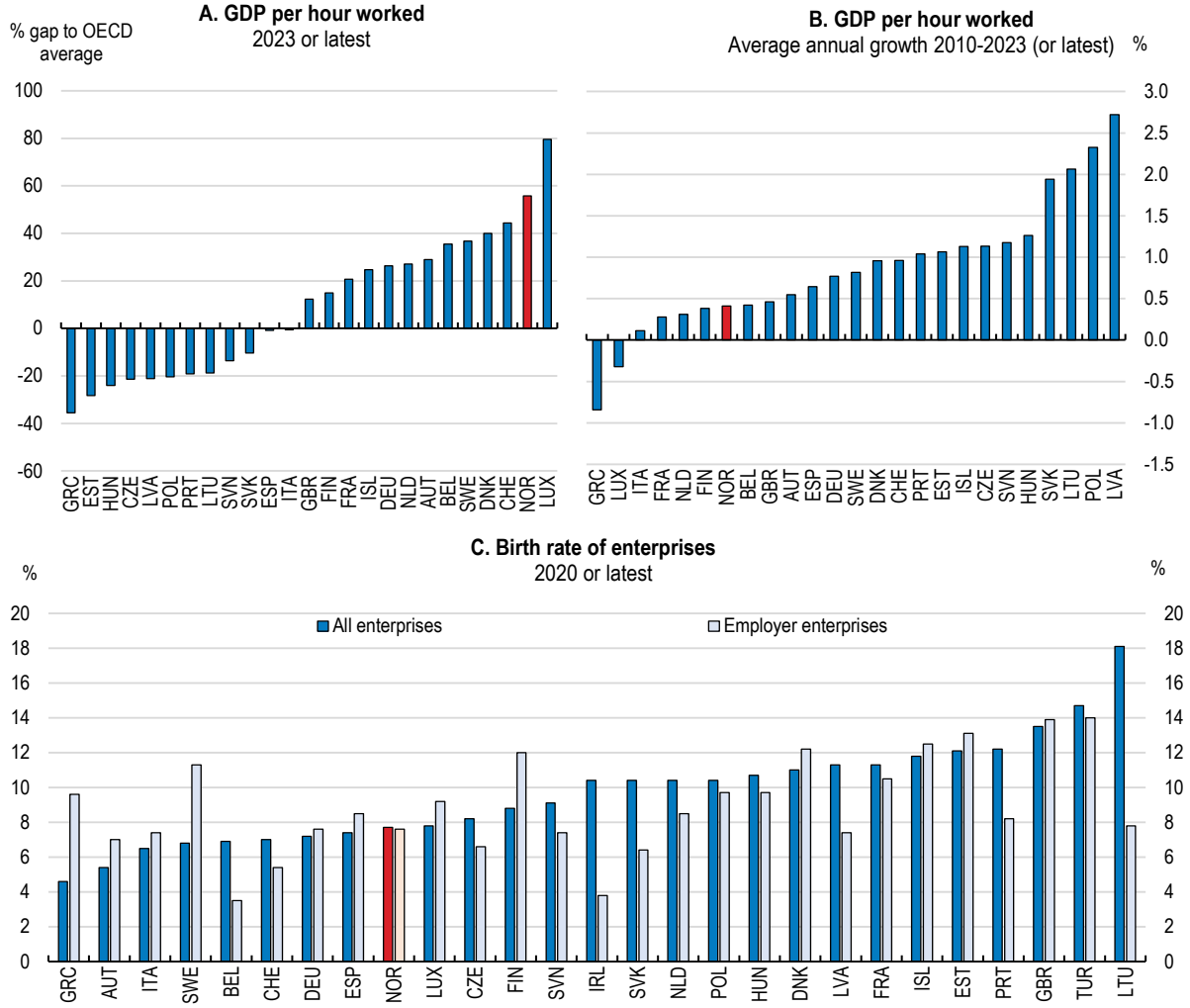
Source: (OECD, 2021[33]), (OECD, 2023[34]).

Productivity growth should be strengthened

Productivity growth is lacklustre and firm dynamism weak

Norway is one of the most productive countries of the OECD, but at around 0.5% per year productivity growth is clearly below the OECD average of around 1% (Figure 1.26). Without oil, productivity growth would have been even lower (it was around 0.8% in the oil sector). Moreover, the share of employment in startups is below other Nordic countries except Sweden, and post-entry growth of firms among the lowest, suggesting weak business dynamism (Calvino, Criscuolo and Menon, 2016[35]). Against this background, Norway needs to develop a policy framework that enables the growth of new productive sectors less connected to extraction. Policy support should include improvements to the general legal and administrative environment for businesses. This will enhance the overall responsiveness of the business sector to changing conditions, and encourage competition, innovation, and the adoption of new technologies, as pointed out in the previous OECD *Economic Survey of Norway* (OECD, 2022[8]). Structural reforms aimed at raising productivity could help raise Norway’s per capita income level by up to 8% (Box 1.6).

Figure 1.26. Productivity growth has been lacklustre, and firm dynamism is rather weak



Note: Panel C, birth rate refers to the number of enterprise births in the reference period (t) divided by the number of active enterprises in t.
Source: OECD, Productivity database; OECD, Structural and Demographic Business statistics.

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The economic development is uneven across Norwegian regions, with productivity gaps widening between regions (Figure 1.27). Moreover, population has barely grown in Northern areas. As in other OECD countries, economic geography seems to be driven by economies of agglomeration, with Oslo being richest and attracting more people (Glaeser, 2008[36]). For a long time, the government has been fostering incentives for people and business to locate in the Northern counties, notably by increasing public investment, improving public services, reducing taxation, and, since 2021 exploring multi-level agreements with selected municipalities to promote local development. Initiatives to foster a green industry sector are supported by abundant clean energy supply (see section below on the power market). While some policies can indeed help reduce population decline and support productivity, experience with place-based policies and their effectiveness is mixed, and they can be costly (Chapter 2) (Rawdanowicz and Millot, forthcoming[37]).

Box 1.6. Quantifying structural reforms

Selected reforms proposed in this *Survey* are quantified in the table below, using simple and illustrative policy changes and based on both cross-country and single-country regression analysis. Some reforms are not quantifiable under available information or given the shape of the policy design. Most estimates rely on empirical relationships between past structural reforms and productivity, employment, and

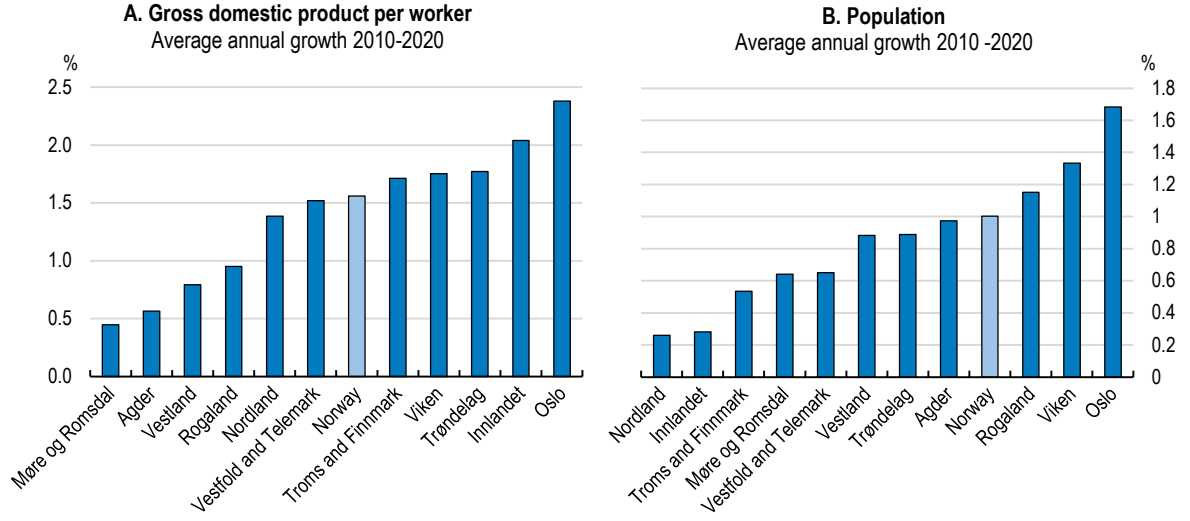
investment, assuming swift and full implementation. They do not reflect specific settings in Norway. Hence, the estimates are merely illustrative, and results should be interpreted with care.

Table 1.5. Potential impact of structural reforms on per capita income

Policy area	Measure	10-year effect, %
Reduce sickness and disability benefits	Reduce disability benefit recipients from 10% of working age population to 7%, and sickness absence from around 17 to 11 days per employee per year	2.1
Reduce income and wealth tax	Proportional reduction of income tax by 5% for all income groups and introduction of higher allowances in the wealth tax	1.3
Improve education outcomes	Improve PISA scores sustainably by 20 points to reach the OECD average	1.8 to 3.5
Housing	Tax imputed rents at the ordinary 22% income tax rate and increase wealth tax valuations for owner-occupied dwellings to align with the 20% discount rate applied to shares and commercial property in 2023	0 to 1.8

Source: OECD calculations based on (Égert and Gal, 2017[38]), (Cournède, Fournier and Hoeller, 2018[39]), and (Egert, de la Maisonneuve and Turner, 2023[40]).

Figure 1.27. Population and economic growth is concentrating in southern agglomerations



Note: In Panel A, offshore activity on the continental shelf is excluded.
Source: OECD, Regional Statistics.

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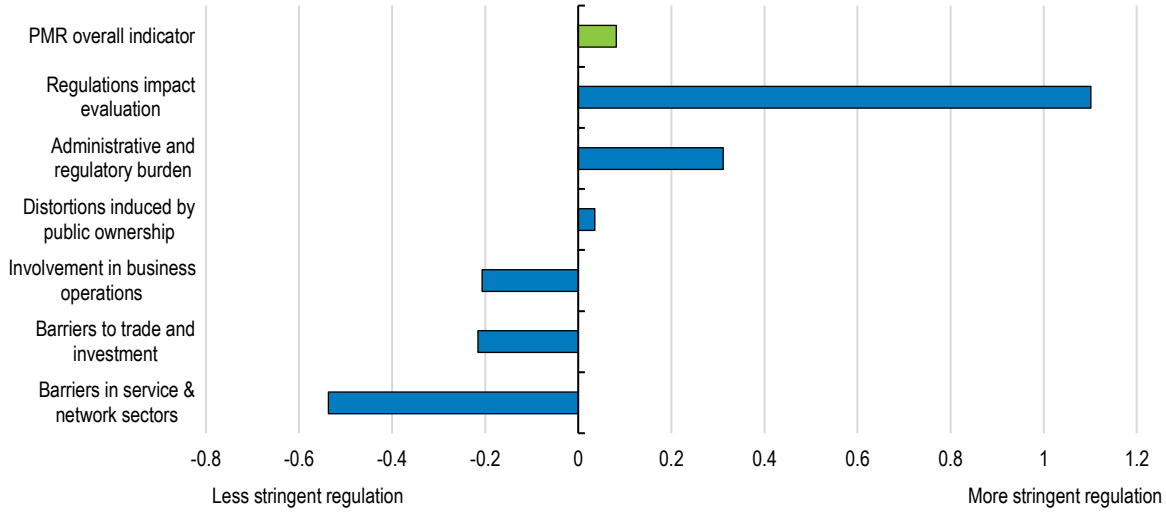
The business climate is average, but administrative burdens are high

Norway's business climate is close to the OECD average, as shown by the provisional vintage of the new OECD indicators of product market regulation stringency. However, differences are large across dimensions (Figure 1.28). The scope of public ownership is slightly above average, owing to the prevalence of large state-owned enterprises (SOEs) in the energy and extraction sectors, although SOEs are well-governed. The state is less involved in business operations than in most other countries, and barriers to trade and investment as well as barriers in the network sectors are low. However, the administrative burden for both incorporated and personally-owned firms is above the OECD average, and the periodic evaluation of existing regulations (regulatory assessment) is weak. Against this background, the government should focus on the evaluation and reform of the administrative framework to run businesses, to help raise productivity, foster innovative start-ups, and speed up economic diversification.

Figure 1.28. Product market regulation is slightly more stringent than in the average OECD country

Product Market Regulation, difference to OECD average, 2023



Note: A positive sign means more stringent regulation than in the average OECD country. A negative sign means less stringent regulation.
Source: OECD 2023 Product Market Regulation indicators.

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A case in point are the insolvency procedures which can still be relatively long and cumbersome. The insolvency framework was temporarily eased during the Covid-19 period to facilitate the restructuring of firms in financial difficulties. The government should make those changes permanent and continue reforming the insolvency framework, to help viable firms prosper while helping unviable ones to leave the market and reallocate labour and capital to more productive uses (André and Demmou, 2022[41]). Past reform recommendations and actions taken to strengthen productivity and employment since the previous OECD *Economic Survey of Norway* are shown in Table 1.6.

Table 1.6. Past recommendations and actions taken to strengthen productivity and employment

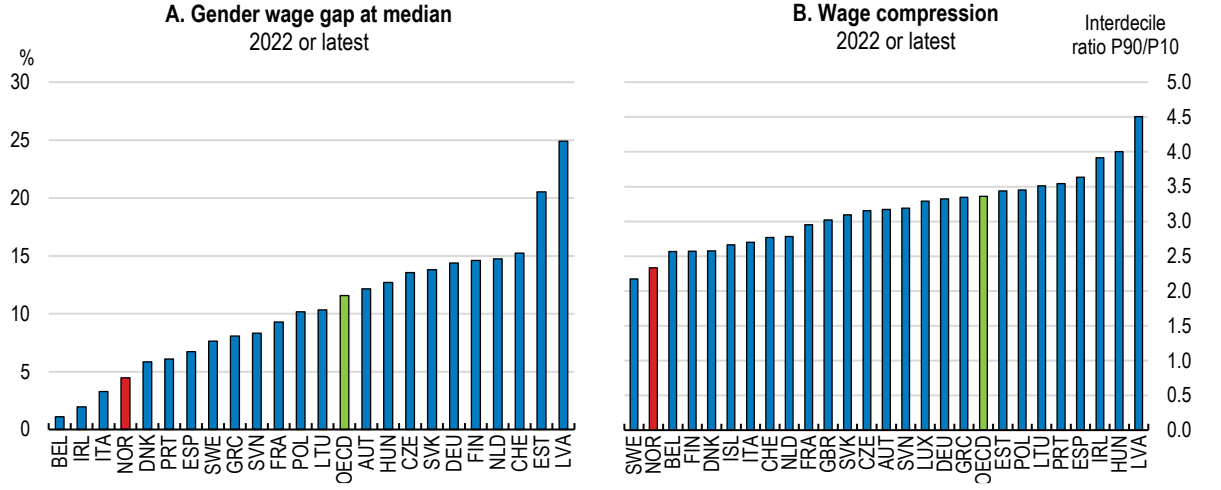
Recommendations	Actions taken
Improve insolvency procedures through better routes to recovery for businesses in difficulty, including lighter penalties for failed entrepreneurs.	Temporary measures, some wide-reaching, introduced during the Covid-19 pandemic have been continued. No changes regarding personal bankruptcy.
Continue to tackle weak points in business efficiency including through re-orienting agriculture support away from the most economically distorting forms of support, including import tariffs.	No action taken.
Strengthen incentives to reduce sick-leave absences, including through lowering sick-leave compensation and by extending employers' participation in funding.	No action taken.
In disability benefits, in addition to retraining and other support, apply eligibility rules more strictly and strengthen treatment and rehabilitation requirements.	No action taken.
Continue to align special pension provisions for groups such as nurses, national defence and the police with the mainstream pension system.	In 2022, the early mandatory retirement age for police, nurses and firefighters was removed. In 2023, the government and social partners agreed to reform the early retirement scheme, implying that the early retirement age will increase in line with life expectancy. The possibility to quit three years before the early retirement age will be phased out.
Index age dimensions of the pension system to life expectancy, such as the retirement-age range of 62 to 75 years.	There is broad agreement in the Norwegian Parliament to index age dimensions of the pension system to life expectancy. This could start in 2026 for those born in 1964.

Wage agreements foster high employment, and wage dispersion is low

Wage agreements tend to help strengthen employment and avoid a wage-price spiral thanks to a highly-coordinated wage bargaining mechanism (Kolsrud and Nymoen, 2023[42]) (Gjelsvik, Nymoen and Sparrman, 2020[43]). National wage formation is based on pattern wage bargaining, where collective bargaining in the wage-leading manufacturing sector defines a norm for the negotiations that take place in the rest of the economy and the public sector (wage-following). While there are no regulations in the labour legislation preventing different sectors or individual firms from deviating from agreements established by the manufacturing sector, social partners have historically complied with the central agreements as the model has broad societal support. The Norwegian wage setting pattern tends to foster high employment rather than high wages. Overall, the Norwegian model has worked well in a context of a relatively stable industrial structure. It tends to come under pressure from disruptive industries like AI-based technologies with the power to undermine pattern wage bargaining.

Differences in wages across sectors and corporate hierarchy are among the lowest in the OECD, as are differences between wages for men and women, reflecting a high degree of equality of opportunity for workers (Figure 1.29). Wage compression fosters social and economic integration and reduces pressure for (costly) redistribution. However, low wage dispersion might have implications for innovation and skills development as workers have few incentives to move from low to high-skill productivity sectors. Moreover, a flat wage curve might discourage pursuing higher education (or encourage studying for pleasure rather than a new job), as investing in human capital and knowledge-intensive activities and sectors hardly pays off. The system relies on high unionisation and has come under threat from labour immigration as immigrants often accept lower wages and tend not to be covered by collective agreements, unlike most native workers. Therefore, union coverage in certain sectors has been decreasing quite rapidly, opening the way for stronger wage differentiation.

Figure 1.29. Wage dispersion is very low



Note: Panel A, difference in hours worked between men and women in full-time dependent employment; Panel B, gross monthly earnings of full-time employees, excluding apprentices, working in enterprises with 10 or more employees.
Source: OECD, Labour Force Survey – gender wage gap; OECD, Labour Force Survey – decile ratios of gross earnings.

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Keeping trust and integrity high

The quality of institutions is a fundamental determinant of productivity and economic growth. Good governance encompasses the rule of law, government accountability and effectiveness, political stability, trust in governmental institutions, regulatory quality, corruption control and transparency. Evidence suggests that well-functioning public institutions gain higher public trust which in turn can lead to more

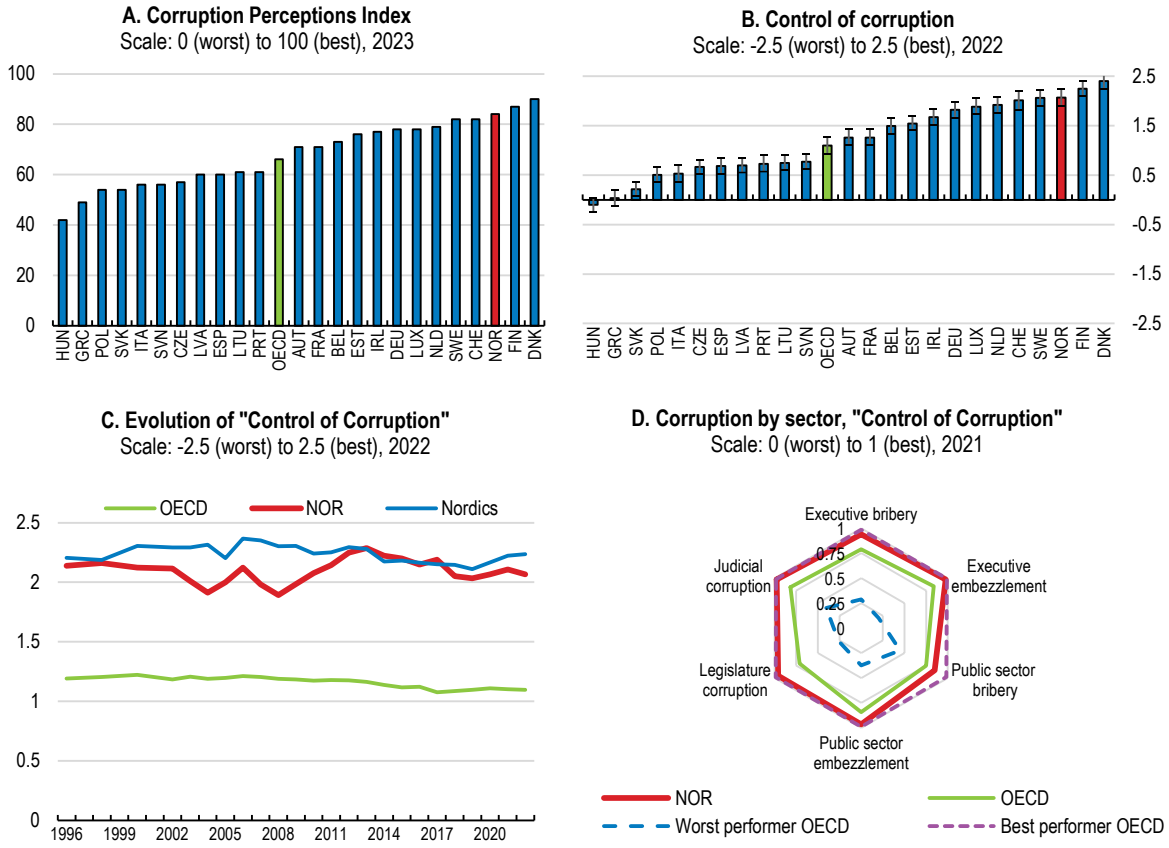
efficient governance, and that corruption undermines institutional quality, erodes trust, increases costs and risks for businesses, thereby distorting the efficient allocation of resources (Acemoglu and Robinson, 2010[44]). Overall, some of the highest institutional quality in the world and high trust in national and local governments, the civil service, and the legal system are underpinning Norway's position as a good place to live and do business (OECD, 2023[45]). Table 1.7 summarises past recommendations and action taken to address public integrity since the publication of the previous OECD *Economic Survey of Norway*.

Table 1.7. Past recommendations and actions taken to strengthen public integrity

Recommendations	Actions taken
Further investigate whether property registration needs to be tightened to contain money laundering through property purchase.	Public authorities' needs for information on ownership of shares and property have been mapped. A White Paper on preventing and combatting economic crime has been presented to Parliament in March 2024, including a proposal on how compulsory registration of real estate could be introduced.
Check that processes for tracking and checking lobbying of officials and policymakers by business are adequate.	No major legislative measures. However, several high-profile administrative initiatives have been taken in individual institutions related to corruption and conflicts of interest.
Continue efforts to eliminate corruption, for instance through encouraging local authorities' efforts to combat corruption, and the provision of well-functioning whistle-blower channels.	No major legislative measures. However, several high-profile administrative initiatives have been taken in individual institutions related to corruption and conflicts of interest.
Increase the clarity of corporate liability for offences committed by related entities (e.g. subsidiaries or joint ventures) and bring more transparency when foreign bribery matters are resolved out of court.	Work is ongoing in the responsible agency to address this recommendation. Since July 2022, the Transparency Act requires comprehensive reporting by medium and large firms.

Even so, Norway is not without corruption risk. Indicator values measuring control of corruption are declining slightly, with the difference to other Nordic countries widening (Figure 1.30). Relatively poor scores for corruption in the public sector suggest that some regulations and practices, notably regarding public procurement, could open the door to corrupt practices. Corruption remains an issue in local governments, where efforts to eliminate misconduct need to continue. The authorities also note that unlawful practices are increasingly shifting to the digital world, with internet fraud expanding rapidly, like in other countries (ØKOKRIM, 2022[46]). Norway is about to set up a register of beneficial rights owners, which is aimed at preventing unlawful use of companies and other legal entities. Against this background, public integrity should remain a guiding principle in the government's anticorruption policies, and efforts should continue to weed out instances of poor practice, given their role in maintaining trust and a good business climate.

Figure 1.30. Norway has high-quality institutions, but control of corruption remains important



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B and C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy; Project, V-Dem Dataset v12.

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Fostering strong and relevant skills

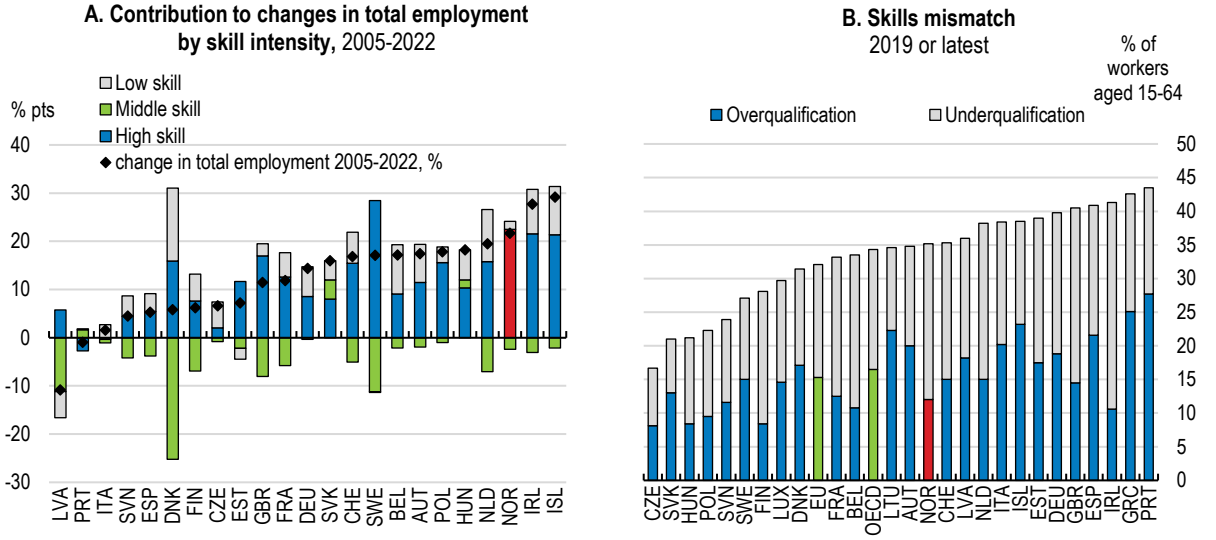
Skills mismatch is considerable

Skills are widely regarded as a fundamental determinant of long-term growth, as differences in multi-factor productivity are strongly driven by differences in the quality of human capital in a country (Egert, de la Maisonneuve and Turner, 2023[40]). The increasing economic importance of knowledge, for instance in the areas of digitalisation or green transition, is projected to raise the returns to skills further. Policymaking should be concerned with both strengthening the overall stock of human capital ("strong skills") and aligning that stock with labour market needs ("relevant skills"), thereby avoiding skills mismatch. Indicators from the latest OECD Survey of Adult Skills (PIAAC) suggest that higher skill and qualification mismatch is associated with lower labour productivity (OECD, 2019[47]). Over-skilling and under-qualification account for most of these impacts, notably because more productive firms find it difficult to attract skilled labour.

Norway's skill profile is evolving rapidly. Over the past two decades, growth of the labour force was mainly driven by demand for high-skilled workers, while demand for medium-skilled workers declined (Figure 1.31). Only 9% of jobs are in the low-skilled category today, the lowest share in the OECD. Shortages of skilled labour have become more acute. Measured by national indicators, labour shortages

have more than tripled between 2016 and 2022, particularly in the technical and health sectors (Ministry of Education, 2023[2]). In 2023, around one third of Norwegian employers had tried to recruit during the past three months without success. Occupations that require a vocational or higher education qualification, such as engineers, technicians, medical professionals, teachers, and managers, are among the most difficult to fill. A lack of skilled car mechanics threatens continued maintenance of the large and growing fleet of electric cars (de Prez, 2020[48]).

Figure 1.31. Skills should be better aligned with labour market needs



Note: Panel A: high-skill occupations are managers, professionals, and technicians and associate professionals; medium-skill occupations are clerical support workers, skilled agricultural workers, craft and related trades workers and plant and machine operators and assemblers; low-skill occupations are service and sales workers, and elementary occupations. The armed forces and non-responses are not shown.
Source: Eurostat, Labour Force Survey; and OECD, Skills for Jobs database.

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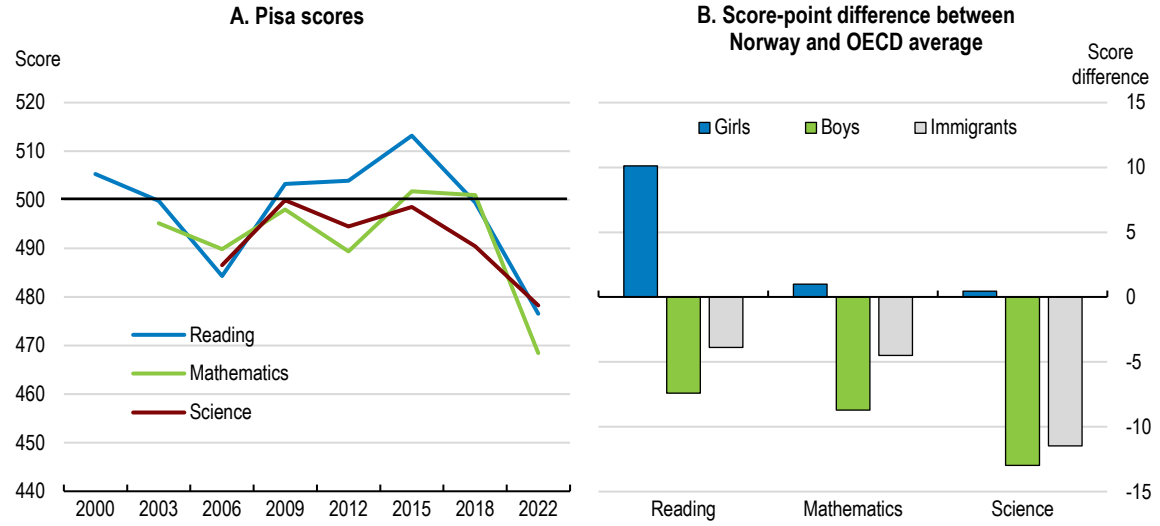
Policy has reacted to the rapidly changing skills and labour market challenges. In 2017 a Skills Needs Committee, along with a Skills Policy Council (*Kompetansepolitisk råd*) made up of social partners, was established to analyse and discuss skills policy issues. In 2023 a White Paper detailed a set of policy steps to upgrade skills for a productive economy, the green transition and high-quality welfare services. The government plans to get more people to work by developing a closer cooperation between the counties and the labour market authorities; making it easier to get student loans for short courses; and continuing to invest in a flexible and decentralized education system (Ministry of Education, 2023[2]). An education policy reform ("Completion Reform") for upper secondary education to be legislated in August 2024 introduces the right to completion and retraining and codifies schools' obligation to reduce absenteeism.

Foundational skills are declining to a worrying extent

The quality of compulsory education as measured by PISA has declined to a worrying extent since 2015 (Figure 1.32). The recent deterioration does not solely reflect the deleterious impact of the Covid-19 pandemic. Indeed, Norway featured above the OECD average between the 2009 and 2018 waves but is now considerably below the OECD average of around 500 points. Gaps in student performance between different socio-economic and ethnic groups, as well as between girls and boys, remain wide (see Chapter 2). Even if girls are more avid readers than boys in virtually all OECD countries, the gender difference in Norway is especially large. Immigrant students, notably boys, fare worse than native students. But differences between schools are very low, suggesting uniform school quality across the country independent of school size or location, and the role of socio-economic background for success is among the lowest in the OECD (OECD, 2023[49]).

Figure 1.32. PISA results have declined sharply



Note: The score of 500 is the normalized average of all participating countries.
Source: OECD, PISA 2022 results.

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Norway has progressively reacted to the declining quality of compulsory education. In 2020, the country implemented a new core curriculum in primary and secondary education, to help students better adapt to future skills needs. Generic competences like critical thinking and problem solving were integrated into the subject curricula. There now seems to be a stronger connection between the core principles of education and subject curricula, and subjects have become more practical and exploratory. The education reform, to come into force in summer 2024, strengthens the responsibility of the counties, notably with respect to a seamless transition to non-compulsory education, offers more career counselling and strengthens absence control. These initiatives are welcome and could help lift foundational skills again. They should be complemented by policies addressing the high within-school differences (see Chapter 2).

Vocational education and training could be made more attractive

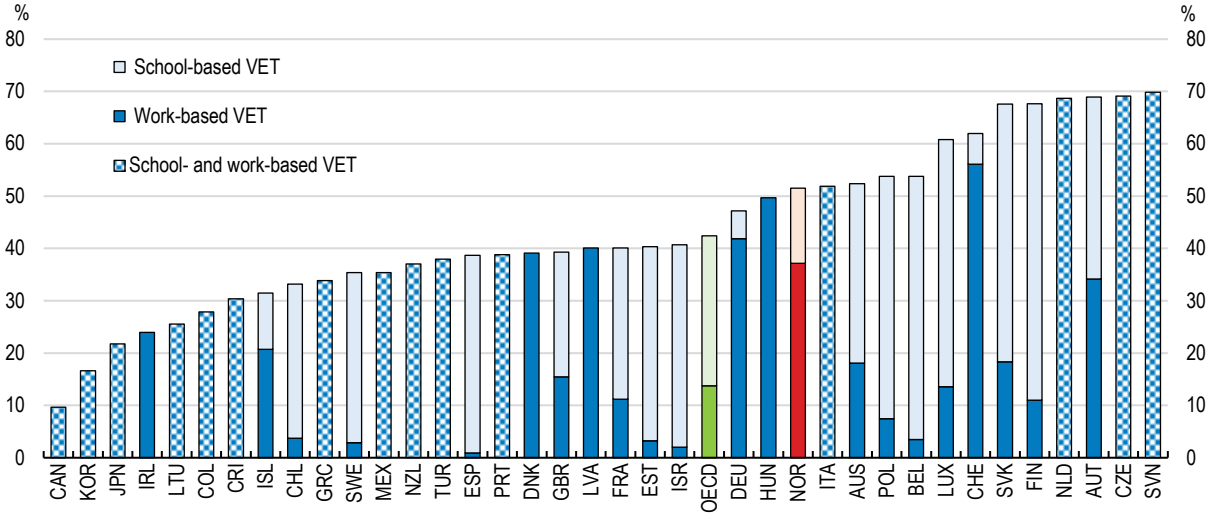
Norway has a well-established track of vocational education and training (VET). Around half of upper-secondary students start a vocational track, where courses of study are typically shorter, partly explaining Norway's relatively low ranking in terms of years at school. The VET system relies strongly on work-based learning (apprenticeships, sometimes called "dual system"), making it strongly labour-market driven as employers and professional associations actively shape learning and skills (Figure 1.33). Norway's VET programmes start with two years of schooling, followed by a two-year apprenticeship. Firms receive a grant intended to cover the cost of the first year of the apprenticeship. Employers resist an earlier start of apprenticeships - which is common in most other countries with a dual system - arguing that younger students are not sufficiently productive. In 2023, around 5 600 applicants or 20% of VET students had not received an apprenticeship. As such and unlike in countries with strong VET like Denmark, Germany or the Netherlands, the labour market test comes in rather late, potentially explaining relatively large mismatch and high dropout rates.

Some policy initiatives to widen the appeal of upper-secondary VET started in 2021, based on the Employment Commission's recommendation that more young people complete upper secondary education. In 2021 the number of upper secondary vocational programmes was extended from eight to ten, and several were adapted to better fit labour market needs. The education reform to be enacted in 2024 will provide students with an entitlement to upper secondary education until completion, and a broader access to professional trade certificates (see above). In addition, the reform will modularize

training to make it easier for adults to gain a competence and complete a training they have started but interrupted previously. In late 2023 the government increased financial support for internships in the health sector, notably in institutions in the north of the country. These initiatives are welcome, as they are likely to increase the level and relevance of skills.

Figure 1.33. Norway has a well-established VET system

Students in work- and school-based learning, share in upper-secondary education, 2021



Source: OECD, Education at a Glance database.

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Norway's VET system lacks a comprehensive tertiary level as it offers relatively few progression opportunities for apprentices graduating from upper-secondary VET. Tertiary VET studies do not exceed two years, and programmes are not classified as higher education (although there are some pathways for upper-secondary VET students to get access to universities), unlike the VET universities ("*Fachhochschulen*") in Germany or Switzerland for instance. As such, tertiary VET accounts for around 10% of university students only, which is low given the high share of upper-secondary VET. With reputation of the short cycle relatively low, many students who complete upper secondary VET choose to pass academic exams to be admitted to universities and university colleges, thereby extending study times. Against the background of labour market needs for more higher-level technically skilled workers, the government should gradually develop a fully-fledged tertiary vocational track. This track can be made more attractive by either extending the existing short-cycle programmes, or by opening direct access for secondary VET students to the university colleges, notably those that offer studies in the technical areas or in health care (OECD, 2022[50]). Expanding tertiary VET could also help reduce late transfers to the general track, reduce drop-out rates and shorten study length.

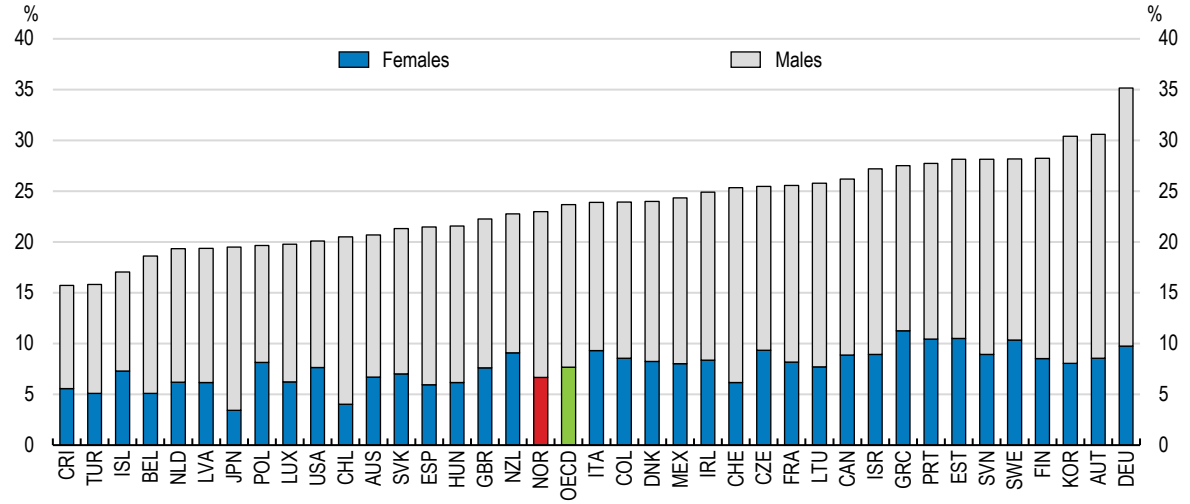
Tertiary education needs more labour market relevance

Norway should continue to enhance the labour market relevance of its tertiary education sector, relying on earlier reform success. Several reforms have been passed since the launch of Norway's skills strategy in 2017. Most intended university mergers have been completed, which helps reach quality linked to economies of scale and scope. A development-agreement process across institutions was completed in 2019 and new development agreements are now in place for the period 2023-26. Tertiary institutions enjoy large autonomy to define academic content, course design and hiring of staff. Despite these reforms and the rapid expansion of the technical and health areas over the past few years, skills mismatch remains considerable. Moreover, female participation in STEM remains lacklustre, suggesting low attractiveness of

these studies for women (Figure 1.34). Also, the business sector is hardly present in tertiary education, potentially weakening its labour market relevance.

Figure 1.34. Relatively few tertiary students graduate from STEM areas, especially women

In 2021



Note: STEM refers to engineering, manufacturing and construction; information and communication technologies (ICTs); and natural sciences, mathematics and statistics.

Source: OECD Skills for Jobs database.

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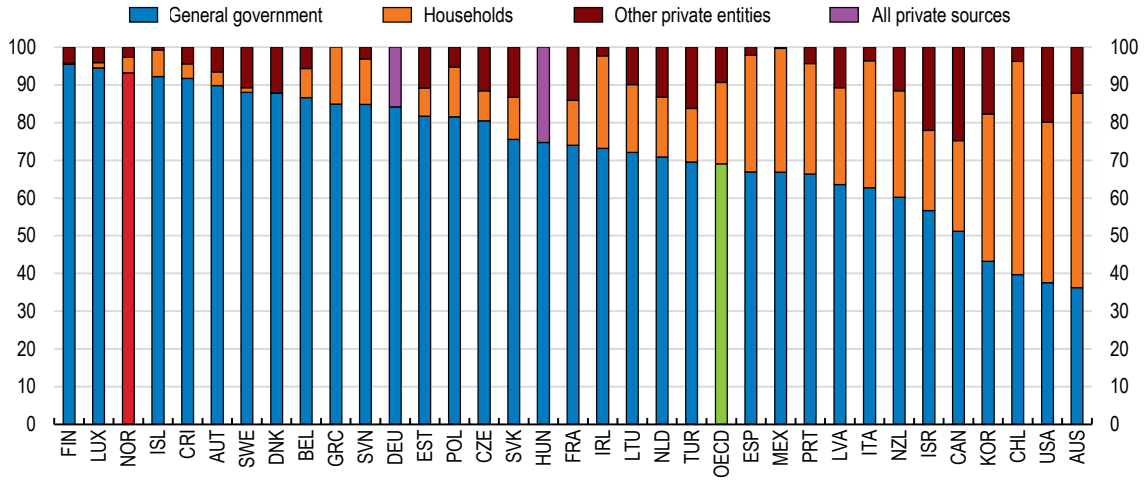
The ongoing reform of university funding aims at improving performance by increasing the autonomy, flexibility, and responsibility of higher education institutions. As part of the reform, the number of performance indicators determining funding has been reduced, while more emphasis is given to strategic "development agreements" (Ministry of Education, 2022[51]). The reduction in the number of indicators for performance-based funding – such as for research outcomes – was justified on the grounds that they were unable to capture the complexity of objectives for the higher education sector and led universities to offer similar (often low-cost and low-risk) curricula. The new development agreements are thought to increase specialisation and coordination among universities. Also, higher fixed cost in the technical areas is supposed to be better addressed. However, objectives described in the development agreements are not linked to funding, providing the universities with weak incentives to reform. Against this background, the government should strengthen the "development agreements" by linking their achievement to funding levels. Moreover, some performance funding should be related to labour market success as done in Denmark, Estonia, Finland, or Poland, encouraging the relevance of acquired skills.

Corporate funding of the tertiary sector and collaboration with the business sector are weak (Figure 1.35). The share of private funding of tertiary education is lower than in almost any OECD country, partly reflecting the lack of a fully-fledged vocational tertiary education tier. Firms' involvement in curriculum design, teaching and work-based learning is limited, even though Norway's universities, social partners and students traditionally consider work-based learning as one of the potentially most effective practices to support the labour market relevance of programmes (OECD, 2014[52]). Universities have few incentives to attract corporate funding to expand research or teaching, and the level of third-party funding is no longer considered an indicator of performance. Around half of tertiary graduates fail to make internships or other stints in a firm, narrowing their exposure to real-life experiences. Strengthening financial cooperation between higher education institutions and employers, notably in research projects, could help lift research outcomes and productivity considerably (Arora et al., 2023[53]).

Figure 1.35. Students and firms contribute little to university funding

Share of public, household, and corporate private funding at tertiary level, 2020 or latest



Note: International sources of funding, that are particularly important for Greece (12% of total) and Estonia (12% of total), yet generally unimportant are excluded from the total funding. 2021 data for Costa Rica and New Zealand.
Source: OECD, Education at a Glance database.

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Timely completion and dropout rates in higher education remain a major concern in Norway, straining public resources and reducing lifetime earnings. More than half of bachelor's degree students do not complete their programme within the prescribed time, and one in five higher education students drop out of their programme (although these numbers are close to the OECD average (OECD, 2022[54])). There are several contributing factors: the relatively low financial cost of participation in higher education in Norway, a robust job market, insufficient academic preparation before enrolment, and inadequate career guidance. Non-completion can also be associated with the relatively large share of mature learners in Norway who do not necessarily intend to complete a programme and acquire a qualification, but simply wish to develop additional skills through a particular subject course.

Towards a resilient and sustainable power sector

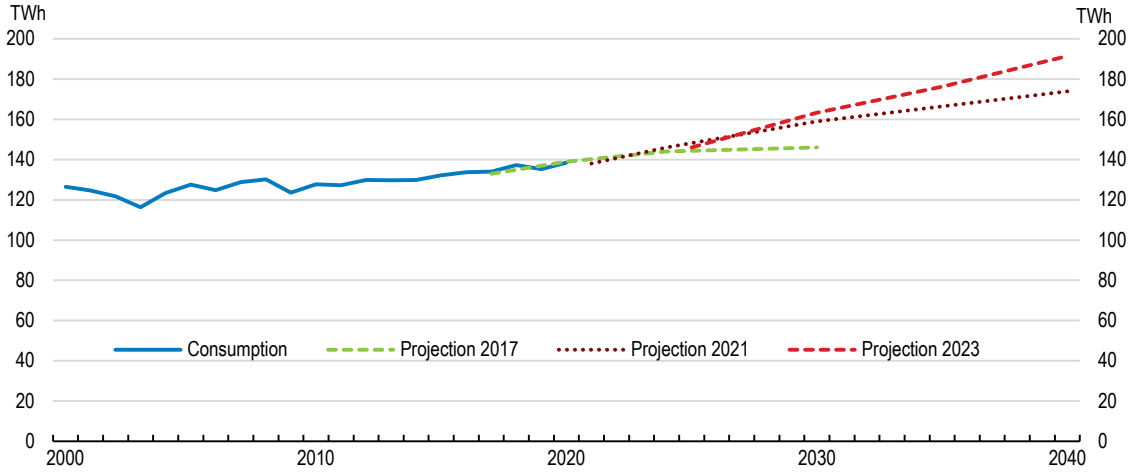
Within a short time span the electricity sector has taken on much greater importance for the economic future of the country. The rapid electrification of the transport system and climate-friendly industrialisation requires a considerable increase in Norway's electricity supply and large investments in the grid. Russia's invasion of Ukraine has accelerated the impetus to replace oil and gas by clean, domestic, and renewable energy less prone to political blackmail. With Norway producing half of Europe's hydropower and a large portion thereof backed by reservoirs, the pressure for a stronger integration of the power market around the North Sea has risen. At the same time environmental protection and municipal resistance against new generation – notably onshore wind – reduces the scope for large generation extensions, while the economic viability of offshore wind remains uncertain.

Domestic demand for power is growing

Domestic demand for electricity is expanding fast. The green transition and decarbonisation efforts, especially the electrification of transport and evolving energy-intensive industries (e.g. batteries for electric cars, data centres), the rising role of electricity compared to other energy carriers and the integrating European power market will lift demand for Norwegian electricity. As such, domestic power demand in Norway is expected to grow from 140 Terawatt hours (TWh) to 190 TWh by 2040, an increase of 35% within 15 years from an already high baseline. Also, growth projections have risen considerably within just a few years (Figure 1.36).

Figure 1.36. Domestic demand for power is growing

Electricity consumption in TWh, actual and projected



Note: Long-term power market analyses 2017-2030; long-term power market analysis 2021-2040; and long-term power market analysis 2023-2040.

Source: Norwegian Water Resources and Energy Directorate (NVE).

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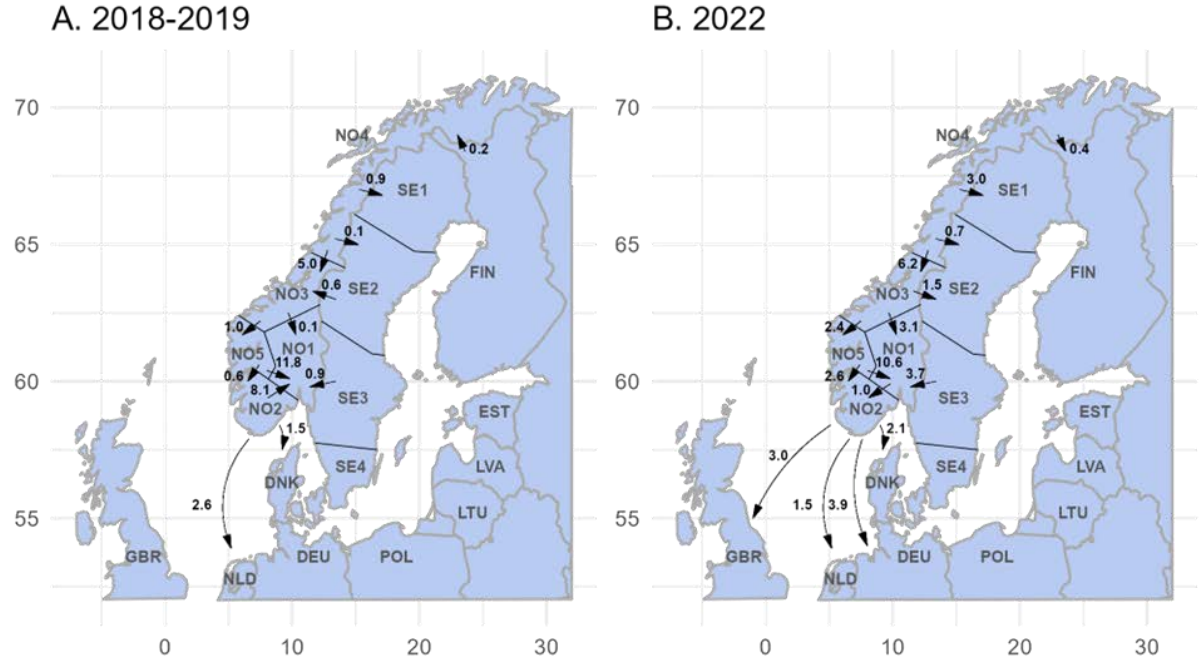
Norway's topography and settlement pattern poses additional problems to the generation and distribution of power. While population increasingly concentrates in the South (Figure 1.27), production capacity and new generation sources remain mostly in the North, putting pressure on interconnectors to ease network congestion, both within Norway and across the border (Figure 1.37).

Figure 1.37. Production and consumption of electricity are geographically imbalanced



Note: Panel A represents the average of 2018-2019.

Source: NordPool.

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Given the country's mountainous nature, grid expansion is expensive, so traditionally a part of Norwegian power production in the North has been transported to the South via the Swedish grid (Box 1.7). Other challenges, including security measures, establishing the first offshore wind projects and regulatory support for onshore wind and solar developments, add further pressures to the future development of Norway's electricity market. Finally, further integration of the electricity market in the North Sea will require investment into stable, fast-reacting, and robust interconnectors across international borders.

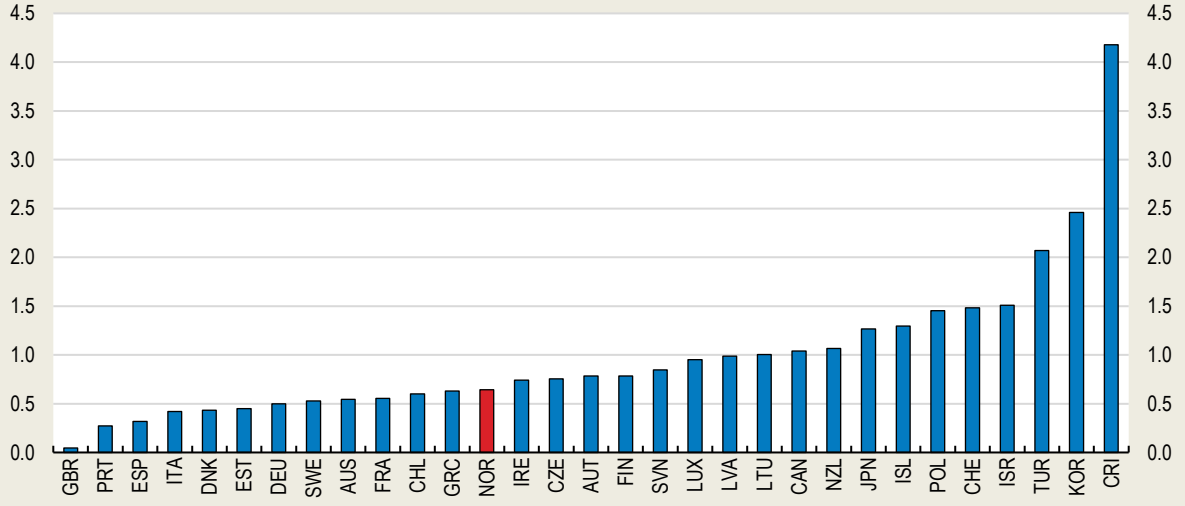
Box 1.7. Structure and regulation of the Norwegian power market

Norway has an open and well-regulated power sector. The country opened the electricity market as early as 1991 and has often been a leader in terms of good power regulation (Figure 1.38). Generation, transmission, and distribution of electricity are fully unbundled. Around 400 companies, most of them owned by municipal, county, or central government authorities, generate or distribute electricity. The energy regulator NVE-RME is responsible for the regulation of operators that distribute electricity to households and firms, as well as for the transmission grid and system operator Statnett. Prices in the five market areas are set daily using a transparent bidding procedure. Norway is integrated into the Nordic-Baltic power market and increasingly connected, both in physical and institutional terms, to electricity markets in the rest of Europe. Nord Pool is the exchange for physical power trade for the Nordic and Baltic countries.

Area-based pricing encourages generation close to demand centres and incentivises location of factories to be built where power is cheap, while signalling the benefits of expanding capacity or grid enforcement across market areas. Persistent price differences, e.g. between north and south, imply a need for grid expansion. In turn, increasing actual generation or transmission capacity is partly subject to licensing new plants, grid expansions and new interconnectors, which is the realm of policy rather than markets.

Figure 1.38. The electricity market is open and well regulated

Product market regulation in the electricity sector, 2023



Note: The indicator assesses regulation, conduct and public ownership in the electricity sector. 0 is least restrictive; 6 is most restrictive.
Source: OECD provisional 2023 Product Market Regulation indicators.

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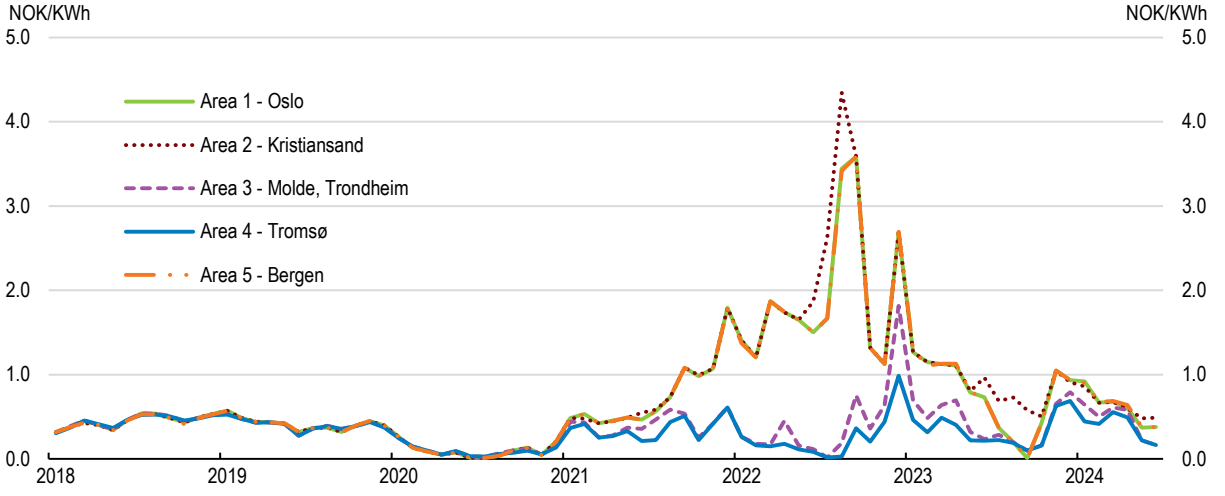
Price patterns reflect both rising demand and capacity limits within the country

The idiosyncrasies of power affect price patterns. Norway's power market is geographically divided into five electricity market areas, demarcated by major physical bottlenecks in the transmission grid. Prices are equal within one area but often differ between areas, reflecting relative scarcity and misalignment between supply and demand in each area (Figure 1.39). While electricity prices had been similar across Norway for long, gaps between North and South became more apparent since 2021, with prices in the North sometimes approaching zero. The price gaps can be partly explained by one-offs such as high precipitation or dry spells in some regions, yet others reflect structural changes in the economy, notably increased power generation in the North against consumption in the South. Since Sweden, whose market is integrated with its Norwegian counterpart, has a similar transmission problem, it cannot fully make up for the growing electricity need in Norway's South.

With price differences emerging, policy trade-offs have surfaced between maintaining low prices in the South; expanding Norway's position as a power exporter; and fostering industrial development in the North; requiring prioritisation. Over the past few years, the share of exports in total electricity production has risen to around 20%, more than at almost any time in the past, notably following the urge to replace oil and gas from Russia by other energy carriers (Figure 1.40). Since electricity is mostly exported across the southern market areas, additional export demand raises prices for households and firms located there. In 2023 an expert commission was appointed to evaluate six proposals to reduce price pressures, including the creation of separate electricity auctions for domestic and foreign use, but concluded that the market organisation should remain as is. Investing in generation and transmission capacity could help maintain Norway's power exports and ease pressure on prices in the South. Yet the northern counties sometimes contest higher transmission capacity on the grounds that it would reduce their competitive edge, notably to attract green industries such as battery factories or data centres by offering cheap electricity (Ministry of Local Government and Regional Development, 2023[55]). Against this complex background, the government should stick to the Fiscal Policy Advisory Committee's advice pointing out that expanding exports further or maintaining low electricity prices in favour of domestic industry could be distorting and economically costly and should not be policy objectives to be followed (Advisory Committee for Fiscal Policy Analyses, 2024[56]).

Figure 1.39. Electricity prices are diverging across Norway

Daily wholesale market prices, by power market



Note: Day-ahead prices represent the result of Nord Pool's day-ahead implicit auction market. All prices shown are wholesale and exclude any fees, charges or taxes applied at the national level.
Source: Nord Pool.

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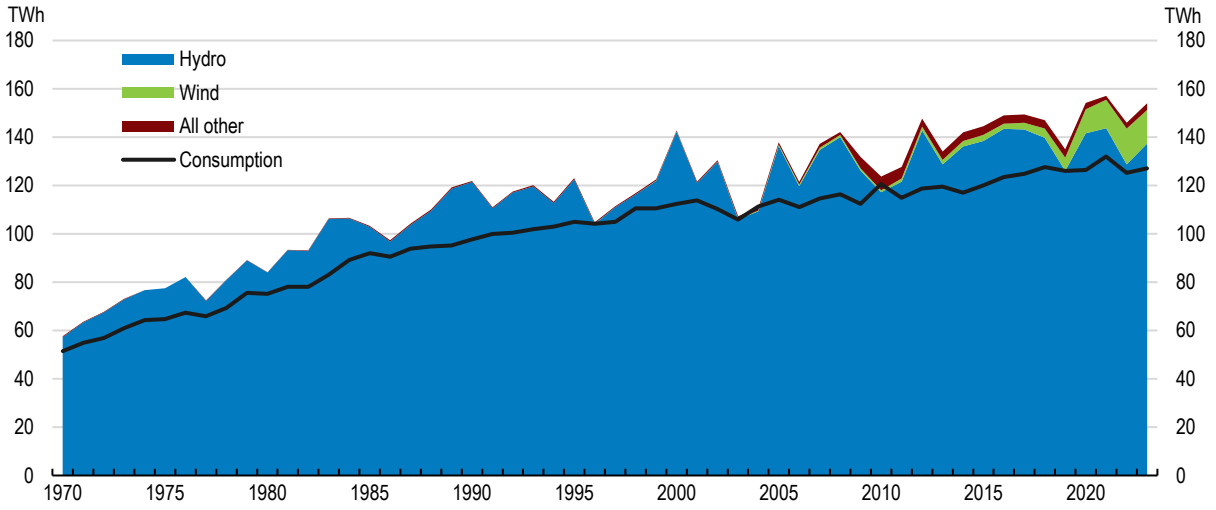
Figure 1.40. Electricity production is mostly hydro and increasingly exported

Domestic generation and consumption of energy, Terawatt-hours (TWh)



Source: Statistics Norway.

StatLink https://stat.link/47u9p0

Removing regulatory obstacles could increase investment to lift power supply

Because of rising electricity consumption due to electrification of transport and green industries, Norway will need to invest in new power generation capacity and grid expansion. Official estimates project an additional 10 TWh in generation capacity by 2030, mostly involving investments in small hydro plants, the upgrading of existing installations like turbines and a few onshore wind farms. The time of large new hydropower projects seems to be over as environmental and nature preservation prevent most pristine areas from being exploited. As such, the planned increase in generation is considerably below the estimated path in consumption, making Norway potentially a net power importer over the coming decades. Less predictability of hydropower generation because of climate change (potentially longer dry spells combined with stronger floods), and less flexibility because of an increasing role of wind power – which cannot be stored – add to supply uncertainty.

Land-use conflicts are often an obstacle to the expansion of wind generation. Wind is becoming a significant additional source of energy. When the winds blow, onshore wind is among the cheapest energy sources. However, there are limits to a rapid expansion of wind energy. Large onshore wind plants meet with resistance from local communities, and the licencing process can take two to four years for larger projects. That does not seem excessive but would need more scrutiny as Norway is missing in international comparative datasets (NOU, 2022[57]), (Fox, Czyżak and Brown, 2022[58]). Recent changes to the Planning and Building Act have given municipalities a stronger say in the licencing process, while they get a larger share in tax resulting from the exploitation of wind energy. The authorities expect that these changes will make the process more predictable and reduce the time to obtain a licence. Simplifying licensing rules and speeding up the licensing process may further help increase power supply, notably from wind. In April 2023 the government presented an action plan for faster grid development and more efficient use of the grid.

Stronger physical and institutional cross-border integration of the power grids can help increase both security and stability of electricity provision in Norway and neighbouring countries. Norway has a large share of flexible hydropower, Denmark has a large share of wind power, and Sweden has some nuclear power, each with a different load profile. Supply of the different energy carriers varies over time, making electricity exchange mutually beneficial. For instance, Norway has a considerable power surplus in periods of good hydrological conditions (e.g. snowmelt, heavy rainfalls), while Denmark's power generation

fluctuates with the strength of wind. Higher exchange capacity can also help balance extreme weather events such as the dry spells in 2022. Finally, a rapid incorporation of EU energy legislation into the European Economic Area agreement could help promote the integration of the power market around the North Sea (NOU, 2024[59]). Against this background, facilitating grid extension across borders and deepening integrated wholesale electricity markets, could make electricity provision both more stable and affordable (International Energy Agency, 2022[60]).

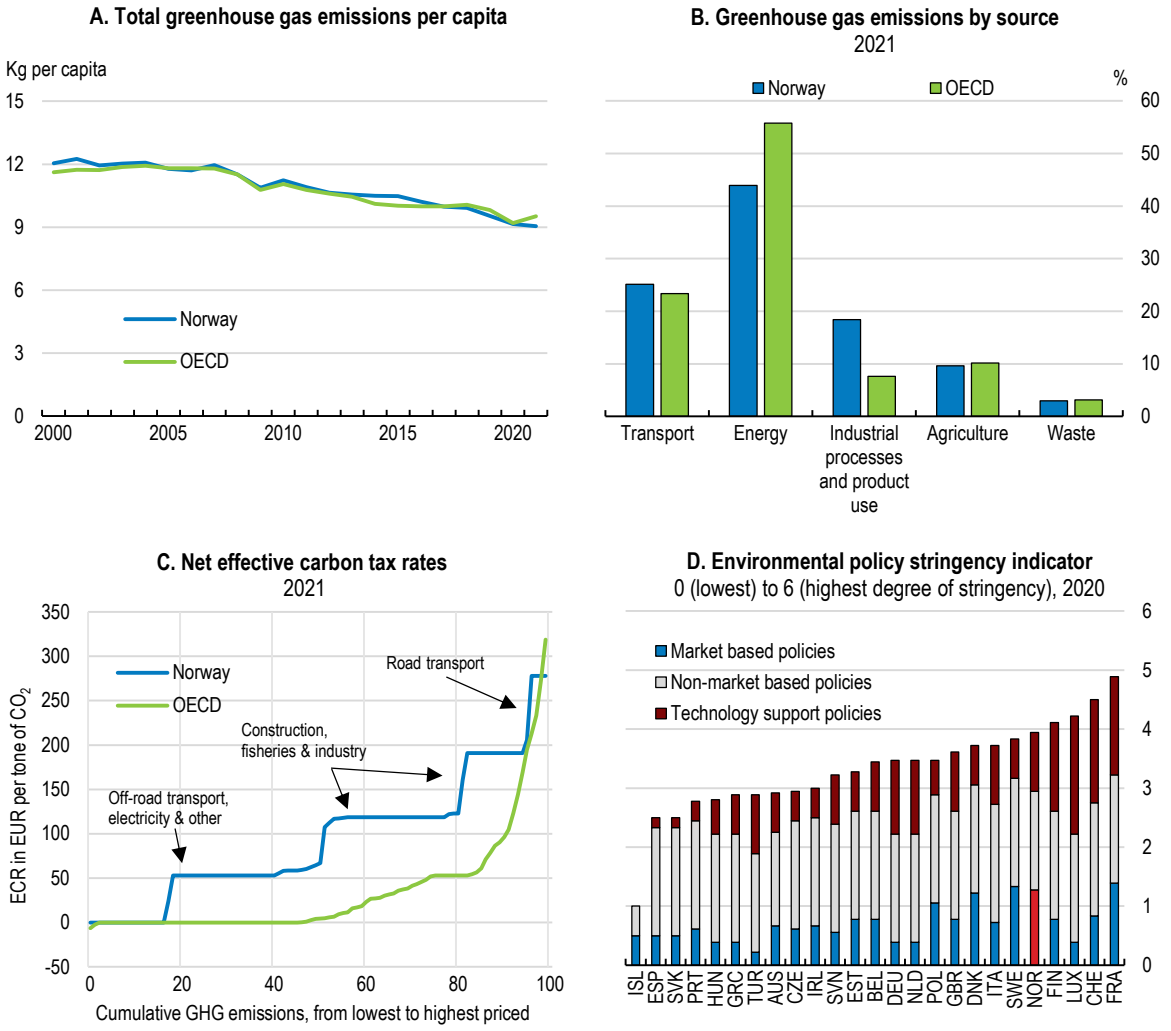
Decarbonisation and other green issues

Norway's per capita greenhouse gas emissions remain around the OECD average, but their decline has accelerated following the mass electrification of the transport sector over the past few years (Figure 1.41). Industry accounts for the highest share of emissions given the activities of a large power intensive export industry and the petroleum sector, while emissions from energy production (mostly hydro) and the rapidly electrifying car fleet are below average. Agricultural emissions, mostly methane and nitrous oxides, are above OECD averages, reflecting the importance of intensive agriculture. Norway is affected by climate change through rising floods, more droughts, melting glaciers which provide storage for hydropower, and rising sea levels. Norway aims at reducing emissions by at least 55% by 2030 compared to 1990 and seeks to reach that target through climate cooperation with the European Union. Norway's long-term climate target is to become a low emission society in 2050, equivalent to reducing emissions by 90 to 95% compared to 1990 levels (NOU, 2023[61]). To reach this ambitious objective, Norway should implement an appropriate policy mix, notably by strengthening emission pricing and public investment in R&D, carbon emission reduction and climate change adaptation (d'Arcangelo et al., 2022[62]).

The climate action plan foresees a gradual increase and broadening of carbon taxation, and new investment mainly in the transport sector, as recommended in the previous OECD *Economic Survey of Norway*. Increasing carbon taxation (against lower labour taxation) to 2000 NOK (around 175 EUR) per tonne by 2030 could help reduce emissions by around 9%, with little overall macroeconomic impact (Kaushal and Yonezawa, 2022[63]). Taxing methane and nitrous oxide should also be considered, bearing in mind persisting practical issues when measuring the respective emissions. Sector-wise, road transport, fisheries and household gas use would be the largest contributors to emission reductions, suggesting that they can be achieved at comparatively low cost in these sectors. However, these sectors would also be the most affected in terms of lower activity. As such, further domestic decarbonisation efforts could probably be reached at relatively high cost only, notably since energy generation is already mostly decarbonised (hydropower). Norway also invests a lot in carbon capture and storage.

The government is also strengthening policies to adapt to climate change. In 2023 it published a new White Paper on climate change adaptation, with a focus on governance and coordination across sectors and levels of government; additional risk assessment, and the role of nature- and ecosystem-based solutions (Ministry of Climate and Environment, 2023[64]). For example, the government puts much emphasis on green roofs, open waterways and more trees in cities and towns, to mitigate floods and stormwater, stabilize the soil, and prevent landslides. Moreover, the government wants to help municipalities to invest in such measures. As a reaction to disastrous floodings and landslides during summer 2023, it decided to strengthen flood protection and invest more in flood control measures and dam safety. The government should also develop policies to address the growing severity of dry spells, which as shown in 2022 can affect the supply of hydroelectricity. Table 1.8 summarises past recommendations and action taken to tackle climate change since publication of the previous OECD *Economic Survey of Norway*.

Figure 1.41. Norway needs to do more to curb emissions



Note: Panel C: land use and forestry are not included in "other": Panel D: Environmental Policy Stringency is defined as the degree to which environmental policies put an explicit or implicit price on polluting or environmentally harmful behaviour through various policy tools.
Source: OECD, Environment Statistics database; OECD, Effective Carbon Rates; OECD, Environmental Policy Stringency Index.

StatLink https://stat.link/w8zei9

Table 1.8. Past recommendations and actions taken to tackle climate change

Recommendations	Actions taken
Ensure continued follow through on the schedule of carbon-price increases. Augment this with additional greenhouse-gas reduction measures via regulation and investment, in particular in transport and agriculture.	Taxes on emissions under the effort sharing regulation have been increased in 2023 and 2024, in line with the announced target of NOK 2 000 per ton of carbon in 2030.
Develop carbon pricing on emissions of methane and nitrous oxide in the agricultural sector.	No action taken.
Make electric vehicles gradually subject to VAT and the motor vehicle registration tax.	Expensive electric cars (over NOK 500 000) have become subject to VAT.
Ensure measures to address the cost-of-living concerns of carbon taxation are well targeted.	No action taken.

Carbon has a worldwide impact, no matter where it is released, so it makes sense to reduce emissions where that is least costly, especially in a context of high abatement costs as in Norway. The Paris agreement allows countries to credit emission cuts abroad against their own emission targets. The

Government has extended the International Climate and Forest Initiative (NICFI) to 2030, providing support to cut emissions and supporting policy reform at the global level. Relying on Norway's comparative advantages, the NICFI is focusing on the transition towards the use of renewable energy sources. Apart from crediting through Norway's participation in the EU-ETS, it is unclear whether Norway will make use of flexibility mechanisms to achieve the 2030 target under the Paris Agreement and credit any emission reductions against its own (non-EU-ETS) targets. It should consider doing so and develop credits against trustworthy emission reduction projects abroad, especially as emission targets will likely be difficult to achieve by domestic policy action alone (OECD, 2022[65]). This would help Norway to accelerate emission cuts, reduce the overall cost of reaching emission targets and strengthen innovation and technology transfer to emerging market economies.

Norway has a good record on domestic environmental performance overall (OECD, 2022[65]). Air quality in cities is among the highest in Europe. Land-use change is exerting some pressures on Norway's diverse and pristine landscapes. Issues remain in highly subsidised agriculture, which is neither subject to the EU-ETS nor to any domestic environmental tax. Nitrogen and phosphorus levels are among the highest in the OECD, damaging water and air quality. The country has abundant water resources but almost 30% of captured water is lost through leaking, which should be addressed through adequate investment. As such, agricultural subsidies should be redirected from income and production support towards incentives for more environment- and climate-compatible agricultural outcomes (Chapter 2).

Findings and recommendations for a strong and resilient economy

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Monetary, financial, and fiscal policies	
Inflation remains high and is expected to decline only gradually.	**Maintain a sufficiently restrictive monetary policy stance to bring inflation down over the medium term.**
The fiscal stance is expansionary.	**Reduce fiscal stimulus to support monetary policy, mainly by reining in spending.**
The electricity support scheme still exists, even though electricity prices have come down considerably.	Phase out the electricity support scheme.
Household indebtedness is the highest in the OECD. Banks' exposures to commercial real estate firms remain a vulnerability.	Monitor financial stability risks related to high household debt, the commercial real estate sector and cyber security, and stand ready to implement appropriate measures.
Housing markets have cooled, but house prices remain high. Housing affordability is low. Tax treatment of owner-occupied housing is one of the most favourable in the OECD.	**Remove obstacles to expand housing supply notably in urban areas, by allowing for denser city space and greenfield development close to public transport hubs.** Gradually phase out favourable tax treatment of homeownership, for instance by making mortgage interest payments no longer tax deductible or by taxing imputed rent.
Notwithstanding recent cuts, income taxation continues to discourage work. Marginal tax rates can be high due to wealth taxation.	**Further reduce income taxation, notably for low-income earners.** **Increase allowances in wealth taxation and/or reduce rates while taxing all assets at market prices.**
Policies to improve productivity and employment	
Productivity growth is among the lowest in the OECD, and the share of manufacturing in exports is declining.	Improve the general legal and administrative environment for businesses, notably by conducting regular evaluations of regulation, to foster startups.
Some indicators suggest that corruption remains more of an issue in Norway than in some of the other Nordics.	Keep up public integrity efforts in the areas of anti-money laundering, lobbying, foreign bribery and public procurement.
There is a dearth of qualified labour especially in the technical and health sectors. The low share of students in tertiary vocational education and training (VET) and high dropout rates constrain VET's potential to meet labour market demands.	**Strengthen the tertiary level in VET by extending the current short cycle and/or by opening university colleges to upper-secondary VET graduates.** Encourage increased participation of women in STEM areas. Continue facilitating immigration of skilled and qualified labour (selective immigration policy) and accelerate the recognition of foreign diplomas.
Some insolvency procedures have been temporarily eased during the covid-19 pandemic, but others still prevent firms from prospering again.	Improve insolvency procedures through better routes to recovery for businesses in difficulty or by facilitating exit.
Demand for electricity is growing, while supply and transmission capacity are lagging. Electricity price differences across regions have widened, pointing at a lack of transmission capacity between the north and south of Norway. Some energy-related EU legislation is not yet incorporated in the European Economic Area agreement.	**Simplify and shorten the licensing and permit process for power generation and transmission**. Strengthen physical and institutional integration with the European power market, to ensure a more stable power provision around the North Sea.
Decarbonising the economy	
Carbon emissions are declining but remain only just below the OECD average. The cost of reducing carbon in Norway is very high.	**Carry out careful cost-benefit analysis for carbon-reducing policies and prioritize policies with a lower reduction cost per tonne of carbon.** **Gradually broaden and increase carbon taxation and consider taxing methane and nitrous oxide.** **Credit emission reductions achieved through international low-carbon emission programmes against national targets, at least partly**.

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2 Raising the Effectiveness of Public Spending

Peter Hoeller

Public spending is very high in Norway, partly reflecting the welfare system's extensive coverage and generosity as well as ambitious regional development objectives. Moreover, several institutional features undermine the cost-effectiveness of public spending programmes. Abundant oil revenues have so far mitigated strains on the public finances. However, coping with the depletion of oil resources and the fiscal consequences of ageing require to increase the cost effectiveness of many public spending programmes, while leaving some room to reduce the high tax burden. This chapter identifies policy options to curb spending. These include: strengthening the fiscal framework, by implementing a medium-term fiscal framework, an expenditure rule and by broadening the remit of the fiscal council; making regional policy more cost-conscious; reinforcing coordination and cooperation in the health and education sectors; and improving incentives to contain spending by the sickness and disability schemes. Agricultural subsidies should be pruned and harm the environment less. Judicious reforms should improve spending control, while also boosting economic performance.

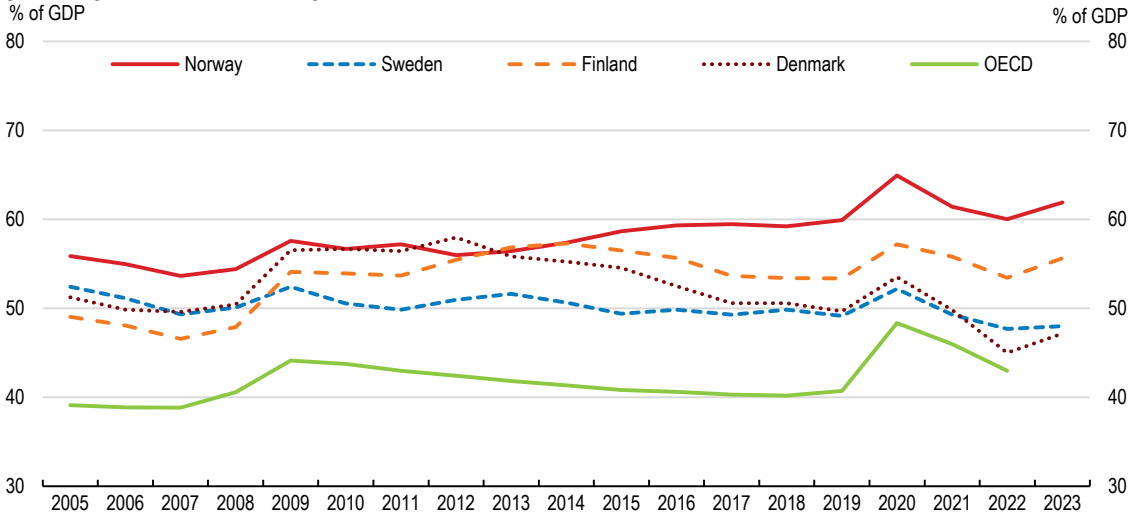
The past and future of overall public spending

Overall, the Norwegian fiscal position is in excellent shape thanks to ample oil revenues and a fiscal framework that has allowed their accumulation in a sovereign wealth fund. The use of part of the revenues has given Norway room for fiscal policy manoeuvre for decades that few other countries have enjoyed. This has allowed Norway considerable freedom to expand the scope of public services, implement new policies and counter economic setbacks.

However, the use of the room for fiscal manoeuvre has also implied that government spending is the highest in the OECD. Public sector spending amounts to more than 60% of mainland GDP. Disregarding the upward blip in spending during the pandemic, public spending has drifted up in Norway, contrary to the OECD average and developments in Denmark and Sweden (Figure 2.1). Even after considering measurement issues, spending remains very high (Box 2.1). Government employment amounts to one third of total employment, which is nearly double the OECD average. The general government mainland tax revenue to GDP ratio is also among the highest in the OECD, despite the sizeable oil revenues. How these vast resources are used is of great importance for the performance of the Norwegian economy.

Figure 2.1. Government spending has drifted up and is very high in international comparison

Total general government spending as a per cent of GDP



Note: Mainland GDP for Norway.
Source: OECD, National Accounts database.

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Box 2.1. Measuring the size of the Norwegian public sector

The ratio of public outlays to GDP is the most commonly used indicator for expressing public sector size in an international and historical context. Such comparisons should, however, be made with care. In the case of Norway, two important factors need to be considered:

- The taxation of social transfers, together with the extent to which countries provide social or economic assistance via tax expenditure, rather than direct government spending, may change government spending rankings in international comparison (OECD, 2023[1]). Like in other Nordic countries, Norway's social transfers are taxed, increasing the public sector ratio as compared to countries that do not tax transfers. The equivalent of more than 5% of GDP of social cash benefits were clawed back through the tax system in 2019, compared with some 3% of GDP on

average in the OECD. Taxing transfers allows countries to levy the progressive personal income tax, so that they can maintain fairness in their tax and benefit system.

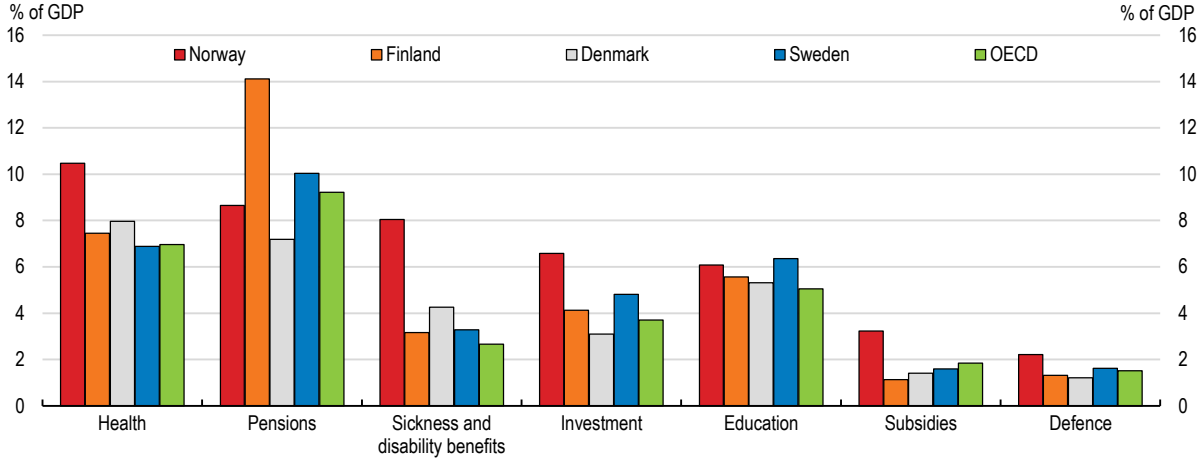
- The sizeable Norwegian offshore petroleum sector — about a quarter of total GDP on average in recent years — creates a specific measurement problem (see Box 1.1 in chapter 1 for more detail). According to the fiscal rule, the authorities aim to save the net factor income of the petroleum sector and to spend only the real returns from the Government Pension Fund Global. In this context, it is more relevant to measure the size of the public sector as a percentage of mainland GDP, which excludes factor income from the petroleum sector. The additional advantage is that this ratio is less volatile as it is not influenced by the strongly fluctuating oil price.
- In sum, taking into account the taxation of benefits would reduce spending by some 5% of GDP while excluding the oil sector and scaling by mainland GDP increased the spending to GDP ratio by nearly 10 percentage points before the recent oil price spike.

OECD work has shown that a large government is a drag on growth, because this usually implies considerable adverse effects of distortionary taxation on growth (Fournier and Johansson, 2016[2]). However, the negative effect of big government can be reduced by a high degree of government effectiveness and, judged by the Word Bank government effectiveness indicators, Norway has one of the most effective governments. Also, a high level of trust in government helps and Norwegian society is characterised by both high interpersonal trust and a high level of trust in government institutions (OECD, 2023[3]).

Given that overall spending is very high, it is not surprising that the shares of spending items such as health, education and social spending are also very high. Indeed, virtually all spending items are above the OECD average and many are also above those in other Nordic countries (Figure 2.2).

Figure 2.2. Spending in most areas is higher than elsewhere

Spending function categories, 2022 or latest



Note: The spending levels do not necessarily reflect overall levels of service, inter alia, due to variation across countries in the degree of private-sector provision particularly in healthcare and education. There are differences across countries in the use of tax (as opposed to spending) instruments and how transfers are taxed. GDP for Norway refers to mainland GDP and the OECD aggregate represents a simple average of the member countries for which data are available. Investment and subsidies are part of the COFOG spending functions shown here.
Source: OECD, National Accounts database.

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The composition of spending also matters, because some spending items are more conducive to growth than others (Bloch and Fournier, 2018[4]) (Fournier and Johansson, 2016[2]). On the positive side, Norway invests strongly in growth-promoting spending items, such as education and infrastructure. Even so, there can be concerns about cost-effectiveness also in these spending areas. Moreover, pension spending is

below the OECD average, mainly due to the high retirement age, which is conducive to employment and growth (pension spending is discussed in Chapter 1). Healthcare is important for the well-being of the whole population as well as for the productivity of the work force. On the other hand, certain spending items, such as the high share of sickness and disability spending in total spending are a drag on growth. The generous sickness and disability benefits provide adverse work incentives. Cutting public subsidies, such as the sizeable ones for the agricultural sector would boost growth, as subsidies that do not correct market failures can distort the allocation of resources and may preserve low-productivity enterprises and postpone the necessary reallocation of resources to a more productive use.

Cross-country estimates of the effect of government spending categories on growth mainly rely on monetary flows and can thus not capture the details of institutional features and programme design of individual countries, which can be important for the effectiveness of spending. These issues will be pursued below. Improving services, while containing cost pressures, is a key policy challenge in most OECD countries, including Norway. Spending reforms that contain outlays while improving outcomes are attractive because they also hold the promise of having a positive impact on growth.

In the future, fiscal challenges will stem from population ageing, the dwindling of the oil revenue and the climate transition. The transition to a greener society will affect Norwegian oil and gas activities, but the 2021 White Paper on long-term projections notes that the impact may be less than feared (Ministry of Finance, 2021[5]). Nevertheless, oil revenue is set to shrink in the coming decades, notwithstanding the continued granting of new offshore drilling permits. Ageing will push up spending on pensions, health and long-term care and the fiscal room for manoeuvre will shrink. Moreover, Norway has set out a 12-year plan to raise defence spending from close to 2% of GDP in 2024 to 2.7% by 2030 and close to 3% by 2036. The defence investment will focus inter alia on capabilities in the maritime domain and procurement of long-range surveillance drones, satellites and air defence systems (Ministry of Defence, 2024[6]).

Norway will have to make the public finances futureproof, also to reduce the considerable tax burden. Both the overall size and the composition of spending are important for employment and productivity growth as well as inclusiveness. While employment and productivity growth have been mediocre in international comparison (Chapter 1), Norway scores very well on various metrics of inclusiveness, such as the Gini coefficient of disposable income or the poverty rate. This chapter focuses therefore on public spending effectiveness, rather than inclusiveness.

Improving the fiscal framework

Fiscal frameworks vary widely across OECD countries. The literature has focused on the main elements of fiscal frameworks that often generate synergies: fiscal rules, independent fiscal institutions or fiscal councils, and medium-term expenditure frameworks. Spending reviews are also increasingly being used as they help to prioritise spending and identify areas for spending cuts.

Medium-term fiscal frameworks can ensure consistency between policies and targets

Past OECD Economic Surveys of Norway, including the most recent 2022 one, have suggested to introduce medium-term fiscal frameworks, as exist in virtually all OECD countries (OECD, 2019[7]). A medium-term expenditure framework can bolster the effectiveness of the fiscal framework and ensure time consistency between policies and targets. The expenditure framework converts fiscal targets into detailed expenditure plans. Successful medium-term budget frameworks provide binding restrictions on multi-year expenditure and a clear and consistent statement of the government's medium-term priorities within an overall expenditure ceiling.

The Norwegian authorities have previously considered the introduction of a medium-term spending framework, but judged it to be unsuitable in the Norwegian context (OECD, 2022[8]). A commonly expressed concern is that in Norway multi-year spending paths for ministries and agencies may act as floors, rather than ceilings, on expenditure. However, as the challenges in containing current spending and

funding new spending mount, the potential advantages of a medium-term expenditure framework will increase (Calmfors, 2020[9]). Given the prospect of more limited fiscal space in the coming years, policymakers should remain open to augmenting the fiscal framework with medium-term spending benchmarks.

A fiscal spending rule could help avoid the upward drift in spending

A fiscal rule serves as a commitment tool to increase the cost of deviations and to anchor expectations about future fiscal developments. Expenditure rules enhance fiscal discipline thanks to better accountability and higher transparency in the budget process. They allow for better control of primary spending by the government. A well-designed spending rule does not prevent the automatic stabilisers from operating. A spending rule can also limit pro-cyclical spending in the presence of revenue windfalls in good times. On the other hand, it can induce the use of tax expenditure for various policy objectives for which direct spending might be better suited.

Econometric evidence suggests that fiscal rules have an impact on various dimensions of fiscal performance, such as the primary balance, the cyclically-adjusted primary balance, government receipts and government spending (Fall et al., 2015[10]). The estimations suggest that spending rules have a considerable effect in restraining government spending. A budget balance rule also has a negative and significant effect on spending, but it is smaller than that of a spending rule. (Vinturis, 2023[11]) finds that spending rules have no overall spending effect, but only reduce public consumption, while no effect on public investment was found. (Manescu and Bova, 2020[12]) show that spending rules can reduce the pro-cyclicality of fiscal policy.

In the case of Norway, the fiscal rule (*handlingsregelen*) stipulates that over time transfers from the Government Pension Fund Global should equal the expected real return of the fund, estimated to be 3% annually (reduced from 4% in 2017). This helps smooth out cyclical disturbances as well as the consequences of large changes in the value of the fund.

Fund withdrawals cover ever more of central government budget spending, now around 20%. The (Advisory Panel on Fiscal Policy Analysis, 2023[13]) recently suggested that a thorough study should be carried out on how the fiscal rule should be adapted to the fact that withdrawals from the fund cover such a large amount of public spending. A sharp and prolonged fall in the value of the fund would place a serious strain on fiscal policy. Overall, the budget surplus is hugely positive every year including the oil revenues but hugely negative if oil revenues are excluded. The Advisory Panel also suggested that the fiscal rule could be based on the cash flow of the fund (dividends, coupon rates, rental income, etc.). Such a rule could result in smaller fluctuations of the fiscal balance from year to year than the 3% rule, because cash flow fluctuates less than the fund's market value (Advisory Panel on Fiscal Policy Analysis, 2022[14]). However, strict adherence to a cash flow rule may limit the required fiscal deficits to cope with downturns (Norges Bank Investment Management, 2023[15]).

Most OECD countries follow a fiscal rule that focuses on budget balances, for instance, by limiting the size of actual or structural budget deficits. In Norway, the main purpose of the fiscal rule is to distribute the use of resource revenues over time and across generations and to preserve the real value of the fund for the benefit of future generations. Given the specificities of Norway, a budget deficit rule would be unhelpful. However, a spending rule, which exists in many countries, could help in containing government spending and avoid its upward drift as a per cent of GDP (Box 2.2).

In Norway, public investment as a share of GDP is high in international comparison. It is often argued that public investment that fosters long-run growth should be excluded from fiscal targets. However, drawing the line for public investment that matters for long-run growth is not straightforward, as not only physical investment, but also spending in areas such as education or research and development have a positive effect on growth.

Box 2.2. Spending rules in the other Nordic countries

Expenditure rules increase the pressure on political decision-makers to prioritise between expenditure increases in various areas. They can also be a constraint on taxation: a target for government expenditure together with a target for the fiscal balance determine an implicit target for the tax ratio.

Expenditure rules can be formulated in nominal or in real terms. On the one hand, nominal rules help stabilise the economy when there are unanticipated changes in inflation due to demand shocks: higher (lower) inflation than expected because of a positive (negative) demand shock implies a decrease (increase) in real government expenditure counteracting the shock. On the other hand, nominal ceilings have the drawback that goals for the development of real spending are not met in the case of unanticipated inflation. The latter consideration is likely more of a concern, the longer the time period for which an expenditure rule applies.

Denmark and Finland set expenditure ceilings for central government in real terms. Denmark sets them for three years, Finland for four years. In both cases, interest payments and cyclically-sensitive expenditure items are excluded and the expenditure ceiling can be changed in exceptional circumstances. In Sweden, the spending ceiling is set in nominal terms for all central government outlays except interest payments three years ahead. Iceland does not have a spending rule.

Source: (Calmfors, 2020[9]).

Fiscal councils are watchdogs of fiscal policy

Independent fiscal institutions (IFIs) or fiscal councils foster fiscal discipline and thereby complement fiscal rules. They are public institutions with a mandate to critically assess and, in some cases, provide non-partisan advice on fiscal policy and performance. In contrast to audit institutions, their assessments are forward-looking and unlike independent central banks, they do not have the authority to make policy. Rather, they ensure that unbiased information about the government's fiscal policies and their implications for public finance sustainability is available. This increased transparency makes the fiscal councils to "fiscal watchdogs" by alerting both policymakers and voters to fiscal risks.

In Norway, the Advisory Panel on Fiscal Policy Analysis provides professional advice to the Ministry of Finance's work on macroeconomic issues and fiscal sustainability. Its mandate was extended in 2021 to advise on the long-term sustainability of the government finances and to assess whether the government's fiscal policy is compatible with such considerations. With the extended mandate it was also ensured that the Panel has access to ministry staff. The Panel provides an annual statement on these assessments. Recent statements provide recommendations on issues such as how to provide more stable funding from the Pension Fund Global, to raise the emphasis on the long-term consequences of current policies and the Panel has highlighted the trade-off between public spending and tax changes for the long-term performance of the economy. The extension brings the remit close to that of fiscal councils in other OECD countries. But the remit is still narrow as compared to most other fiscal councils, as long-term sustainability analysis is still carried out by the Finance Ministry. For long-term sustainability analysis the government itself produces a White Paper with long-term projections and policy simulations every four years. The most recent one was issued in 2021 (Ministry of Finance, 2021[5]) (Box 2.3). The next one will be issued after mid2024.

Box 2.3. The government's long-term projections and policy simulations

Fiscal room for manoeuvre will decline over time because of rising ageing-related spending combined with lower growth in tax revenue and of the Government Pension Fund Global. Lower growth in tax

revenue and higher pension, health and care expenditure also imply that in a few years' time, government expenditure will outpace revenue.

The need to progress with public sector reforms was illustrated by simulations presented in the 2021 White Paper. The baseline scenario assumed moderate further improvement in the standard of public service provision. It suggested that the fiscal gap would rise to 5.6% of mainland GDP by 2060. The fiscal gap indicates what tax level adjustment will be necessary to fund public expenditure for a given net transfer from the Government Pension Fund Global within the limits of the fiscal rule. Simulations around the baseline scenario were expressed as changes in the fiscal gap. With medium-term growth in public service provision in line with average growth over 1993-2017, the fiscal gap would increase to 10.4% of mainland GDP. Measured by the average tax rate on household incomes, this would correspond to an increase from 24.6% in 2021 to 38.6% in 2060. Moreover, the baseline scenario assumed a considerable change in the trend in public service provision growth from 0.7 to only 0.1% per year.

At the same time, large gains could be reaped from spending reforms. They were illustrated by scenarios featuring in the 2021 White Paper:

- Public administration productivity growth may enable the public sector to provide better services at lower cost. An annual reduction in public administration resource use of 0.25 percentage points would reduce the fiscal gap towards 2060 by 3.1 percentage points.
- Higher employment raises tax revenue and reduces social security spending. If, for example, enough disability benefit recipients could be brought into the labour force over the next decade to halve the difference between the Norwegian and Swedish disability benefit recipient rate, Norway would have 80 000 more people working and NOK 44 billion (1.3% of GDP) in increased budgetary room for manoeuvre in ten years.
- If the difference in sick leave between Norway and Sweden could be reduced by two thirds, Norway would have about 20 000 more people working and NOK 20 billion (0.6% of GDP) in increased room for manoeuvre in ten years.
- In a similar vein, getting more people to continue working would save NOK 12 billion (0.4% of GDP) and getting youth to start work earlier also NOK 12 billion.
- If municipalities raised efficiency corresponding to ½ per cent of operating expenses, they would be able to free up NOK 1.4 billion (0.1% of GDP) per year to be used by them for other purposes and initiatives of their choosing.

Source: (Ministry of Finance, 2021[5]).

Fiscal councils exist in three out of four OECD economies, but vary widely with regard to mandate and resource endowment (Rawdanowicz et al., 2021[16]). Most are tasked with the analysis of long-term fiscal sustainability and monitoring fiscal rule compliance. Many also play a role in macroeconomic or fiscal forecasts, though only a small number prepare their country's official forecasts or provide costings of policy measures. Fiscal councils with more demanding mandates, particularly those involved in policy costing, tend to have more staff at their disposal. Fiscal councils also often play an active role in assessing fiscal risks related to long-term challenges such as ageing and climate change (Caldera Sánchez et al., 2024[17]). Such assessments as well as the costing of new policy initiatives would be especially welcome in the Norwegian context (Box 2.4).

Box 2.4. Independent fiscal institutions: international experience

According to the OECD Principles for Independent Fiscal Institutions (IFIs), non-partisanship and independence are pre-requisites for a successful IFI; leadership should be selected strictly on the basis of merit and technical competence; the leadership's term should be independent of the electoral cycle;

IFIs should be precluded from any normative policy-making responsibilities; and reports and analyses should be produced on the institution's own initiative (OECD, 2014[18]).

The Irish case is a good example of how IFIs can raise public awareness of long-term fiscal challenges and strengthen fiscal management. Established in 2012, the Irish Fiscal Advisory Council (IFAC) is mandated to independently assess the government's fiscal stance and budgetary forecasts, endorse the official macroeconomic forecasts prepared by the Department of Finance and monitor compliance with budgetary rules. The Council consists of five members, who are appointed by the Minister of Finance among recognised domestic and international experts in macroeconomic and fiscal matters. Over the years, IFAC has become central to the national debate on public finances, particularly by stressing the need to ensure fiscal sustainability in the face of systemic challenges, such as population ageing, climate change and the digital transition. IFAC's reports and recommendations have gradually made inroads in the policy sphere. The authorities adopted a spending rule in 2021 and enhanced transparency via the adoption of strengthened medium- and long-term budgetary frameworks.

Chile's fiscal council, created in 2013, initially was an advisory council within the Ministry of Finance. In 2019, the Autonomous Fiscal Council (CFA) was established. It is an independent institution with the mandate of contributing to the responsible management of the central government's fiscal policy. The 2019 law broadened the council's mandate, gave it its own resources and ensured its legal independence. The CFA has been able to establish itself as a respected institution, providing advice on possible deviations from structural balance targets, proposing mitigation measures, issuing opinions on the package of measures during the pandemic and making proposals to strengthen the fiscal framework, among others. It is also responsible for the evaluation of the medium and long-term sustainability of public finances (Caldera Sánchez et al., 2024[17]). In 2020, the OECD gave recommendations to the CFA on how to strengthen the analysis of the long-term sustainability of public finances (OECD, 2020[19]).

Denmark, Finland, Iceland and Sweden have independent institutions monitoring fiscal policy. In Finland, the National Audit Office is responsible for evaluating compliance with the fiscal rules. The monitoring covers adherence to the medium-term fiscal policy objective and the related correction mechanism, preparation and implementation of the General Government Fiscal Plan and compliance with the stability pact. The government's macroeconomic forecasts used in fiscal policymaking are also assessed. In case of violations of the rules, the head of the audit office can give a speech in the parliament. Parliamentarians can then ask questions to the government. The Audit Office produces both an annual report and a report every fourth year on the government's fiscal policy during the parliament's term of office. Independent evaluation is also made by the Economic Policy Council. The Council publishes an annual report. While it has a wide remit, fiscal policy evaluation has been a main focus. In addition, selected key issues are analysed. Much attention has been devoted to the government plans on social and healthcare, and regional governance reform (Calmfors, 2020[9]).

Spending reviews help prioritise spending and raise its effectiveness

Spending reviews are widely used in OECD countries. They have become a core instrument for expenditure prioritisation and reallocation and a permanent feature of the budget process in many countries (Tryggvadottir, 2022[20]). Spending reviews provide a link between financial accounting and performance budgeting, obliging ministries and agencies to set priorities. The purposes of a spending review include: i) enabling governments to manage the aggregate level of expenditure; ii) reallocating expenditure according to the priorities of the government and iii) improving the effectiveness within programmes and policies. A recent econometric analysis found that countries differ in their propensity to reallocate public expenditure, when needs or government priorities change. More active reallocation is

positively correlated with having a fiscal council and following an expenditure rule. More active reallocation is also positively correlated with sounder governance indices (Barnes, Cournède and Pascal, 2023[21]).

The OECD Best Practices for Spending Reviews suggest that for them to be successful it is important to specify the objectives and the scope of the reviews, to set up clear governance arrangements throughout the review process, to ensure integration with the budget process and that recommendations are implemented in an accountable and transparent manner (Box 2.5).

Box 2.5. Spending reviews: some best practice examples

Ireland

The spending reviews aim to improve the allocation of public spending across all areas of government. The Department of Public Expenditure and Reform is responsible for spending reviews and the way in which spending reviews integrate with the annual budget process. The Irish Government Economic and Evaluation Service (IGEES) supports the Department in this role in conjunction with the departments being reviewed and external experts. Through the IGEES, the government is systematically assessing the efficiency and effectiveness of government spending by applying dedicated resources to spending reviews. The scope of the Spending Review 2020-2022 was broadened to encompass policy analysis and evaluation in addition to the focus on expenditure re-prioritisation.

Germany

The first two spending reviews took place in 2015 and were on intermodal transport and a job-training scheme. These reviews had a limited scope while the Ministry of Finance and the relevant line ministries accumulated experience in undertaking spending reviews. In subsequent rounds of spending reviews, the scope of the review was increased, as did the complexity of the reviews by analysing the inter-relationships between several expenditure programmes within a given area of policy.

Denmark

Spending reviews are led by the Ministry of Finance, with the government using them to reallocate resources and increase efficiency. The spending reviews inform budget negotiations and decisions on multi-annual budget agreements. The reviews are conducted over a relatively short period, where the decision on which reviews to conduct is taken in January or February and the reviews are undertaken over the ensuing months with the aim of having the findings available by the beginning of May. This ensures that the findings of a spending review are available when the government decides on budget priorities in June.

Source: (Tryggvadottir, 2022[20]).

In Norway, a specialised unit for spending reviews is located in the Ministry of Finance. The unit works closely with line ministries to reach agreements on the set of recommendations put forward to ministers for final decision. All spending reviews comprise a steering group and a working group. Representatives from the Ministry of Finance, line ministries and if applicable relevant agencies are represented on both the steering group and the project team. While a representative from the Ministry of Finance chairs the steering group, a representative from a line ministry often holds the position of project manager in the working group. The working group works closely with the Agency for Public and Financial Management and external experts to ensure the quality of work and that the spending review includes stakeholders and knowledge resources from both the line ministry and stakeholders. The steering group has the overall responsibility for the quality of the material submitted to the government. As a final step, a presentation of the main findings and recommendations is provided to the relevant ministers, which is important for the political acceptance of the findings.

Spending reviews are aligned with the budget process and a routine part of budget planning. The Norwegian government initiates a budget strategy conference in autumn where the economic outlook is discussed. Based upon that discussion, the government decides its priorities and guidelines for the budget process for the following year. Mandates for spending reviews have been part of the discussion, where the results of previous spending reviews are also reviewed. Soon after the final spending review report is delivered, the Ministry of Finance, in close cooperation with line ministries, present the recommendations to the government for approval. Thus, recommendations from spending reviews that have direct effect on spending are integrated in the budget process.

Since 2016, 19 spending reviews have been undertaken. They covered, inter alia, the National Road Administration, the use of policy instruments to promote Norwegian businesses abroad, the organisation and efficiency of construction and property management affairs or support schemes to promote businesses. While the spending reviews are well-developed and well-integrated in the budget process, their scope has been far too narrow to achieve large efficiency gains and constrain overall spending. The United Kingdom and Ireland, for instance, have used comprehensive spending reviews, carried out every few years, to identify savings across the whole of government and redirect resources towards priority programmes and objectives (OECD, 2019[7]). Encouraging in this respect is that a spending review of health-related benefits will be launched soon. The review will cover sickness and disability benefits, two large spending areas. Moreover, since 2023, ex-post evaluations of spending reviews have started. One ex-post evaluation exists already. This is a step in the right direction, as the ex-post evaluation assesses whether the measures agreed upon in the initial evaluation have been effectively implemented. Comprehensive spending reviews should play a prominent role in the decision-making process.

Fiscal federalism and regional policy objectives affect many spending areas

Two choices of Norwegian society are very important in shaping government spending decisions, namely providing a universal and generous welfare system and maintaining a decentralised settlement pattern in the country: local governments provide a wide range of public services, even in the most remote jurisdictions to retain people, and often at a high cost (Box 2.6). Within this context, the distribution of spending responsibilities across government levels raises efficiency issues while the funding system of local governments does not provide strong incentives to contain local spending.

Box 2.6. The division of responsibilities between government levels

The Norwegian government has three levels: the central government, 15 counties and 357 municipalities.

- The central government is responsible for higher education and universities, hospitals, the social security system, the national road network, railways, labour market training schemes, justice and police force, prisons, defence and foreign policy.
- Counties are responsible for upper secondary schools, vocational training, child welfare institutions, institutions for the care of drug and alcohol abusers, county roads and the provision of local public transport and museums.
- Municipalities are responsible for primary and lower secondary schools, early childhood educational and care facilities, child welfare, primary healthcare, care for the elderly and disabled, public libraries, fire departments, harbours, municipal roads, water supply, sewage, garbage collection and disposal, and the organisation of land use within the municipality.

While responsible for the provision of many public services, local governments must comply with national laws defining minimum quality standards and other spending parameters for most services

they provide. All municipalities and counties fulfil the same functions and have the same responsibilities regardless of size.

The importance of the local level (counties and municipalities) is reflected in its share in general government spending, which amounted to 33% in 2022.

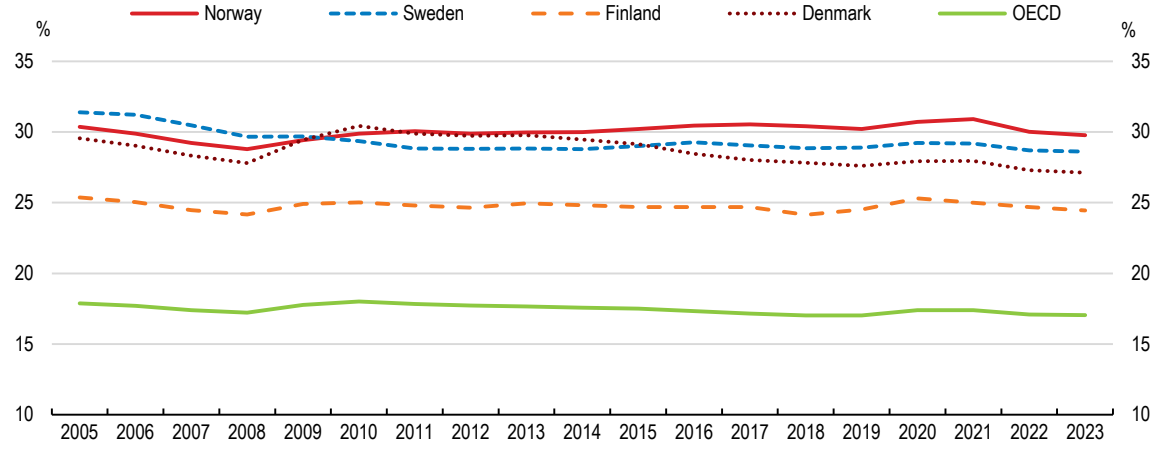
Source: (Ministry of Local Government and Regional Development, 2023[22]).

To retain households in remote areas and to attract people to move there, the central government imposes a demanding set of regulations and standards for the provision of core public services on municipalities. These concern, in particular, primary education, healthcare and care for the elderly. An important goal of the General Purpose Grant Scheme is to ensure that, through a compensation of involuntary cost differences, all local governments have the means to provide an equal standard of public services to their residents. The general grant also contains grants based on regional policy. These grants take care of various considerations, such as regional and district policy goals, population growth and challenges related to urban areas.

Central government-imposed regulations and standards are underpinned by intergovernmental transfers, which offset differences in income and cost levels across jurisdictions, combined with specific grants for remote areas. This implies that small municipalities have higher local government revenue per capita than large ones. Public employment is close to half of total employment in the northern part of Norway (Finnmark and the northern part of Troms county) compared with 30% economy-wide (Figure 2.3). In many municipalities, the share of public in total employment is above 50% (KOSTRA database). Despite the wide-ranging efforts to stem the tide (Box 2.7), net migration out of rural areas has long been observed. In addition, birth rates in small municipalities are lower than in larger municipalities. The smallest municipalities have therefore a large share of retired persons, who need health and nursing care. A partial estimate of spending on regional policy puts it at nearly NOK 60 billion (1.6% of GDP) in 2023, mainly on rural policy and four peripheral areas as well as on a range of sectoral policies.

Figure 2.3. Public employment is the highest in the OECD

General government employment as a share of total employment



Source: OECD, Economic Outlook, No. 115 database.

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Box 2.7. Regional and rural policy initiatives

Rural parts of Norway benefit from special support measures. The most comprehensive scheme that subsidises employment is the Regionally Differentiated Social Security Contributions scheme, with a zero rate in the action zone of North Troms and Finnmark and a low rate in the rest of the rural areas. The total value of this is estimated at around NOK 21.8 billion for 2023 (0.5% of GDP) These differentiated social contributions are a good way of supporting rural communities, because they apply to all forms of business activity and favour businesses where the wage bill forms a large proportion of costs, which ties in with the objective of preserving local populations. However, the deadweight loss may be considerable as the scheme applies to established as well as new businesses and there is no time limit on the support.

The government aims to strengthen the dynamism of the lagging areas and to make it more attractive for people to stay, move, work and establish businesses there. Other major measures include:

- Additional housing loans at attractive conditions and more lenient land-use planning guidelines in rural areas.
- Better cooperation between municipalities in the provision of kindergarten, school and healthcare services as well as more hospital funding.
- Municipalities and county authorities can apply for exemptions from laws and regulations in selected areas.
- Better funding of road maintenance in rural areas.
- From 2024, ferry transport to small island communities is provided for free, ferry fares have been lowered and the maximum price of tickets has been halved on the regional flight routes along the coast of Western Norway and in Northern Norway.
- The government pursues a major expansion of broadband and mobile coverage throughout the country, but counties with many rural municipalities have been prioritised to a greater extent than before.
- The special income tax allowance in the action zone in North Troms and Finnmark was doubled from NOK 15 000 in 2021 to NOK 30 000 in 2023. The zone also benefits from a reduced corporate income tax rate (18.5% versus 22%), and no surcharge on electricity consumption. There is also no VAT on electricity consumption in the northernmost counties.
- To attract young residents, the government has introduced free kindergarten service in the action zone of North Troms and Finnmark, and the debt relief scheme for student loans has been strengthened in the action zone.
- Efforts to move public sector jobs outside the largest cities have been strengthened and moving more central government agencies and jobs to rural municipalities will be considered.

Following Russia's invasion of Ukraine, cross-border cooperation with Russia has been put on hold. This has major consequences for East Finnmark and makes it natural to intensify cooperation with Finland and Sweden. Topics for cross-border dialogue in the North include the green transition, access to expertise and increased interaction between local businesses and universities. In addition, the government has strengthened the military presence in Northern Norway.

Source: (Ministry of Local Government and Regional Development, 2023[23]).

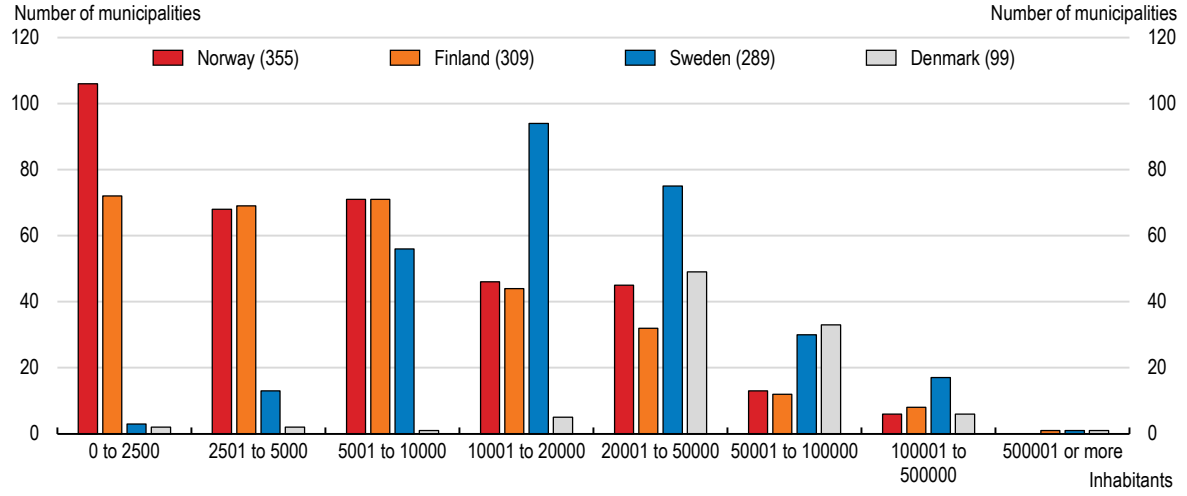
A recent report shows that there is a clear connection between a municipality's population size and centrality and the statutory compliance with central government rules (Ministry of Local Government and Regional Development, 2023[22]). Large municipalities and those that are centrally located fulfil statutory requirements to a greater extent than smaller and less central ones. Small and peripheral municipalities generally have greater challenges in more spending areas than larger and more central municipalities. A

lack of competence and capacity is the main reason for the inadequate fulfilment of municipal tasks. This applies, in particular, to competences for highly specialised tasks, as well as tasks that require interdisciplinary efforts. There is also a lack of capacity to manage the development of services and community development. Difficulties in attracting competent people to sparsely populated areas add to the pressures, especially in the health and long-term care sector. Because many small municipalities are experiencing a population decline, an increasing proportion of elderly persons, fewer persons of working age and a lack of competence, small municipalities will have increasing difficulties to fulfil the statutory task responsibilities, particularly for tasks that require specialised and interdisciplinary professional competences.

To reduce the high cost of providing good quality public services successive governments have encouraged the merger of local administrations. This has been successful, and the number of counties has declined from 19 in 2013 to 12 in 2021 and the number of municipalities from 428 to 356. However, the current government has stopped further mergers and has allowed the demerging of counties and municipalities. Since 2022, three counties and one municipality were again divided. Even after the large merger wave the number of small municipalities remains very high, especially in comparison with Sweden and Denmark (Figure 2.4). There could be considerable economies of scale and thus cost reductions by restarting mergers, at least of small municipalities. A recent meta-analysis suggests that there are economies of scale, but only for small municipalities of up to 10 000 inhabitants, with gains largest in the education sector (Gomez-Reino, Lago-Penas and Martinez-Vazquez, 2023[24]). There are still many municipalities below the 10 000-inhabitant threshold in Norway.

Figure 2.4. The size distribution of municipalities in Nordic countries

2023 or latest available date



Note: Total number of municipalities in brackets. January 2023 data for Norway and Denmark, December 2022 data for Finland and Sweden.
Source: Statistics Norway; Statistics Finland; Statistics Sweden; Statistics Denmark.

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Another option would be to differentiate the responsibilities that municipalities or county authorities have for some tasks. Differentiated responsibilities would imply that small and peripheral municipalities would be relieved from tasks that are transferred to another municipality, county or central government to reduce the challenges these municipalities have in terms of adequate capacity and competence. On the other hand, such an approach would deviate from the principle of generalist municipalities and be politically very difficult. (Ministry of Local Government and Regional Development, 2023[22]) argues that strengthening inter-municipal cooperation is a better and well-established solution. France, for instance, has promoted inter-municipal cooperation via integrated territorial entities with own-source taxing powers (OECD, 2024[25]). Yet another option would be to centralise an entire responsibility, as happened with moving the

responsibility for the hospitals from the counties to the central government, which established four Regional Health Authorities under the authority of the Health Ministry.

Municipalities frequently co-operate in sectors such as waste disposal and water supply to reap scale economies. Small municipalities are often engaged in many cooperation arrangements with other municipalities. These reflect efforts towards providing services efficiently, but for many municipalities the number and the complexity of the arrangements is difficult to manage. Moreover, municipalities that want to co-operate are dependent on municipalities wanting to cooperate with them, but often larger municipalities with greater capacity and competence do not want to cooperate with less resourceful municipalities (Ministry of Local Government and Regional Development, 2023[22]). Better incentives for cooperation should be provided.

Cooperation is still limited in some core sectors, such as schools. Each municipality has the obligation to deliver education to every resident child in the school nearest to home but has no incentive to accept non-resident pupils since it is not entitled to a corresponding compensation from the central government grant system. And bilateral compensation is rare. Such obstacles to cooperation should be removed. Long distances within and between municipalities in some regions limit the scope for cooperation and thus scale economies. But the lack of cooperation also partly explains the differences in school size: In Finnmark, Nordland and Sogn og Fjordane over half of all schools have fewer than 100 pupils, while in Oslo 40% of schools have 500 or more pupils. In Troms og Finnmark only one school has more than 500 pupils (The Norwegian Education Mirror, 2023[26]). On the other hand, many small schools have closed. Recently, they had an average of only 69 pupils in the last year they remained open (The Norwegian Education Mirror, 2020[27]).

Enlarging the operational scale of small municipalities, whether by mergers or cooperation, would not only help local administrations provide better services more effectively but could also create an opportunity to grant them greater autonomy in their spending decisions. In the present system, strong control and steering by central government in part reflects the challenges that small municipalities have in running services. If the minimum scale of operations can be ramped up, then central government can potentially give more decision-making leeway to the local level.

Healthcare: better coordination of services is needed

High public spending, delivering good overall health outcomes

Healthcare systems differ across OECD countries. They range from systems that rely extensively on market mechanisms and private providers with mostly fee-for-service payments, to systems that are mainly public and heavily regulated. In the latter, private provision tends to be limited, suppliers have less incentives to increase the volume of care and their prices tend to be tightly regulated. The vast majority of healthcare services in Norway is provided by a mix of public and private providers with a public tender, and most spending is tax-financed. Access to healthcare is almost universal irrespective of income or place of residence and healthcare services are expected to be of high quality for all (European Commission and OECD, 2023[28]).

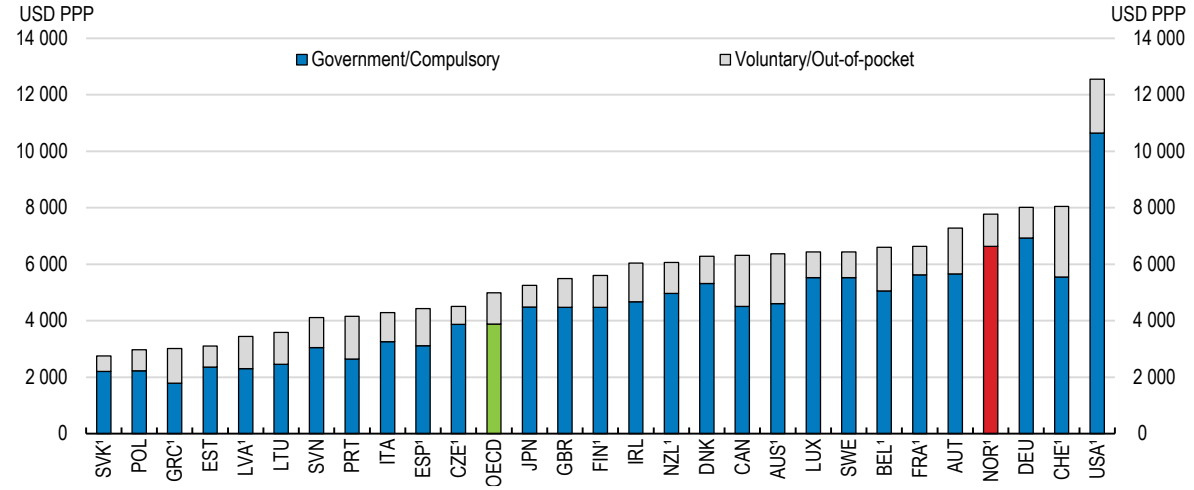
The governance of the Norwegian healthcare system is partly decentralised. Municipalities are responsible for primary care and public health services. while hospital and specialist care and hospital pharmacies are overseen by four regional health authorities. At the national level, the Ministry of Health and Care Services is in charge of planning, regulation and general stewardship. Primary care and public health include services such as general practitioners (GPs), maternity and child health centres and school health services, in addition to long-term care and social services. The counties' role is limited to dental care for children and some vulnerable populations. (Dougherty et al., 2021[29]) found that a moderate degree of

decentralisation in the healthcare sector reduces public spending. However, a high degree of decentralisation is associated with higher public spending.

Norway's healthcare spending has drifted up over time and is very high in international comparison. Per capita spending is the fourth highest in the OECD and is considerably higher than in Denmark, Sweden and Finland (Figure 2.5). Like in other Nordic countries, Norway's healthcare spending features a high share of government and a low share of private healthcare spending. Another feature is the higher share of spending on hospital services in total health spending, although in Norway hospital trusts are also responsible for specialised outpatient care (Figure 2.6). Hospital services tend to be considerably more expensive than outpatient services. Also, the share of long-term care in total health spending is very high, like in other Nordic countries. On the other hand, the share of spending on preventive care is among the lowest in the OECD, but this may reflect classification issues as routine vaccination or cancer screening rates are high.

Figure 2.5. Healthcare spending ranks among the OECD's highest and is mainly publicly financed

Health expenditure per capita, 2022 or nearest year



Note: 1. OECD estimates.
Source: OECD, Health at a Glance 2023.

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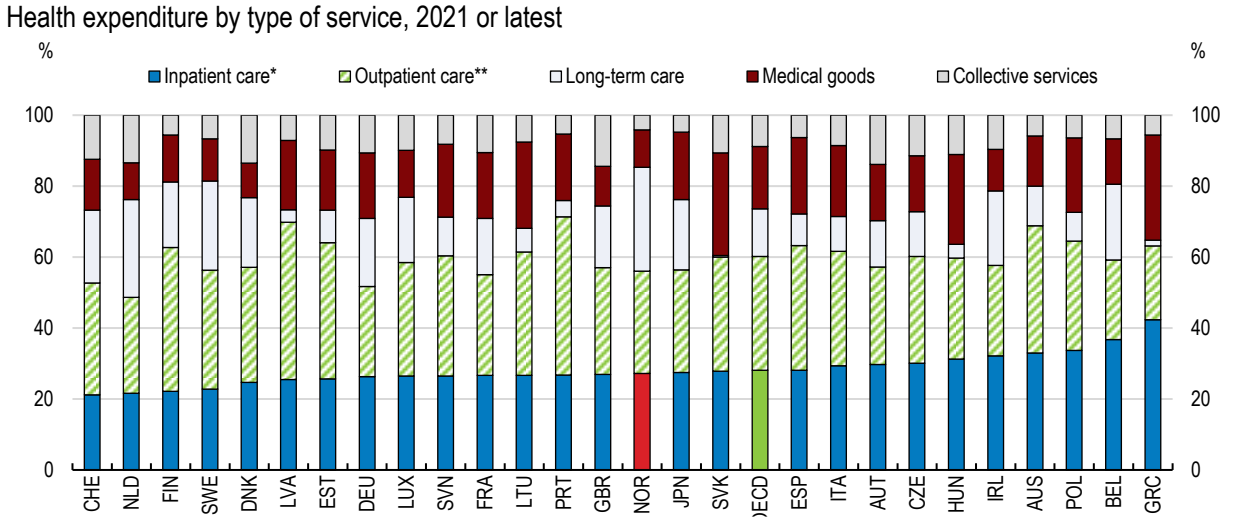
Norway also stands out by the size of its health work force (Figure 2.7). The number of doctors per capita is the fourth highest in the OECD, higher than in Sweden and Denmark and considerably higher than in Finland. Also, the number of nurses is the third highest in the OECD. Though Finland has even more, Sweden and Denmark have much fewer. In many countries there is some offset between high and low numbers of doctors and nurses, but not in Norway, where both are very high. Taking together the number of doctors, nurses, healthcare assistants and other providers per 1 000 population, the health workforce is the third highest in the OECD.

Figure 2.6. Norway's healthcare system is hospital-oriented



Note: * Refers to curative-rehabilitative care in inpatient and day care settings. ** Includes home care and ancillary services.
Source: OECD Health at a Glance 2023.

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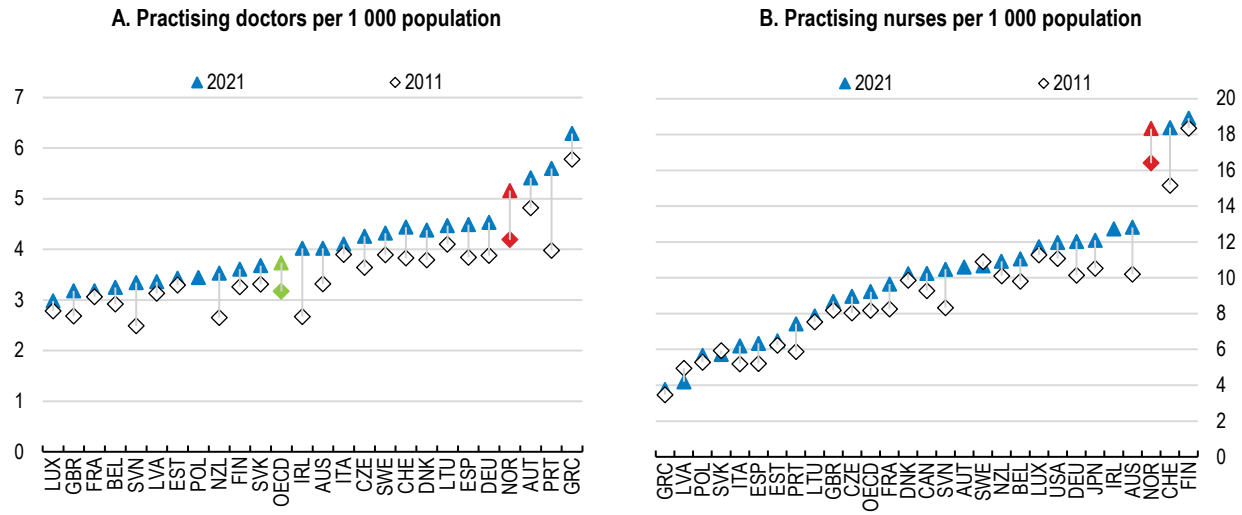
Figure 2.7. The number of both doctors and nurses is among the highest in the OECD



Note: For detailed methodological notes refer to OECD Health at a Glance 2023 Figure 8.4 for practicing doctors and Figure 8.13 for practicing nurses.
Source: OECD, Health at a Glance 2023.

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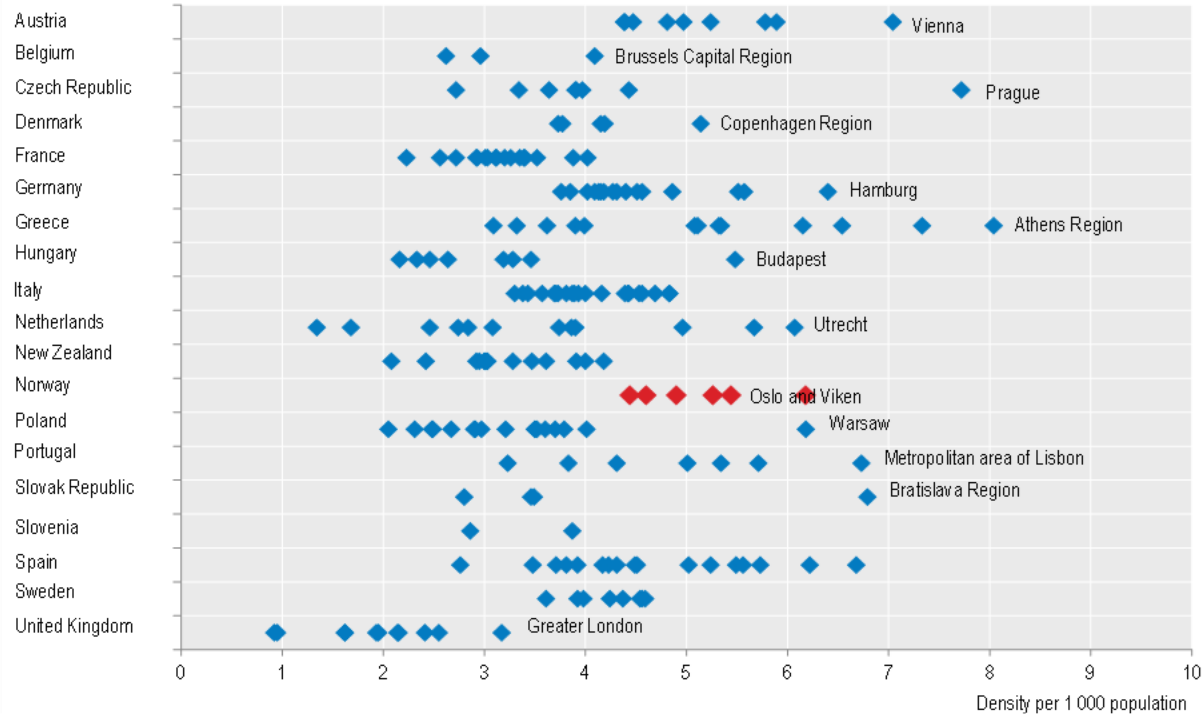
The density of doctors is generally greater in metropolitan regions, reflecting the concentration of specialised services such as surgery, and physicians' preferences to practise in densely populated areas. Norway does not only have a high density of doctors on average but also stands out by having a narrow distribution of doctors per capita across its regions (Figure 2.8). For instance, the Norwegian region with the lowest density of doctors has a higher density than the region with the highest density in Belgium, France, New Zealand or the United Kingdom (OECD, 2023[30]). Given the size of the country and the low population density, this suggests that the healthcare units are small outside metropolitan areas, which implies higher patient costs for many services. For instance, the average number of patients on a GP's list was 1 084 at the national level in 2022, but with large geographical variation. For example, in Troms og

Finnmark the average was 803 patients, while in Oslo it was 1 380 patients. Despite the small dispersion in the regional supply of services, a shortage of GPs is a problem in some regions. According to the government, increased spending in the 2024 budget should facilitate shorter waiting times, strengthen mental healthcare and promote collaborative measures in the Northern Norway Regional Health Authority (Ministry of Finance, 2023[31]). The 2024 budget also included measures to create more medical training posts to raise the number of GP posts even further.

Most indicators of health outcomes lie considerably above the OECD average. At 82.6 years in 2022, life expectancy at birth was the 7th highest in the OECD, as high as in Sweden, but higher than in Denmark and Finland. The gender gap in life expectancy is among the narrowest in the OECD. Also health inequality, as measured by the dispersion in the age of death among individuals is low in Norway.

Figure 2.8. The geographic density of doctors is fairly even

Physician density across regions, by territorial Level 2 regions, 2021 (or nearest year)



Note: The latest data for the United Kingdom refer to 2016.
Source: OECD, Health at a Glance 2023.

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Health outcomes are not only determined by healthcare spending, but also by the quality of care, lifestyle and the socioeconomic environment. Norway scores well on quality of health indicators: the rates of both treatable and preventable mortality in Norway are among the lowest in Europe. Lifestyle factors include the consumption of tobacco and alcohol, how healthy the diet is, or the amount of physical exercise undertaken. On most of these measures, Norway scores very well (OECD, 2023[30]). However, low overall fruit consumption and physical inactivity among adolescents are public health concerns (European Commission and OECD, 2023[28]). Norway also scores well on socio-economic factors, such as GDP per capita, income distribution, education and pollution levels. Given that the lifestyle and socio-economic factors are so favourable, it is surprising that per capita healthcare spending is so high. Institutional features of the healthcare system, such as near universal coverage, a generous benefit package and the use of

high-quality treatment technology seem important in shaping health spending, but it should also be possible to contain spending, while still allowing an improvement in health status.

While healthcare quality is high, there is considerable variation in the volume of treatments within many fields of the health service (Ministry of Finance, 2021[5]). Variation is unwarranted when it is not due to differences in demographics, geography, morbidity or other factors outside a healthcare provider's control. Greater variation is justified for treatments where there are geographic differences in the population's level of morbidity. A national health atlas (https://helseatlas.no/en) has documented interregional variation in the use of a range of health services. For example, there are large differences in the use of outpatient services and hospital admission rates for children across regions, which do not appear to be explained by difference in population disease burdens. A wide variation can also be illustrated by shoulder surgeries. There were about 300 shoulder surgeries per 100 000 inhabitants in Finnmark as compared to close to 100 in Norway on average (Ministry of Health and Care Services, 2019[32]). (Godøy and Huitfeldt, 2018[33]) examined the extent to which regional variation in healthcare utilisation is driven by local factors, as opposed to underlying patient health and whether higher regional supply of healthcare is associated with better health outcomes. In principle, regional variation in healthcare utilisation can be driven by variation in demand factors, such as patient health, as well as supply factors, such as physicians' practice styles. Demand-driven variation is less problematic because it depends on how much care the inhabitants require. In contrast, supply-driven variation is indicative of inefficiencies and thus of a potential for reducing spending. The results show that local factors account for roughly half of the gap between high and low utilisation regions.

Ageing will push up healthcare spending in the future, especially for long-term care, with smaller communities feeling the greatest impact. Depopulation of rural areas has long been observed. In addition, birth rates in small municipalities are lower than in larger municipalities. The smallest municipalities will therefore have the largest number of retired persons and persons who need nursing care per person of working age. The expected drastic change of the share of older people is illustrated by the number of municipalities that will have more than 25% of people older than 67 years, which could go from 14 in 2020 to 196 in 2035 (Ministry of Health and Care Services, 2019[32]). Care of older people is a local government responsibility, and the smallest municipalities will face a steep increase in needs in this area. Recruiting qualified personnel for the long-term care sector is already a major issue. Moreover, there are major differences between municipalities in terms of population size and how well they discharge their responsibilities, and there is a risk that such differences will increase.

Improving coordination, raising co-payments and leveraging digitalisation

Primary and secondary care need to be better coordinated

Given the provider split between primary and secondary care and the interactions between the two, improving coordination of healthcare services is a perennial issue. Already a White Paper published in 2005 identified patient groups deemed particularly vulnerable to coordination problems and proposed a countrywide system of agreements between hospitals and their nearby municipalities to coordinate the provision of care ((WHO, 2020[34]). The 2011 Municipal Health and Care Act introduced two key changes. Firstly, municipalities were given full responsibility for patients ready to be discharged from hospital treatment by providing local care beds for patients with a need for pre- or post-hospital services. Secondly, municipalities were made responsible for co-financing hospital care, which could have reduced hospital spending. However, the latter was abandoned three years later. The 2011 Public Health Act established a new foundation for strengthening systematic public health work in the development of health and other policies. It also provided a broad basis for coordinating public health work across various sectors and actors, and between authorities at the local, regional and national level.

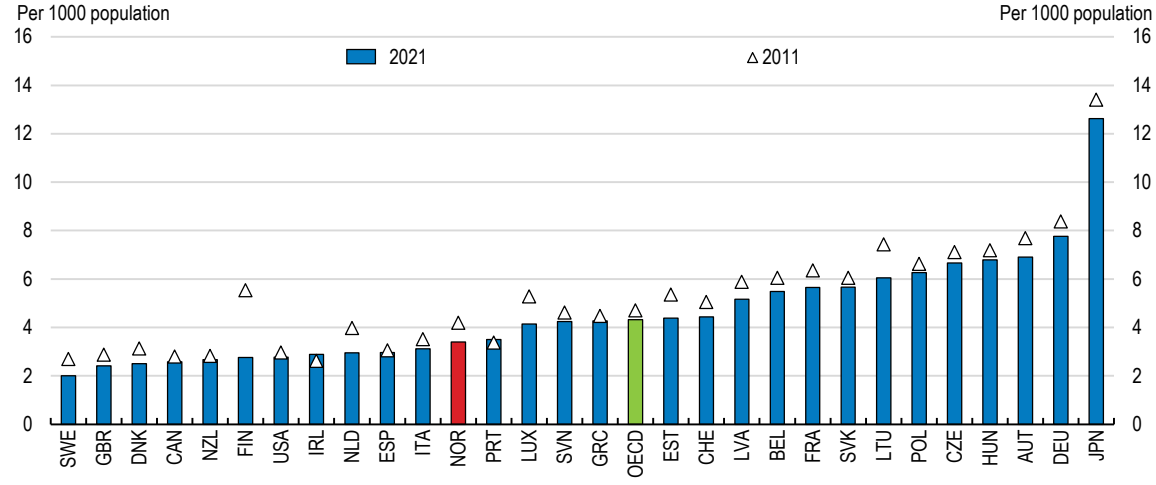
Coordination was also strengthened in 2020 by the establishment of 19 healthcare communities. Each community encompasses a health trust and the municipalities in the trust's region. Within these communities, municipalities and health trusts collaborate in developing and planning services to achieve shared health objectives. Priority was given to the development of services for children and young people with large and complex needs, people with multiple chronic illnesses, people with severe mental illness and substance use disorders and frail elderly people. Health trusts and collaborating municipalities work with patients and GPs to arrange services for vulnerable patient groups who need both hospital and outpatient care. Existing agreements and structures for cooperation will be used as a basis, but will be developed further.

The recent 2024-2027 National Health and Coordination Plan again stresses that various parts of the health and care services are not sufficiently interconnected and that it must become easier for municipalities and hospitals to collaborate on coherent patient pathways based on local needs and assessments (Ministry of Health and Care Services, 2024[35]). Better coordination will be addressed by further efforts to provide integrated services and potential changes in the funding of GPs. The National Health and Coordination Plan underlines that it must become easier for municipalities and hospitals to collaborate on good, coherent patient pathways based on local needs and assessments. New forms of organisation will be introduced to create more coherent services and better use of personnel, such as integrated mental health services for children and adolescents, combined positions for midwives and more thematic organisation of mental health care. Also a recruitment and collaboration grant will be established that will provide an incentive for joint service development between municipalities and hospitals. The grant will make it easier for municipalities and hospitals to collaborate on joint planning, service development and good patient trajectories for those that need both municipal healthcare and hospital services.

Better coordination between outpatient and hospital care and other reforms, such as many changes to activity-based financing to encourage more day surgery (Ministry of Health and Care Services, 2019[32]) have led to a shift of inpatient into outpatient settings, leading to a decreasing number of hospital beds, shorter length of stay and wider use of day surgery. Nevertheless, there are still more curative hospital beds in Norway than in Sweden, Denmark or Finland (Figure 2.9). There seems thus potential for further gains from the strengthening of care coordination between hospitals and municipalities.

Figure 2.9. The number of hospital beds has declined

Number of total hospital beds per 1000 population



Source: OECD, Health at a Glance 2023.

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Consider higher out-of-pocket payments and changes to the health benefit package

Healthcare coverage is universal and public sources account for most of healthcare expenditure. Various mechanisms, such as exemptions and ceilings on out-of-pocket payments, limit the financial burden of care on individuals. For inpatient care and long-term home-based nursing care, no cost-sharing is required. Also healthcare for children under the age of 16, pregnant women, people receiving low pensions and those injured in occupational accidents is exempted from co-payments. Public spending represents 86% of total healthcare spending in Norway, which is among the highest shares in the OECD.

As a result, the health care system provides strong financial protection. In 2021, it guaranteed near-complete coverage for the costs of inpatient care. Similarly, public coverage for outpatient care was 86%. Both exceed the OECD average considerably. In contrast, public coverage rates for dental care and pharmaceuticals is much lower, but close to the OECD average (OECD, 2023[30]).

To contain spending higher out-of-pocket payments could be envisaged for health spending with a sufficiently high price elasticity, while leaving the ceilings for such payments in place to avoid financial hardship. In addition, the health benefit package could be revisited.

For Norway, differences in care needs cannot fully explain the local variation in long-term care service levels, which also reflect interregional differences in eligibility criteria and user charge differences. Studies find clear priority differences, where, for example, municipalities prioritise differently as to the coverage of long-term care services (between 32 and 76% coverage in 2018 for the population older than 80 years). In addition, there seems to be municipal variation in how they strike a balance between institution- and home-based care services and in the quality of services provided (Rostgaard et al., 2022[36]). In 2022, more than 30 municipalities had less than 5% of the population older than 80 years in a long-term care institution, while for nearly 80 municipalities the share was higher than 10% and for 16 municipalities the share was 15% or more (Kostra database).

Given the high share of spending, higher co-payments could also be considered in the long-term care sector. Demand-side pressures are high, reflecting both the ageing of the population and the low cost of services to the users. After user charges and state transfers, the municipalities are responsible for the funding of nursing and long-term care. As in many high-income OECD countries, the percentage of older people in expensive nursing homes has declined over the past decades, with a corresponding increase in less-expensive home care services. The decline in long-term care beds in institutions and hospitals per 1 000 population aged 65 years and over was the strongest in the Nordic countries between 2011 and 2021. Nevertheless, Norway's spending on long-term care is still the second highest in the OECD, closely followed by Sweden and Denmark (OECD, 2023[30]).

Low user charges are combined with relatively generous eligibility. However, unlike cash benefits such as unemployment benefits where assessment of eligibility is relatively straightforward, long-term care services are generally allocated according to an assessment of individual need with less clear-cut eligibility criteria. Individual needs assessments and formal decisions are made at the local level, where it might be difficult to refuse the demanded service. Low user charges and eligibility are reflected in a high share of spending on long-term care.

Health Technology Assessment (HTAs) determine, which technologies are included in the public health benefit package. HTAs help ascertain if existing and new services, medicines, and medical equipment offer good value-for-money. Consequently, HTAs can be used as the basis to exclude cost-ineffective interventions from public financing (OECD, 2024[37]). The design of the out-of-pocket payment structure could be revisited by adopting more conservative criteria in the determination of which technologies should be included in the public benefits package, to ensure a higher cost-effectiveness profile of government health spending. The use of generic drugs is close to the OECD average, but considerably below that of the United Kingdom, Germany or Denmark.

Data governance and digital tools could enable efficiency gains

Digitalisation is playing an important role in healthcare systems through electronic health records, the use of population health data for monitoring and policy, and the integration of digital tools such as telemedicine into routine clinical care. It should also help in raising the productivity of the health workforce. Norway is among the many OECD countries that are implementing a digital health strategy (Ministry of Health and Care Services, 2019[32]). According to Health at a Glance 2023 (OECD, 2023[30]) it has one of the most elaborate strategies as it includes seven of eight policy goals, such as moving towards a people-centric system, improving the productivity of the health workforce or focusing on health prevention. The missing policy goal is supporting learning health systems.

Modernised patient record systems help to improve information-sharing and make work processes more efficient. In Norway, digital solutions have been established, which support cooperation and communication, internally and between municipalities and hospitals throughout the patient journey.

The use of digital tools in the health sector is not only important for healthcare coordination, but also for cost containment. For instance, Sunnaas Hospital has been using video conferences to provide multidisciplinary follow-up for people with spinal cord injuries and pressure sores, in close collaboration with the home nursing service in the municipality. A cost-benefit evaluation of this patient group showed that video consultations cost 15% of what physical meetings in outpatient clinics would cost, and only 3% of the costs which would be involved in a hospital admission (Ministry of Health and Care Services, 2019[32]). Oslo University Hospital provides remote hospital services at home for patients who have had bone marrow transplants for leukaemia. Patients can stay at home instead of being kept in isolation in hospital while their bone marrow function is returning to normal. A specialised team of nurses and doctors monitors the patient daily in their own home.

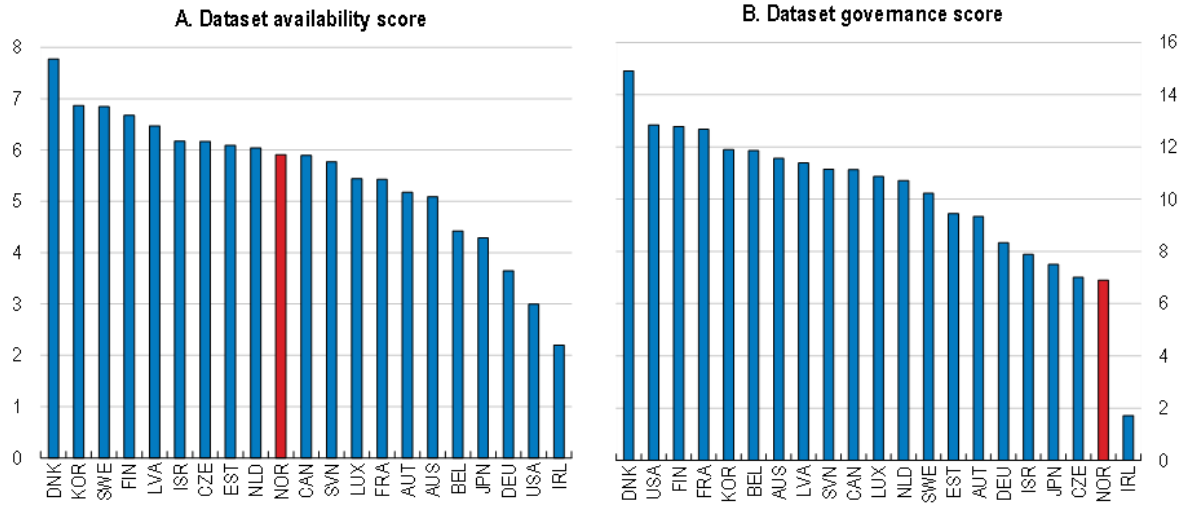
The Covid-19 pandemic accelerated the use of telemedicine, the use of information and communication technologies to deliver healthcare at a distance. Telemedicine interventions can deliver value for money by reducing the workload of healthcare workers, lowering waiting and travelling times, reducing unnecessary in-person care, shortening the length of consultations, and having lower unit costs than in-person care services. The pre-pandemic restrictions to the use of telemedicine were relaxed in virtually all OECD countries, including in Norway. During 2020, doctor teleconsultations reached more than 20% of total doctor consultations (OECD, 2023[38]). The spread of telemedicine was helped by financial incentives for providers to offer telemedicine services. Already before the pandemic, there was a substantial body of evidence showing that, when appropriately implemented, telemedicine services can be effective, safe and cost-effective. The body of evidence has grown since the start of the pandemic (OECD, 2023[38]). There is still considerable room for raising the use of telemedicine. In 2021, the share of doctor teleconsultations in total consultations in Norway was less than half of that in Denmark.

The care and assistance needs of older people can be reduced through adapted housing facilities. Increased prosperity and technical progress may make the elderly better equipped to modify their homes to prepare for a situation of impaired health. Welfare technology solutions can improve the ability of individuals to look after themselves in their own home and ensure quality of life and dignity for users. Welfare technology can also in some cases serve as an attractive alternative to ordinary service provision.

Health at a Glance 2023 (OECD, 2023[30]) provides an analysis of the policy components of an integrated digital health system to establish dimensions of digital health readiness – analytic, data, technology and human factor readiness. Despite the elaborate Norwegian digital health strategy, it points to areas that could be improved. Concerning analytic readiness, including the capability to link and use health data across critical data domains, Norway did well, but was still considerably behind the leader in this domain, Denmark (Figure 2.10). Moreover, Norway did poorly on dataset governance.

Figure 2.10. Linking and using health data across critical domains and dataset governance

Higher score corresponds to a better outcome



Note: Panel A: ability to access and link datasets in healthcare; Panel B: score calculated as a sum of proportions of national healthcare datasets with recommended governance elements.

Source: OECD, Health at a Glance 2023.

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In its recent 2024-27 Health and Coordination Plan, the government plans to complete the measures that have already been initiated (Ministry of Health and Care Services, 2024[35]). Over the next four years, the government will prioritise digital collaboration to facilitate good patient trajectories and a simpler working day for professionals. The government will also support local responsibility for digitalisation through the establishment of a health technology scheme. It would be beneficial to improve the alignment of the Health and Coordination Plan with the OECD Recommendation on Health Data Governance (2016). Improved data governance is critical to ensure compatible policies across health organisations while implementing harmonised semantic and technical data standards. When implemented, good data governance improves timely access to quality data for authorised purposes, provides common guardrails for innovation for innovative enterprises, and fosters trust in health data use for the public and health providers.

Education: high spending, but only average results

Education spending and results

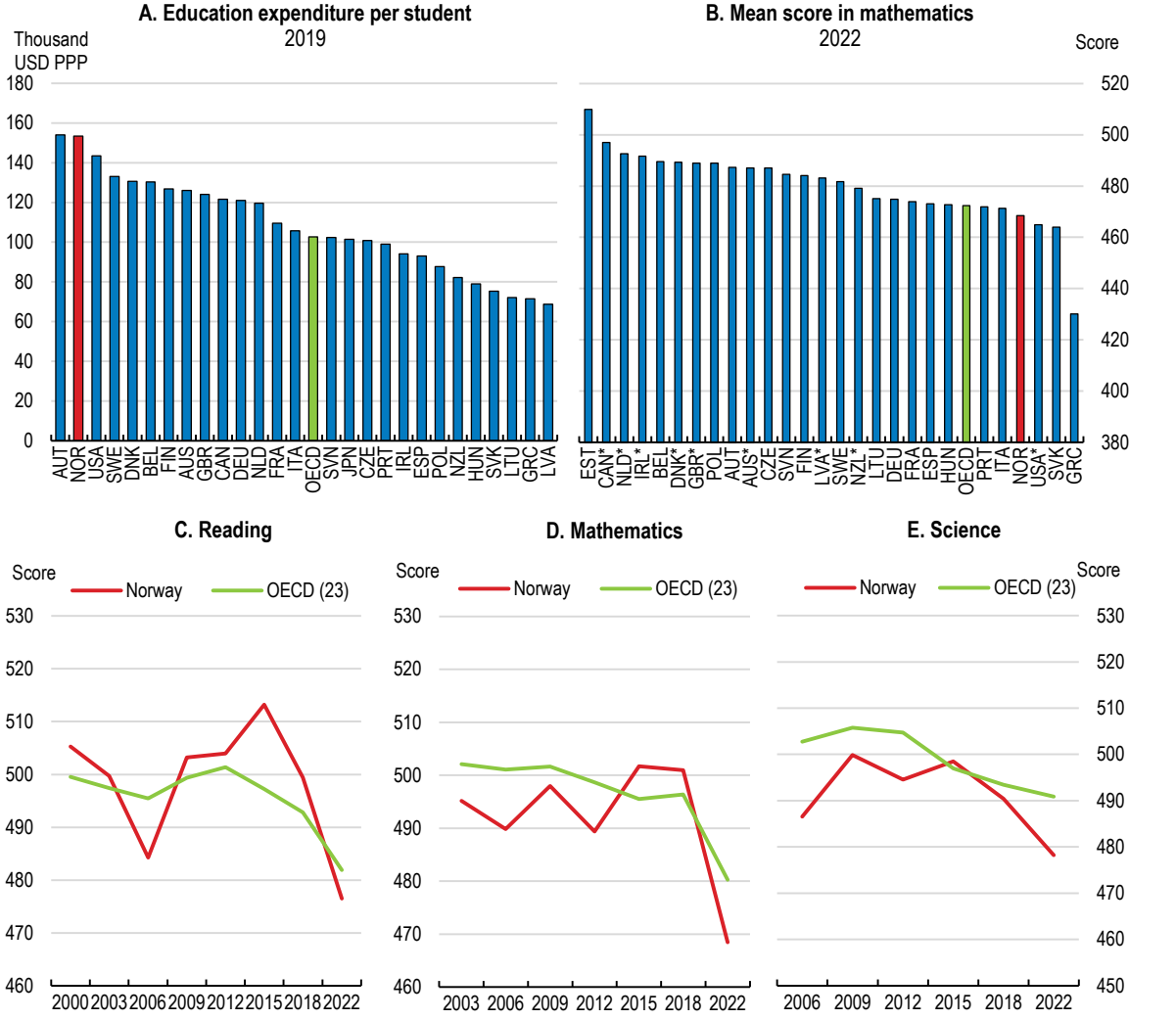
Schooling quality and equity are important determinants of individual earnings, the distribution of income, productivity and economic growth. Moreover, people with a better education are more likely to find employment, stay employed, have higher earnings and are in better health (OECD, 2022[39]).

In Norway, the governance and funding of schools reflect a long-established tradition of decentralisation. Primary and lower secondary schools are owned and run by municipalities, and upper secondary schools by counties. In primary and secondary education, responsibilities for budgets, staffing, and student admissions are often devolved to the school level. Schools are funded by the municipalities and counties. The municipalities and counties draw most of their revenue from local taxes, and from a redistributive grant system. The grant system accounts for differences in their size, school-aged population, and disadvantage factors such as parental education and immigration background. In primary and secondary education, most municipalities and counties devolve financial management to the school level. Schools receive a block grant to be used for wages and operating expenses, while responsibility for building maintenance remains with the municipalities. Schools in Norway have relatively more autonomy and flexibility in making

decisions on the use of resources as well as curriculum and pedagogy than the OECD average. However, central government regulations and agreements place limits on spending and revenues. For example, salaries and working conditions are negotiated centrally with social partners (OECD, 2020[40]).

In Norway, spending per pupil in secondary education is very high in international comparison (Figure 2.11, Panel A). This is partly explained by Norway's status as a wealthy country and also points to the high value placed on education in Norway (OECD, 2020[40]). As noted above regional policy also plays a role.

Figure 2.11. Spending on education is very high, but PISA scores are only average



Note: Panel A: expenditure for 6-15 year olds enrolled in pre-primary (if applicable), primary, lower secondary and upper secondary education institutions; Panel B: for countries marked with an asterisk caution is required when interpreting estimates because one or more PISA sampling standards were not met (see PISA 2022 Reader's Guide, Annexes A2 and A4 for more information).
Source: OECD, PISA 2022 database, Tables I.B1.2.1; I.B3.2.2; I.B1.5.4; I.B1.5.5; and I.B1.5.6.

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Spending on education is only to a certain extent related to student performance (OECD, 2023[41]). Among the countries whose cumulative expenditure per student, between the ages of 6 and 15, was under USD 75 000 (in purchasing power parity) in 2019, higher spending was associated with higher scores in the PISA mathematics test. But this was not the case among the countries whose spending was above USD 75 000. For these countries, the way in which financial resources are used seems to matter more for student performance than the level of education spending. (Égert, Maisonneuve and Turner, 2023[42]) come to similar conclusions on the link between spending and PISA scores. In Norway, the cumulative

expenditure per student was USD 153 300 in 2022. This is double the USD 75 000 threshold and was the second highest in the OECD (Figure 2.11). Denmark, Finland and Sweden achieved much better results, while spending less.

Norwegian 15-year olds perform only average in mathematics and reading, while they are significantly below the OECD average in science (OECD, 2023[41]). PISA scores for reading, mathematics and science are also below those of the other Nordic countries, except Iceland. As in most other countries, the pandemic had an adverse impact on the results (Box 2.8), with Norway having one of the largest declines in mathematics. However, the decline started already earlier (Figure 2.11, Panel C, D and E). Recent OECD research has found that a fall of 8 points in the average country score in mathematics, science and reading in the OECD's PISA tests of student achievement is associated with a long-term decline in aggregate productivity of 1% (Égert, Maisonneuve and Turner, 2023[42]). This suggests that the decline of close to 30 points in Norway's average PISA score between 2015 and 2022 will eventually reduce aggregate productivity by close to 4 percentage points. Reversing the decline would lead to sizeable productivity gains.

Box 2.8. School closures during the pandemic

Norway was much less affected by the pandemic in terms of cases and death from a covid-19 infection than many other OECD countries. Though Norway did not report data, school closures were likely less prevalent than in many other countries. The PISA 2022 results suggest that school systems that spared more students from longer school closures had higher PISA scores, while their students enjoyed a greater sense of belonging at school. All kindergartens and schools in Norway were closed from 13 March to 26 April 2020. Thereafter, schools gradually re-opened, beginning with the youngest students. By 11 May 2020, all schools had been fully reopened (OECD, 2020[40]). Remote instruction was used during the school closures. Since the start of the school year 2020/21, schools have, for the most part, remained open. Except for peaks of infection rates when all schools were closed – at the start of the pandemic, around Christmas 2020, and Easter 2021 – it has been up to the municipality to decide on educational measures (Office of the Prime Minister, 2021[43]). When schools were notified of a covid-19 outbreak, all individuals who potentially could have had contact with the infected had to isolate for ten days. This meant that several classes and grades, and sometimes the entire school, switched to distance learning from one day to the next (Hall, Hardoy and Lundin, 2022[44]). Distance learning was facilitated by the availability of digital resources: less than 10% of students were in schools whose principal reported that shortages of digital resources hinder instruction to some extent or a lot.

Overall, it appears that the effect of the pandemic on school performance was probably small, but it exacerbated an already deteriorating performance, that had started before the pandemic.

The most recent PISA report (OECD, 2023[41]) provides several key results:

- The PISA index of economic, social and cultural status can be used to compare the performance of students of similar socio-economic background in different countries. In Norway, 59% of students were in the top international quintile of the socio-economic scale, meaning that they were among the most advantaged students who took the PISA test. Their average score in mathematics was 492 points. In Estonia and Japan, students of similar socio-economic background scored much higher.
- This index can also be used to order students from the most disadvantaged to the most advantaged within each country, and to create four groups of students of equal size. In Norway socio-economically advantaged students (the top 25% in terms of socio-economic status) outperformed disadvantaged students (the bottom 25%) by 81 score points in mathematics. This is somewhat smaller than the average difference between the two groups across OECD countries. Between 2012 and 2022, the gap in mathematics performance between the top and the bottom 25% of

students in terms of socio-economic status widened in Norway, while the average gap across OECD countries remained stable.

- The share of low-performing mathematics students is fairly high and has increased considerably since 2012, while the share of top performers is small and has declined somewhat. Since 2012 the proportion of students scoring below a baseline level of proficiency (Level 2) increased by nine percentage points in mathematics; by 11 percentage points in reading; and by seven percentage points in science.
- Boys and girls performed at similar levels in mathematics but girls outperformed boys in reading by 42 score points. While girls are better in reading than boys in virtually all countries, the difference in Norway is especially large. Between 2012 and 2022, performance in mathematics declined to a similar extent among boys and girls.
- The share of immigrant students has increased from 10% in 2012 to 16% in 2022. While 25% of all students were socio-economically disadvantaged in 2022, the corresponding share of those with an immigrant background was 54%. This gap is very large, as in many other OECD countries. 69% of immigrant students reported that the language they speak at home is different from the language in which they took the PISA assessment. In mathematics, the average difference in performance between immigrant and non-immigrant students was 36 score points in favour of non-immigrant students, a significant difference. However, the difference is smaller than in many other OECD countries. After accounting for students' socio-economic profile and language spoken at home, a significant difference of 9 score points in favour of non-immigrant students was observed. The differences were even larger for reading.

As learning continues after the age of 15, performance in mathematics continues to rise. The Norwegian performance growth in numeracy between ages 15 and 24 is among the highest in the OECD (OECD, 2023[41]) and the education level of the Norwegian population is high, with the over 25 year-olds having strong reading, numeracy, and ICT skills (Ministry of Finance, 2021[5]). While basic skills acquired early in school are perfected throughout life, the *Skills Outlook* 2021 (OECD, 2021[45]) shows the importance of acquiring a strong and solid foundation in school: it is in the early years that essential skills are acquired and perfected. This implies that the deterioration in school performance could undermine the success of later learning in the coming years.

Policy should focus on cost containment, while improving outcomes

International experience suggests that education systems can lift both equity and overall achievement through improving early childhood education, raising teacher quality, tackling educational failure, and better targeting of funding to children's needs. There must also be enough local support for schools to put policy into practice. The school environment and parental involvement also play a role (OECD, 2022[39]). Also cost containment is important, but there can be trade-offs and an increase in inequities needs to be avoided.

Cost containment is important, but faces some trade-offs

Partly due to their small size and demographic decline, rural schools tend to have smaller classes and fewer students per teacher than their urban counterparts, which can exert considerable pressure on public resources. Based on data from PISA 2018, both student-teacher ratios and class sizes tend to be smaller in rural as compared to urban schools in secondary education across OECD countries. There is no agreement on what constitutes a large, medium-sized or small school. Yet, regardless of where the boundary is drawn, research from different countries indicates that significant economies of scale can be achieved when increasing school size up to a certain enrolment level before returns to scale diminish or diseconomies of scale may emerge (OECD, 2022[39]).

Smaller municipalities may also have less experience and staff and thus face significant capacity constraints, which can create or exacerbate regional inequities. Capacity building at the local level is of particular importance in countries with many small municipalities. Some countries with many small providers have responded to capacity challenges by merging providers and thereby fostering better resource management. This has been the case in Norway and continuing with merging at least the still large number of small municipalities in Norway would help in this respect. And obstacles to inter-municipal cooperation should be removed. As noted above, municipalities have the obligation to educate every resident child, but have no incentive to accept non-resident pupils since they are not entitled to a corresponding compensation via the central government grant system. Other countries have moved responsibilities to higher levels of the administration or created new administrative bodies to administer resources for a larger number of schools. In Norway, to address capacity differences across local authorities, a collective competence development model for schools has been introduced. For instance, municipalities that report weak results in key education and training areas are offered state support and guidance (OECD, 2022[39]).

Trade-offs between cost and access need to be carefully managed. Countries can consider a broad spectrum of strategies to rationalise the organisation of the school network, which includes re-thinking how educational services are defined and distributed across school sites, fostering co-operation and resource sharing between providers, creating school clusters and engaging in consolidation. At the same time, the limits of consolidation need to be acknowledged and access to schools at a reasonable distance must be ensured, particularly for younger children (OECD, 2022[39]).

For cost containment also class size matters. In full-time equivalent terms, there are 11 students per staff member in upper secondary programmes, well below the OECD average of 14. A similar difference exists for vocational upper secondary programmes (OECD, Education GPS). In 2019, the limit on the pupil/teacher ratio was reduced to 15 in school years 1 to 4 and to 20 in years 5 to 10. 8 in 10 school principals who have received funding to reduce the pupil/teacher ratio reported that the additional resources are primarily used to add a second teacher in existing classes. Just over 4 in 10 say that the teachers are also used for intensive courses. Teachers have also benefited from below-average teaching hours (OECD, 2020[40]), though their salaries are not high in comparison with the median wage. National requirements for student/teacher ratios in schools are seen as a form of detailed governance by municipalities that prevents them from using resources appropriately (Ministry of Local Government and Regional Development, 2023[22]).

Given the high cost of class size reduction policies, they appear comparatively less efficient than other interventions to support student learning. While the effects of class size on student achievement are still debated, there is substantial evidence pointing to strong positive effects of small classes on the learning of particular student groups. This includes learners in their earlier years and from disadvantaged backgrounds (OECD, 2022[39]). To contain cost and provide funding for policy priorities there may be a case for relaxing the stringent pupil/teacher ratios, while providing support for specific groups of students.

Improving the outcomes of underperforming students

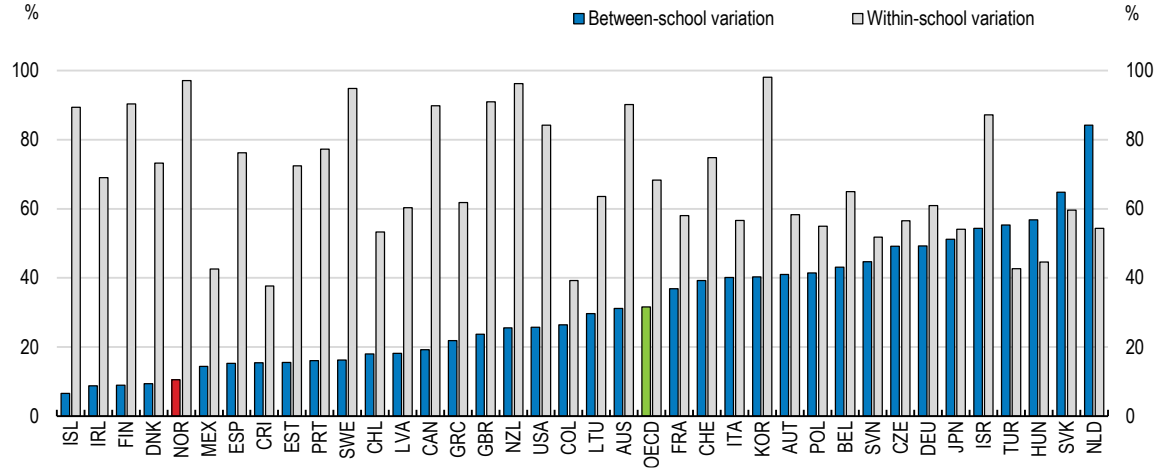
Universal policies, as compared to targeted policies (focusing on groups of students), are more appropriate in education systems where socio-economic status does not have a strong impact on student performance. In Norway, the across-school variation in PISA performance is very low in international comparison, while within-school variation is very high, a feature Norway shares with the other Nordic countries (Figure 2.12). An explanation may be that resources are not well targeted to students within schools with the greatest needs. Universal policies aim to improve performance through reforms that are applied equally across the system.

Teacher support in terms of providing extra pedagogical and motivational support to underperforming students is particularly important. The availability of teachers to help students in need had the strongest relationship to mathematics performance across the OECD, compared to other experiences linked to

covid-19 school closures (OECD, 2023[41]). Yet, the teacher shortage in Norway has become worse. School principals reported that the shortage of teaching staff rose between 2018 and 2022. In 2022, 35% of students were in schools whose principal reported that the school's capacity to provide instruction is hindered by a lack of teaching staff. In most countries, students attending schools whose principal reported shortages of teaching staff scored lower in mathematics than students in schools whose principal reported fewer or no shortages. Moreover, disadvantaged schools show a considerable shortage of teachers and educational material as compared to advantaged schools (Figure 2.13). This warrants an investigation into whether enough funding to compensate the extra difficulties that disadvantaged schools face is available.

Figure 2.12. Variation in mathematics performance between schools is low

Variation in mathematics performance between and within schools, 2022



Note: Countries and economies are ranked in ascending order of the between-school variation in mathematics performance, as a percentage of the total variation in performance across OECD countries.
Source: OECD, PISA 2022 Database, Table I.B1.2.12.

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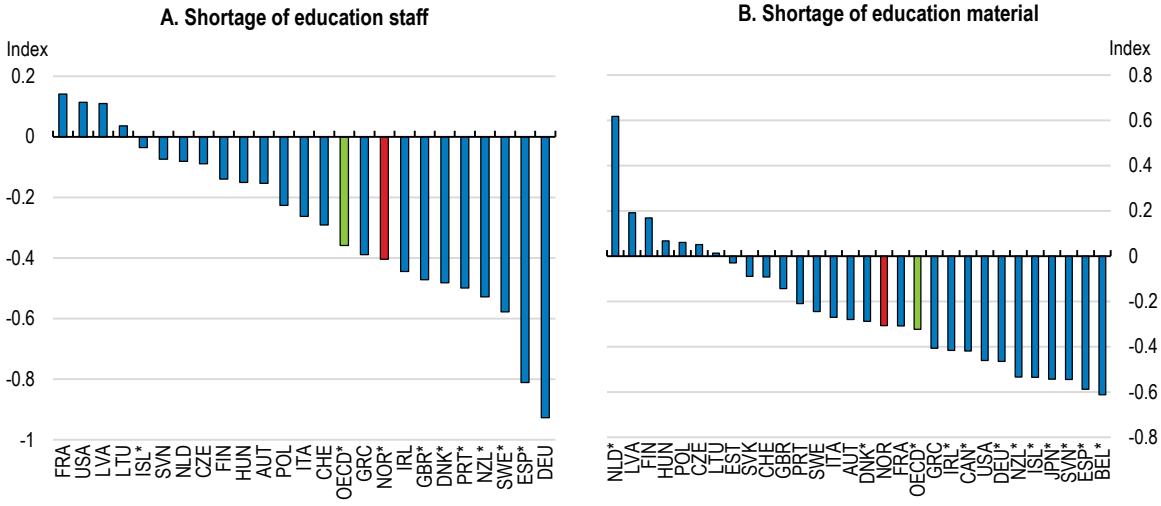
Figure 2.13. Perceived shortages of resources in disadvantaged schools are considerable

Difference between advantaged and disadvantaged schools, negative values indicate greater shortages, 2022



Note: The socio-economic profile is measured by the PISA index of economic, social and cultural status (ESCS). A socio-economically disadvantaged (advantaged) school is a school in the bottom (top) quarter of the index of ESCS in the relevant country. Statistically significant values are indicated with asterisk.
Source: OECD, PISA 2022 Database.

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The quality of teaching matters as well. Improving teacher qualifications has been a reform area for several years and a programme to improve the status and quality of teachers continues (OECD, 2019[46]). Reforms are necessary, because many teachers do not meet the qualification requirements in the subjects they teach (The Norwegian Education Mirror, 2020[27]). In 2022, 12% of pupils where in schools whose principal reported that the school's capacity to provide instruction is hindered by inadequate or poorly qualified teaching staff (OECD, 2023[30]). The reforms underway include increased support for teachers' continued education and the introduction of a five-year master's-level degree for new entrants to the profession. A 2022 report recommended a new model for continuous professional development for teachers and other staff in kindergartens and schools. The government is now following up on the recommendations and will launch a new system for continued learning in 2025. Teachers also need to be better prepared to address diversity in schools.

Schools in Norway are often encouraged by the municipalities to introduce targeted interventions to help low achieving students by, for instance, organising extra-tutoring hours for students at risk of falling behind or providing extra-curricular activities for recent immigrant students to help improve their sense of belonging in the school. However, the municipalities do not have processes in place to evaluate the impact of targeted interventions and help disseminate evidence-based interventions across schools. Best practices are shared in networks of schools without a formal evaluation of their success. While the role of the school networks in disseminating best practices is a positive feature of the Norwegian education system, it needs to be reinforced with more rigorous external evaluations of school interventions in some key policy areas such as dropout prevention of low-performing students (Borgonovi, Ferrara and Maghnouj, 2018[47]).

Grants to schools are used successfully by many decentralised education systems to implement a policy priority. Norway uses grants and funding to the municipalities to incentivise action in priority policy areas. It would therefore be relatively easy to refine the focus of targeted funding that comes on top of the block grant provided to municipalities to help more underperforming students (Borgonovi, Ferrara and Maghnouj, 2018[47]). There may also be a case to leave more room for schools to focus on the quality of teaching as well as on better supporting underperforming students by relaxing the stringent pupil/teacher ratios.

The school environment matters for learning outcomes

Parent involvement in schools matters and has declined in many countries, including in Norway. In 2022, 6% of students in Norway were in schools whose principal reported that during the previous academic year at least half of all families discussed their child's progress with a teacher on their own initiative and 82% on the teacher's initiative. In 2018, the corresponding number was 19% and 89%. The PISA 2022 report suggests that systems that had a positive trend in parental involvement between 2018 and 2022 tended to show more stable or improved performance in mathematics.

Also, the school environment matters. Many students study mathematics in an environment that is not favourable to learning: in 2022, about 23% of students in Norway reported that they cannot work well in most or all lessons, which is close to the OECD average; 24% of students do not listen to what the teacher says, which is sizeable, but below the OECD average; 31% of students get distracted using digital devices (OECD average: 30%); and 25% get distracted by other students who are using digital devices (OECD average: 25%). While classroom interventions aiming to improve student achievement have often focused on providing direct academic support, research shows that these might not be enough to improve outcomes of students at the very bottom of the learning outcome distribution, a group where boys are over-represented. Preventing or addressing classroom disruptions has proven to be as central to improving students' learning outcomes as addressing learning difficulties (Borgonovi, Ferrara and Maghnouj, 2018[47]).

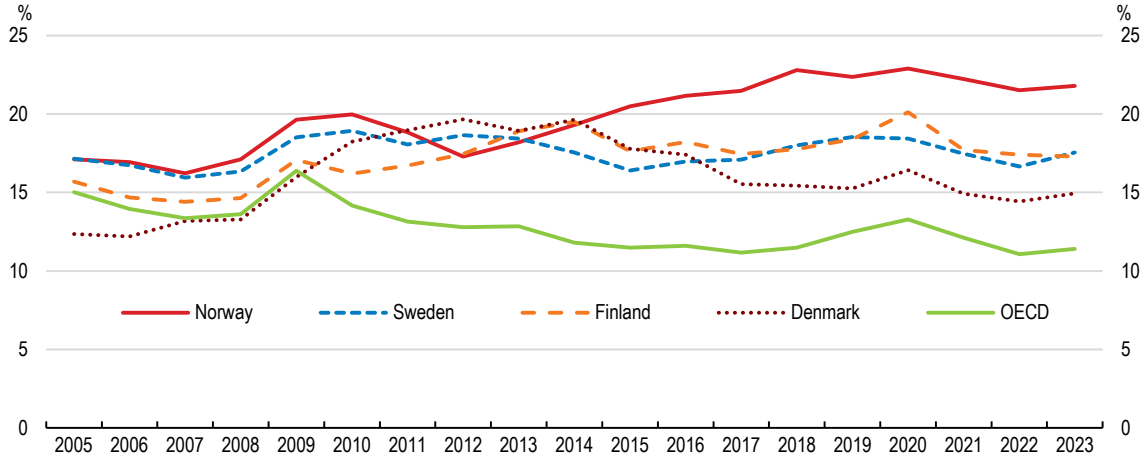
School closures drove a global conversion to remote learning, leading to greater use of technology in classrooms and at home. Students who spend up to one hour per day on digital devices for learning activities in school scored 14 points higher in mathematics than students who spent no time, even after

accounting for students' and schools' socio-economic profile. Yet technology, such as mobile phones, used for leisure, often seems to be associated with poorer results. Students who reported that they become distracted by other students who are using digital devices in at least some mathematics lessons scored 15 points lower than students who reported that this never or almost never happens. As reported above, the percentage of students in Norway getting distracted is high. On average across OECD countries, students were less likely to report getting distracted using digital devices when the use of cell phones on school premises is banned. In February 2024, the Ministry of Education and Research recommended strict regulation of mobile phone use in schools to reduce distractions, improve learning, and foster a peaceful school environment. The government has also proposed changes to the Education Act to clarify teacher's ability to intervene in the classroom to prevent serious disruptions and harm to persons or objects. Infrastructure investment: project selection can be improved.

Gross public investment is high in international comparison, especially for transport infrastructure, which accounted for nearly 30% of public investment in 2022. The share of investment in the defence sector was 35.1%, while that of investment in the health sector was 9.8% and that in the education sector 11.1%. Public investment as a share of total investment has even risen since 2012, while it was stable or declined in other Nordic countries (Figure 2.14). Successive governments have given priority to spending the increasing petroleum revenue on knowledge and infrastructure investments, as well as growth-promoting tax reductions (Ministry of Finance, 2021[5]).

Figure 2.14. Public investment is among the highest in the OECD

Public investment as a per cent of total investment



Note: OECD average refers to overall investment weighted average.
Source: OECD, National Accounts database.

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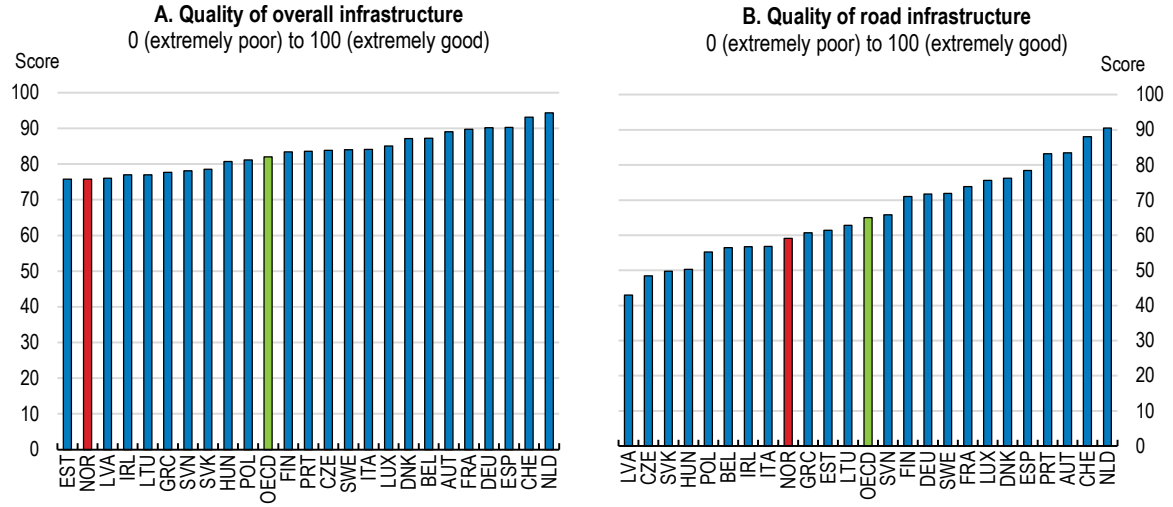
Despite comparatively high spending, Norway's transport network does not rank well according to some indicators. According to the World Economic Forum (WEF) indicators, Norway scores poorly on overall infrastructure, below average for road infrastructure overall and poorly on the road-quality component (Figure 2.15). Finland and Sweden, two other sparsely populated countries fare much better. WEF rankings only reflect the perceptions of business managers rather than the population at large but the scores suggest room to better match infrastructure development with demands and expectations, at least as far as the business community is concerned. The latest national transport plan admits that there is a maintenance backlog, the reduction of which will be a government priority during the planning period 2025-36 (Ministry of Transport, 2024[48]).

Public investment can enhance growth. New or improved transport links, for instance, alter the economic geography for businesses and households, reduce journey times, facilitate trade, connect communities

and widen access to jobs. Theory suggests that the effect of public investment on growth is most likely positive and depends on the extent to which it crowds in or out private investment. If public and private capital are complementary (e.g. roads that connect enterprises), higher public investment can spur private investment. (Fournier, 2016[49]) found that the effect of public investment on growth is large: increasing the share of public investment in primary spending by one percentage point increases the long-term GDP level by about 5% in a sample of OECD countries. Growth benefits of public investment are larger in countries with an initially low stock of public capital, as the needs for public investment are larger. By contrast, in countries with a high public capital stock, the risk of selecting cost-inefficient projects is higher. As there is a financing cost for public capital, either through levying distortionary taxes or through raising public debt, at some level of the public capital stock, the net marginal return of public investment may turn negative. Given the high investment share in the past, the public capital stock in Norway is large. This implies that, while growth effects are still positive, they get smaller and that there is a premium on the careful selection of investment projects, including with respect to upgrading and maintenance work.

Figure 2.15. The quality of the road infrastructure is below the OECD average

2019



Note: Panel A: quality of overall infrastructure is a second-pillar indicator of the Global Competitiveness index and covers the transport and utility infrastructure based on the assessment of business leaders; Panel B: based on business leaders' response to the survey question "In your country, what is the quality (extensiveness and condition) of road infrastructure?" 1 = extremely poor - among the worst in the world; 7 = extremely good - among the best in the world and later is rescaled and bound between 0 (extremely poor) to 100 (extremely good).
Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

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Beyond such aggregate considerations, public investment proceeds project by project. A project is economically profitable if the overall benefits to society exceed the costs. Such assessments, done by comparing the costs and benefits of a project, must include business needs as well as the impact on the population and on the environment. The benefits from a public investment depend on its purpose. For educational institutions, for instance, this may be improved research and education conditions, for ICT projects it may be a reduction in the time spent on regulatory compliance and for transport projects it may be travel-time savings, improved road safety and reduced pollution. Typical costs include investment and operating expenditure, as well as any negative effects on the environment.

An important reason for the high spending on transport infrastructure is Norway's geography. The challenges in investing in transport infrastructure include long distances, mountainous terrain, rough weather conditions and sparsely populated areas. Transport sector planning is challenging also for other reasons. The climate commitments and the advent of automated, connected vehicles may within a few decades change the structure of the transport sector completely. Investments currently being planned are

nonetheless supposed to deliver benefits for several decades. New technology may provide more environmentally-friendly solutions, improve mobility and lower costs in the transport sector. Improved mobility may at the same time increase transport demand. These developments are also changing what policy tools are best suited. For instance, an increasing share of zero-emission vehicles reduces the climate advantage of railway investment.

In Norway, major transport infrastructure projects are planned and decided on via National Transport Plans. The plans are usually submitted every four years and cover a 12-year period. The latest dates from 2024 and covers road, railway, airport and port projects for the period 2025-36 (Ministry of Transport, 2024[48]). Each transport plan contains a shortlist of projects. The shortlist is based on professional advice given by the transport agencies, public hearings and other policy considerations by the government. All projects with a cost estimate above NOK 1 billion pass through an appraisal process that assesses different solutions to the infrastructure problem being addressed. The resulting choice is then checked through a quality assurance process.

In the past, numerous extensive and costly changes were often made to projects in the planning phase. Project costs have often increased by more than 40% until planning was completed (Ministry of Finance, 2021[5]). Cost control for large projects has improved considerably with the introduction of external quality assurance by consultancies with experience in project planning and cost estimation. Project-specific stochastic cost estimates provide the basis for setting sizeable cost buffers (Samset et al., 2016[50]). This process takes place before the project can be considered for inclusion in the transport plan. A first assessment by (Samset et al., 2016[50]) showed that close to 80% of the projects staid within the budgeted cost. This is a notable improvement on the previous experience. Cost deviations from the target cost were distributed almost symmetrically around the expected value. An assessment of more recent projects should be undertaken.

After the quality assurance, the National Transport Plan is submitted as a White Paper to Parliament for discussion. Projects are rarely rejected at this point in the process as they have considerable momentum, with typically several years of deliberation, transport appraisals as well as both local and national support. The implementation of the National Transport Plan is contingent on sufficient funding in the annual budgets.

Measures taken to improve cost control in the road sector also show positive results with the creation of Nye Veier AS, a company wholly-owned by the government (Menon Economics, 2023[51]). The company's activities include planning, construction, operation and maintenance of major highways.

Many selected projects have shown net negative benefits, as documented in the 2018 OECD *Economic Survey of Norway* (OECD, 2017[52]). (Olsson, Nyström and Pydokke, 2019[53]) compare the governance regimes in Sweden and Norway. They conclude that various governance reforms have introduced new procedures and methods in the planning process, but that the governance procedures have failed to prevent projects with low benefit-cost ratios in both countries. (Ydersbond et al., 2023[54]) examined how the reports are used by one of its primary user groups, the top politicians in the government and Parliament. After conducting 20 in-depth interviews, they concluded that the planning system does contribute to some unprofitable projects being rejected or modified, but that political factors are also important and can lead to the go-ahead of projects with low social value. Moreover, the assumptions underlying the cost-benefit analyses sometimes change over time in a way that implies higher estimated net benefits, for instance due to a lower discount rate or a longer period of analysis (Halse, Wangsness and Minken, 2021[55]). Despite the more favourable assumption in recent years, most projects still have negative net benefits.

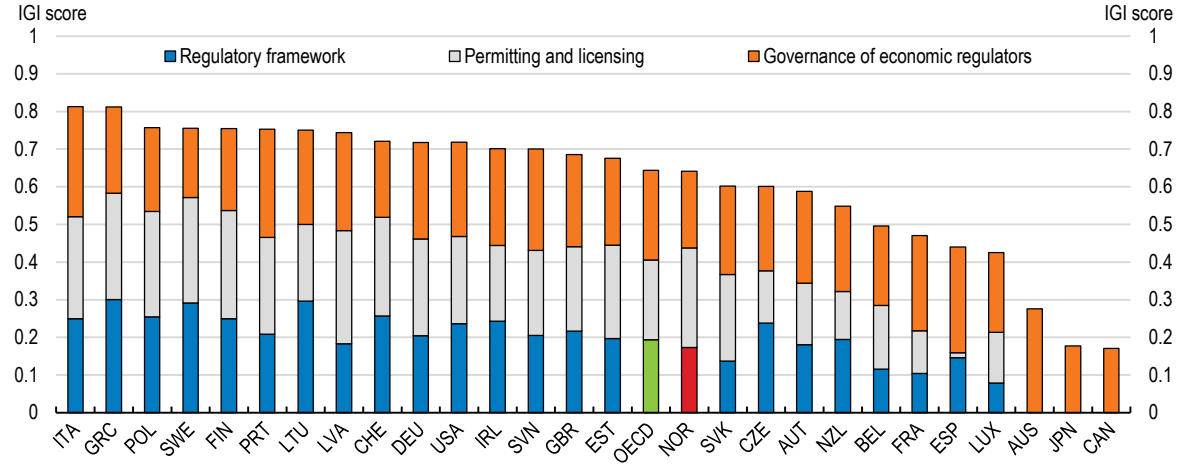
The projects shortlisted for the National Transport Plan have traditionally not always been the most highly ranked in the economic and quality assessment. Politics often dominates the selection and the scope of spending gets expanded by projects with weak cost benefit results (Ministry of Finance, 2021[5]). To avoid the selection of economically weak projects, hard measures could, for instance, comprise a new end-stage filter that requires a minimum benefit-to-cost ratio for projects to proceed further. In any case, the benefit-to-cost ratio should be given more importance in the selection of projects. Moreover, ex-post evaluations

could play a more prominent role as they provide insights into the performance and outcomes of transport infrastructure planning and decision making and help inform the public. Only a few are carried out per year.

The OECD's indicators of the quality of regulatory frameworks of public infrastructure also point to room for improvement. The OECD Infrastructure Governance Indicator on regulatory frameworks for public infrastructure provides an overview of countries' performance in promoting efficient regulatory frameworks and permit procedures, and ensuring good governance via independent and accountable economic regulators (OECD, 2023[3]). On this metric, Norway is close to the OECD average, with considerable room for improvement as compared to the best performing countries on all three sub-indices (Figure 2.16).

Figure 2.16. Regulatory frameworks for public infrastructure

2022



Note: IGI stands for Infrastructure Governance Indicator. The overall index ranges from 0 (lowest) to 1 (highest) and attributes equal weights (33%) to its components.

Source: OECD (2022), Survey on the Governance of Infrastructure – Part II: Promote a Coherent, Predictable, and Efficient Regulatory Framework; OECD (2018), Survey on the Indicators on the Governance of Sector Regulators.

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Sickness and disability benefits are too generous

Norway's sick-leave compensation and disability benefit schemes provide comprehensive support and are an important component of employee rights and benefits and the wider welfare system. But the use of these systems is extensive: sickness absence and disability benefit recipiency levels in Norway are very high in international comparison and also higher than in Denmark, Finland and Sweden (Figure 2.17). For disability benefit recipiency the difference with Denmark, Finland and Sweden is considerable. There have been policy reforms, but they have not reduced benefit recipiency. Also spending on incapacity-related benefits far exceeds the OECD average. Other Nordic countries and the Netherlands have been successful in bringing down spending on such benefits (Figure 2.18) In Denmark, for instance, disability benefit is effectively unavailable for people under 40 years since 2013, while the Netherlands took a series of reform measures (Box 2.9). In addition, the rate of sickness leave, notably long-term absences, has increased since the pandemic. Curbing spending should be a central policy concern, because of lower employment and thus productive capacity of the economy, reduced socio-economic inclusiveness due to disengagement from working life, and high fiscal costs.

Box 2.9. Sickness and disability benefit reforms in the Netherlands

Against the background of very high sickness and disability payments in the early 1990s, the Netherlands introduced major reforms, which led to the privatisation of the previously publicly administrated and collectively financed sickness benefit scheme. In 1992, uniform premiums were changed to reflect a firm's sickness absence rate. In 1994, payment of benefits during the first six weeks became the responsibility of the employer. Experience rating was also introduced in the disability benefit scheme and measures were taken to reduce inflows.

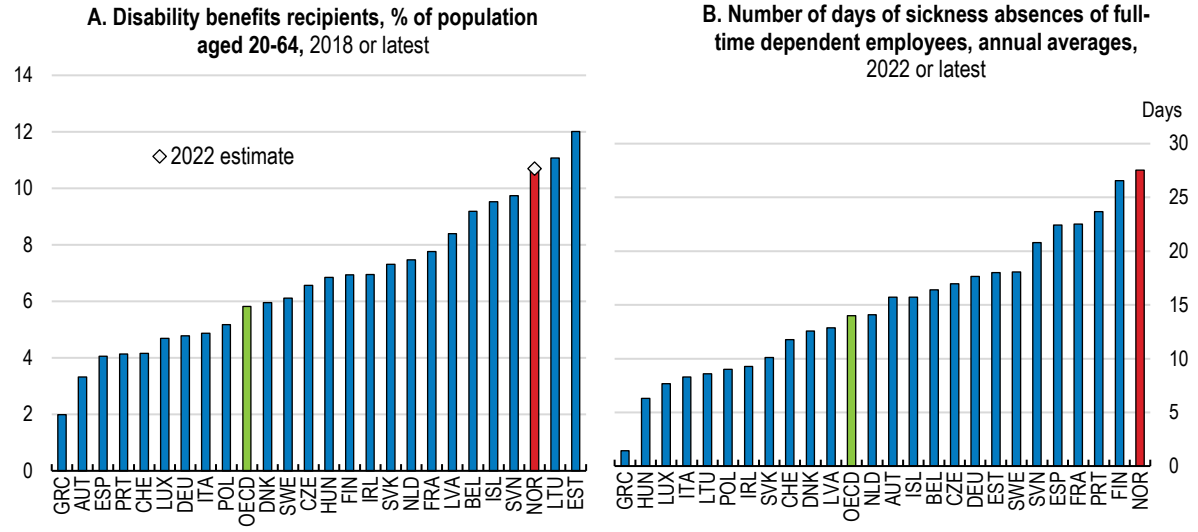
The Dutch reform experience demonstrates that employer incentives matter: when premiums to sickness and disability insurance became experience-rated, i.e. dependent on the employer's sickness and disability record, new benefit claims fell drastically. The cost to employers of sickness and disability insurance rose significantly following the major reforms, which reduced incentives to move workers to disability. These reforms achieved their objective of lowering the overall cost of the system, which was high in international comparison as the scheme had come to function like a long-term benefit programme for less employable workers. However, they failed to fully bring beneficiaries back into the labour force, as a significant share of those who left benefits did not obtain substantive gainful employment. Moreover, the reforms also created incentives to circumvent the schemes by hiring workers with temporary contracts. As a result, a recent labour market reform package includes provisions to ease the burden of sickness and disability obligations for small- and medium-sized enterprises. The Dutch experience suggests that a trade-off exists between employer incentives to support the return to work of their sick-listed employees and disincentives to provide permanent contracts.

The Dutch also provide training that is tailored to the needs of the disabled. The No Limits at Work research agenda aims to expand the knowledge base on effective training for bringing disability benefit recipients back to work. The initiative to enrol in adult learning can come from the benefit recipient, the Public Employment Service, the employer or an organisation involved in re-integration. Relative to the overall benefit population, clients who followed the training were more often male and younger and about half were low-educated. The labour market effects of training disability benefit recipients are promising. Around 80% finished their training. About 60% who received training found a job – almost twice as high as those who did not receive training and 50% higher than those who only followed a re-integration process. About half still had a job five years later.

Source: OECD (2023), OECD Economic Surveys: Netherlands; (Hemmings and Prinz, 2020[56]); (OECD, 2022[57]).

Norway's sick-leave system comprises mandatory compensation for those off work due to illness, funded by employers and the state. Disability support is fully state funded and has two components: an initial time-limited benefit, the Work Assessment Allowance (AAP) and long-term disability support, the Disability Benefit. The AAP emphasises rehabilitation, with the aim of limiting the number of those entering permanently the Disability Benefit scheme. There is a link between the sick leave and disability systems. Middle-aged and older benefit recipients tend to transition from a prolonged period of sick leave into the AAP benefit and then onto Disability Benefit support. Young benefit recipients tend to directly benefit from the AAP, as many have little to no work experience and therefore do not have access to the sick leave benefit.

Figure 2.17. Norway has a very high share of disability recipients and sickness day absence rate



Note: OECD is an unweighted average and includes the member countries for which data are available. Panel A: Disability benefits include contributory and non-contributory programmes specifically targeted at persons with a disability. Data for 2018 refer to 2016 (Estonia, Germany, Italy). The 2022 estimate for Norway is taken from Statistics Norway, where the statistic refers to the population aged 18-67 years. Panel B: the number of days of sickness absences derived from the EU-labour force survey (LFS) (this includes Norway) are multiplied by a factor of 2 as it is estimated that there is in general a 50% underestimation in LFS-reported sickness absences compared to administrative records and health surveys. The assumption is based on data confrontation for some countries (Germany and France) between LFS data and those from health surveys and administrative sources. 2018 data for Germany.

Source: OECD (2022), Disability, Work and Inclusion (OECD, 2022[57]); Statistics Norway; OECD Sickness Leave Database (unpublished).

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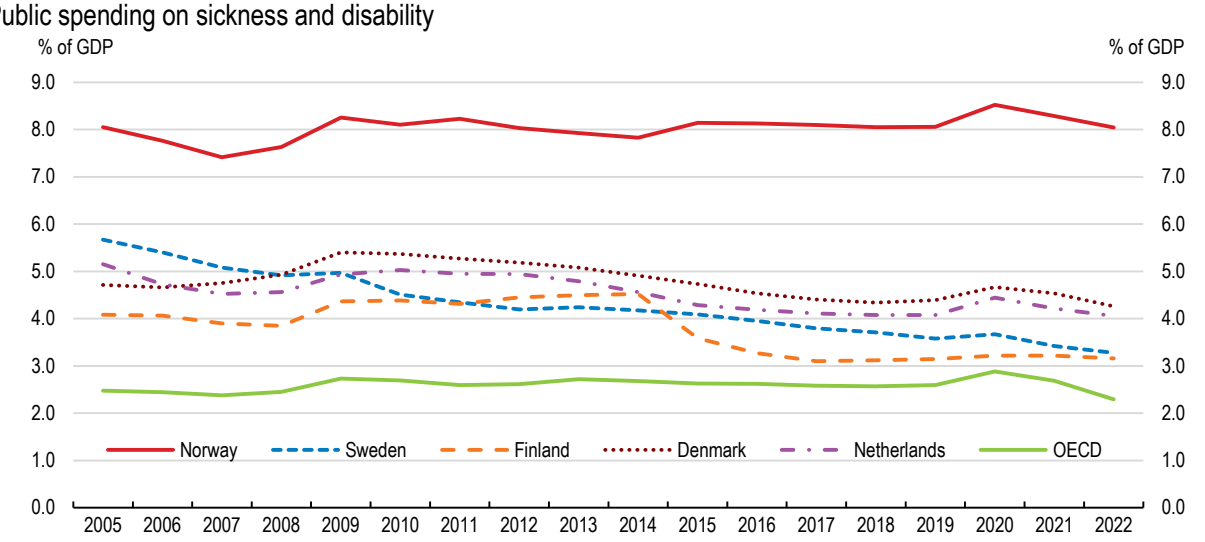
Figure 2.18. Public spending on incapacity-related benefits is far above the OECD average



Note: Mainland GDP for Norway. OECD aggregate represents simple average of its members for which data are available.

Source: OECD, National Accounts database.

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Norway's high rates of sickness absence and disability do not primarily reflect the health of the population, but rather a combination of structural factors and policy design. Core issues are generous benefit levels and relatively light eligibility conditions for starting and remaining on benefit, resulting in low rates of rehabilitation (Box 2.10).

Box 2.10. Key features of the sickness and disability benefit schemes

Key features of the schemes are (Hemmings and Prinz, 2020[56]):

Sickness leave

- Compensation at 100% of the previous salary for up to one year. A ceiling applies to the state-funded payment at a little above the average wage. Despite the ceiling, compensation is very generous in international comparison.
- The employer pays sickness benefit for the first 16 calendar days, thereafter the benefit is state funded. The employer payment was lowered during the pandemic and raised again in July 2022.
- Follow-up requirements include formulation of a return-to-work plan by employer and employee within four weeks, an expanded medical certificate and requirements regarding activity after eight weeks, (generally) a meeting after 26 weeks between the Norwegian labour and welfare administration, the employer and the person receiving sickness benefits.

Work assessment allowance

- It aims to get individuals into employment. It targets those who have been assessed as having at least 50% impairment of work capacity.
- Compensation is around two-thirds of the previous wage (with a minimum and a ceiling), with a three-year maximum duration, which can be extended, if certain requirements are met. It can be supplemented by a disability pension from an occupational scheme.
- The receipt of the benefit is conditional on following an agreed activation plan.
- Those reaching the end of one-year of sickness leave may apply to the scheme.

Disability benefit

- It provides long-term disability support for those of working age (18 to 67 years).
- Compensation is around two-thirds of the previous wage (with a minimum and a ceiling) and like for AAP it can be supplemented by a disability pension from an occupational scheme.
- Income from employment is permitted though the benefit is partially withdrawn for income levels above certain limits.

Norway's sickness leave compensation, in combination with disability benefit support, are a major channel for exit from the labour force. Active labour market policies have already intensified efforts by management to tackle sick leave and to strengthen early intervention, treatment and rehabilitation. However, economic incentives, particularly the generous public sick-leave compensation, are also part of the problem and there has been little progress in rectifying this issue. The full-salary compensation is provided for up to one year (which is exceptional in international comparison). The reduction of the sick- leave compensation rate towards the level of the other Nordic countries should be considered. As suggested by the Employment Commission, also partial employer coverage of long-term sickness absences should be introduced (Employment Commission, 2021[58]). The limited employer involvement in compensation is also problematic, because it provides little incentive for taking preventive measures or rehabilitation of those on prolonged sick leave (Palme and Persson, 2020[59]).

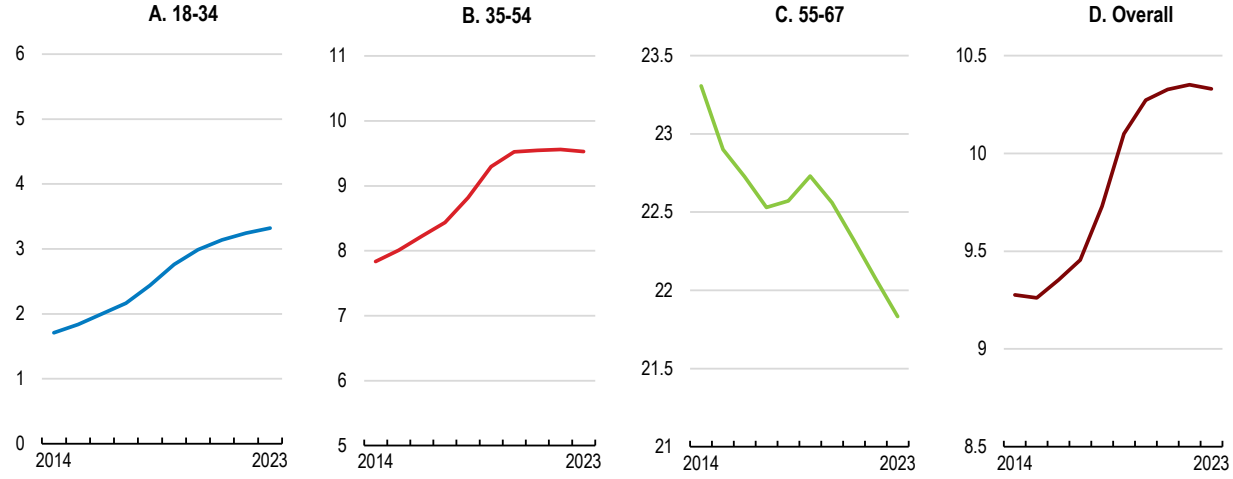
Past reforms had some success in reducing the disability claimant rate among older workers, but nearly 22% of the 55 to 67 year-olds are still receiving the disability benefit (Figure 2.19). There is thus considerable scope for further reduction in this age group. There is also a worrying increase in the share of young and middle-aged Norwegians claiming a disability benefit. Among these groups, entering the

system directly, without first passing through the sick leave system, is more common than in other age groups.

The sharp rise in the number of young people entering the disability benefit scheme should be of great concern (Wittlund, Mykletun and Lorentzen, 2022[60]). Disability benefits function as an economic safety net for individuals with low educational attainment who have difficulties getting a foothold in the labour market. Among the young, entry into the disability scheme often concerns early school leavers and youth with little or no work attachment. A recent initiative, the Norwegian Inclusive Workplace Agreement contains several measures. One focuses on preventing transitions from employment to disability benefits via training. However, this has little relevance for young disability pensioners as the majority has weak labour market attachment. More emphasis should be placed on non-workplace interventions, including better educational support for struggling students.

Figure 2.19. Disability claimants by age

Recipients of disability benefit as a share of the population, %



Note: Data from 30 September 2014 to 30 September 2023, excluding recipients of the temporary AAP benefit.
Source: Norwegian Labour and Welfare Administration (NAV); Statistics Norway.

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(OECD, 2019[61]) and the (Employment Commission, 2021[58]) identified several options for reform of the disability benefit system, which should be pursued:

- The application of rules should be stricter and access to the disability benefit limited through wider exclusion criteria and stronger treatment and rehabilitation requirements. In particular, the Employment Commission suggested to reduce AAP payments for younger cohorts and for individuals living at home with their parents.
- Early intervention should be strengthened. International evidence suggests that the chances of returning to work and the effectiveness of rehabilitation measures decline steeply the longer individuals remain off work. Early intervention should also include targeted wage subsidies to encourage employers to hire those receiving health-related benefits. Norway makes comparatively little use of such subsidies, especially compared with its Nordic neighbours (Box 2.11).
- Reform of the medical assessment procedure is necessary. Medical assessment is still predominantly carried out by the claimant's own GP, making the system vulnerable to assessments biased in favour of the claimant. Across four countries, the acceptance rate ranged from a low of 43% in the Austrian disability pension scheme, to 90% in the Norwegian disability benefit scheme

(OECD, 2022[57]). Including a medical assessment by practitioners other than the person's own doctor appears appropriate.

- Mental illness has increasingly been a cause of prolonged employee absences. Prompting greater employer interest in prevention could reduce such absences. Early identification and intervention through the provision of additional services directed at mental illness by the employment support services would help in this respect.

The planned spending review of health-related benefits should provide an opportunity to overhaul the disability and sick leave benefit schemes.

Box 2.11. Flex jobs in Denmark

Norway underperforms other countries when it comes to including people with functional impairments in the labour force. Functional impairments do not necessarily mean a reduced fitness for work. There should thus be a potential for increasing the labour supply of several groups.

Denmark introduced the flex jobs scheme in 1998. "Flex jobs" are flexible job arrangements with reduced hours for those with limited work capacity. If work capacity is significantly and permanently reduced due to illness, people can be referred to a flex job. A flex job allows maintaining contact with the job market by working a limited number of hours and having tasks adapted to the disability, even if somebody is injured or seriously ill. The municipality has to approve a flex job and an agreement with the job centre and the employer has to be concluded. The job centres play an active role in finding a concrete job for a person. The job centres also assist the worker and the business to find suitable work tasks, assess the need for accommodation and the number of hours to be worked.

Approval of a flex job agreement provides the following options: for those under 40 years old, a flex job can be granted for five years at a time; for those over 40, the person can - after a first temporary flex job of five years - be granted a permanent flex job if the municipality considers that the person cannot be re-integrated in the labour market. A flex job must be considered before a disability benefit can be granted, but people seldom progress from flex-jobs to ordinary employment.

In addition to their agreed wage, a flexible salary allowance of no more than 98% of the maximum unemployment payment is paid by the municipality. The salary and allowance may not exceed the salary one would receive if employed in the same position under normal conditions.

The flex jobs scheme in Denmark demonstrates that it is possible to find jobs for many of the people with a permanently reduced ability to work. Denmark is among the few countries, were there has been a visible improvement in both the employment rate of people with a disability and the disability employment gap. Around 70% of flex-jobs are in the private sector, while 30% are in the public sector, which means that they are somewhat overrepresented in the private sector. The design of such a scheme is also important. The number of hours worked of workers on flex-jobs is low, because financial incentives to increase the number of hours are weak. It would thus be important to earn more, when working more. This would not only raise the number of hours worked, but also reduce government spending.

Source: (Employment Commission, 2021[58]); (OECD, 2022[57]); (Finansforbundet, 2024[62]).

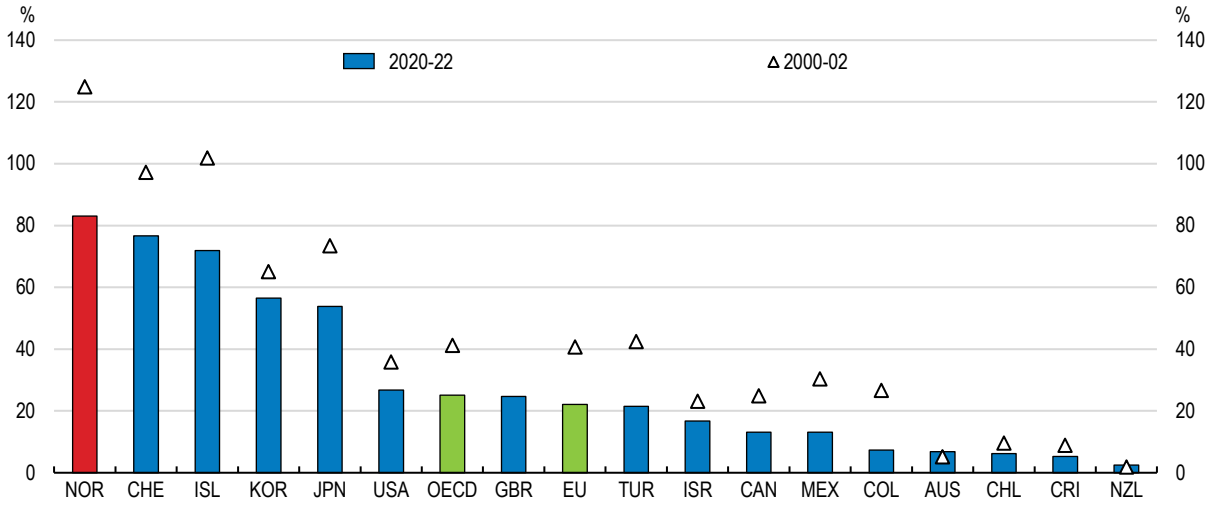
Agricultural subsidies should be pruned and greened

Norway's subsidy and tariff support for agriculture is very large and in need of substantial reform to improve the efficiency and sustainability of agricultural production. The OECD's latest *Agriculture Policy Monitoring and Evaluation* (OECD, 2023[63]) highlights that total support in 2020-22 equalled 83% of the value of

production at farmgate prices, the highest in the OECD (Figure 2.20). While this is down significantly from 125% in 2000-02, it remains way above the OECD average of 25%. Transfers to producers made up 51% of gross farm receipts in 2020-22, also the highest in the OECD. Reforms have been limited and the main agricultural sectors remain highly insulated from world markets. Market price support is provided through high border protection and regulated primary domestic markets, while a large share of budgetary support remains coupled to current production. These coupled support measures are not only potentially the most trade distorting, but also tend to have a negative effect on productivity and on the environment. The share of support considered most market distorting, for instance support coupled with production, has declined by 9 percentage points over the past two decades but still stands at 52%.

Figure 2.20. Producer support for agriculture is the highest in the OECD

Total support estimate relative to agricultural production, 2000-02 and 2020-22



Note: Countries are ranked according to TSE relative to the value of agricultural production in 2020-22. The OECD total does not include the non-OECD EU Member States. Latvia and Lithuania are included only for 2020-22.
Source: OECD (2023), Agricultural Policy Monitoring and Evaluation 2023.

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A key goal of the government is to sustain agricultural activity in rural areas across the country and to provide farmers with the same income opportunities as other groups, irrespective of farm size, region or production. To reduce primary income differences, support prices and payments differ across regions. Moreover, agricultural support is not shrinking. After growing by 9% in 2022 budget outlays are projected to grow by 31% in 2023. This is in line with an objective of the government's platform on agriculture – to address what it considers insufficient income of farmers and low self-sufficiency of Norwegian agriculture.

Recent policy changes are enshrined in the annual agricultural agreement between the government and the two farmers' organisations, which increased the support to producers sharply. These large increases were partly an effort to compensate for rising input costs stemming from the war in Ukraine. The agreement included an increase in target prices, additional budgetary support, an increase in agricultural tax deductions, and increased funding for regional environmental programmes. A temporary electricity subsidy was introduced in response to rising power prices in late 2021 and was continued following the outbreak of the war in Ukraine. Agricultural enterprises were given special treatment in the form of higher consumption limits than households and volunteer organisations, and no consumption limits on greenhouse and irrigation operations.

While income support is very high, the share of support that is targeted to environmental objectives is low. It should be possible to reform the support policy package with more targeted and decoupled measures

that improve environmental outcomes and raise long-term productivity, while maintaining production capacity across the country.

Reforms should support productivity growth and environmental sustainability (OECD, 2023[63]):

- Further reduction in the most economically distorting forms of agricultural support in order to strengthen exposure to market signals and eliminate output-related measures. The withdrawal of export subsidies is welcome, but distorting measures remain, including many import tariffs.
- Re-orienting support towards general services – especially for the agricultural innovation system – could increase productivity growth while maintaining environmental protection and sustainable natural-resource management. Much of Norway's productivity growth in the agricultural sector in recent years came from labour-saving initiatives, but did little to reduce environmental pressures. Research and outreach programmes should target sustainable agricultural practices to reduce the use of harmful inputs and emissions. Support for pest and disease control will also increase in importance as climate change could drive new incursions into Norway.
- Reducing greenhouse gas emissions from agriculture without significant policy reform will become increasingly difficult. The conflicts between the agricultural and environmental policy goals need to be addressed. It is possible to achieve the objective of preserving production capacity and agricultural landscape across the country, while reducing the negative environmental impacts. This could be achieved more efficiently through decoupled support with payment rates that are adapted to each location, and subject to requirements for maintaining production capacity.

Raising the effectiveness of public spending: policy recommendations

Main policy findings	Recommendations (key ones in bold)
The fiscal framework	
Expenditure rules help contain spending. Norway is among the few countries that have not implemented any such rule.	**Implement an expenditure rule that aims at containing spending as a share of GDP.**
A medium-term fiscal framework is lacking.	**Introduce a medium-term fiscal framework.**
Even after the broadening of the remit of the fiscal council, it remains narrower than in other OECD countries with a fiscal council.	Broaden the remit of the Advisory Panel on Fiscal Policy Analysis.
Spending reviews take place regularly as part of the budget process, but they have a narrow focus and are not sufficiently broad-ranging.	Undertake more comprehensive spending reviews and give them a prominent role in the decision-making process.
Regional policy	
Municipal mergers have been stopped. Cooperation among municipalities is still limited in some core sectors.	**Enlarge the operational scale of small municipalities, through mergers or co-operation.**
Healthcare	
Despite considerable efforts, fragmentation of care between municipal health centres and hospitals persists.	**Pursue efforts to improve the coordination of care between municipal health centres and hospitals.**
Eligibility criteria for inclusion in the health benefit package are generous and out-of-pocket payments are the lowest in the OECD.	Tighten eligibility criteria and raise out-of-pocket payments to damp demand, but keep ceilings for such payments.
A Digital Health Strategy is being implemented.	Continue efforts to implement the Digital Health Strategy, promote telemedicine and better link and use health data.
Education	
The share of poorly performing students has risen.	**Sharpen the targeting of the grant system. Reduce the teacher shortage and continue to raise the quality of teaching.**
Spending on education is very high in international comparison.	**Lift the stringent pupil-teacher ratio and strengthen co-operation among municipalities.**
Many students complain that they study in an environment that is not conducive to learning.	Improve the school environment, for instance, by restricting the use of mobile phones, to raise educational attainment. Strengthen further the position of teachers in the classroom.
Infrastructure investment	
Often infrastructure projects with a low benefit cost ratio are selected.	**The benefit-cost ratio should be given more importance in the selection of infrastructure projects.**
Only few ex-post evaluations are undertaken.	Mandate more ex-post evaluations.
Sickness and disability benefits	
Sick leave compensation is very generous. Employers pay little in terms of sick leave compensation.	**Expand employer payments for long-term sickness leave, and consider reducing the sick leave compensation rate towards the level of the other Nordic countries.**
Access to the disability benefit is very generous.	Reduce Work Assessment Allowance payments for younger cohorts and for individuals living at home.
Chances of returning to work decline steeply the longer individuals remain on sick leave.	**Strengthen early intervention, especially for young people, so that they do not end up in the disability scheme.**
Medical assessment for the admission to the disability benefit scheme is still often carried out by the claimant's own general practitioner.	**Add an independent medical assessment, for instance, by a doctor appointed by social security.**
Agricultural subsidies	
Exposure of agricultural producers to market signals is weak and output-related measures are prominent.	**Move away from the most economically distorting and environmentally damaging forms of agricultural support, and consider reducing overall support.**

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Norway's economy is slowing as inflation and higher interest rates weigh on consumption and investment. The labour market is tight and wage growth robust, while labour shortages and job mismatches are high and rising. Inflation is falling but still way above the target of 2%. The fiscal stance is expansionary. It should become contractionary to support monetary policy. While Norway is one of the OECD's most productive countries, productivity growth over the past decade has been weak. Making skills more relevant, notably by strengthening vocational education and training, could help raise productivity and ease tight labour markets. Higher and broader taxation of greenhouse gas emissions and investing in lower-cost emission cuts would help achieve emission reductions more efficiently. Public spending as a share of GDP is the highest in the OECD, which brings important benefits in the form of high-quality public services. However, oil revenues are set to decline, and ageing costs to rise, foreshadowing strains on public finances in the future. Norway could benefit from applying a medium-term expenditure framework, introducing a spending rule, and establishing a full-fledged fiscal council. Reforming the very generous sickness and disability scheme could help reduce spending pressures and increase employment. Regional policy should become more cost-conscious. Infrastructure investment is very high, and imposing a minimum benefit-cost ratio on individual projects and strengthening ex-post evaluations could help improve its effectiveness.

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