INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/104

NORWAY

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STAFF STATEMENT

June 2021

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Norway, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on April 23, 2021, with the officials of Norway on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 14, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.

The documents listed below have been or will be separately released.

Selected Issues

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

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PRESS RELEASE

PR21/165

IMF Executive Board Concludes 2021 Article IV Consultation with Norway

FOR IMMEDIATE RELEASE

Washington, DC – June 10, 2021: On June 2, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Norway on a lapse-of-time basis.

Norway experienced one of the mildest economic downturns in Europe in 2020 as a result of the authorities' substantial policy support actions and one of the lowest Covid infection and mortality rates. The country entered the crisis with substantial buffers which allowed the Norwegian authorities to act fast with strong and effective fiscal, monetary and financial sector policies to support its people, while implementing strict containment measures. Nonetheless, unemployment remains elevated (though well-below 2020 peaks), especially among the youth, foreign-born and low-income groups.

Norway's real mainland GDP growth is projected at 3.2 percent this year, and medium-term economic scarring is expected to be limited, though uncertainties remain. The economy is expected to reach its pre-pandemic level by the end of 2021, helped by a rebound of domestic demand following a planned gradual unwind of restrictions. However, uncertainties remain, not least from new strains of the virus and the pace of vaccine rollout, but also the pace of decline in the offshore industry. Fiscal and monetary authorities intend to adjust their exceptional policy support to the pace of economic rebound. Once the recovery is firmly on track, the policy attention should shift further towards reforms that promote inclusive growth and intergenerational fairness.

Norway recently announced ambitious climate mitigation measures, centered around carbon taxation and technology development, and regulations, and already leads the world in take-up of electric vehicles. The focus should now shift to cost-effective implementation.

Executive Board Assessment[2]

The challenge ahead for Norway is to achieve the right balance and mix of support for recovery and adjustment. Although Norway has experienced a relatively modest economic fallout from the crisis, the authorities are appropriately continuing exceptional policy support into 2021 to help affected sectors and prevent scarring, at levels consistent with the pace of the rebound in economic activity, as well as internal and external balances (the staff assesses the current account to be broadly in line with what is implied by fundamentals and desirable policies). Support is also designed in a more targeted manner that aims to facilitate reallocation of capital and labor (and include green and digital spending). The outlook is

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

subject to substantial risks, including a slower-than-expected vaccine rollout, a prolonged pandemic and adverse external conditions. The authorities should remain flexible and closely adjust policies to reflect changing circumstances, given ample policy space.

The gradual phasing out of fiscal support, and the reversion to a neutral fiscal stance is appropriate, provided downside risks do not materialize. The 2021 budget's mix of support for private sector activity, employment and green and inclusive growth is welcome. The stimulus should become smaller and more targeted as the recovery gathers traction, while continuing to protect those worst hit. The government's objective to integrate vulnerable groups into the workforce and improve the provision of education and skill-enhancing programs is noteworthy and should remain a priority.

Monetary policy is adequately accommodative, while countering financial stability risks. Provided the economy continues to recover in line with Norges Bank's forecasts, the projected gradual tightening of monetary policy is appropriate. However, should the recovery and inflation expectations falter, Norges Bank should stand ready to loosen policies. Its continued work on a Central Bank Digital Currency (CBDC) is welcome.

The authorities could draw on a broader set of policy tools to address the acceleration in housing prices. The authorities are relying primarily on a gradual monetary policy tightening, the expiration of the crisis-related relaxation of borrower-based requirements, and the countercyclical capital buffer to curb housing demand. The authorities should consider tightening mortgage regulations if house price growth does not slow as expected and if other targeted measures, including easing restrictions that constrain the supply of new housing (e.g. related to land use) and a gradual phasing out of mortgage interest deductibility to curb demand are not implemented in a timely manner.

Banks have weathered the crisis well so far, but the outlook remains uncertain. Besides high household debt, financial sector risks from banks' exposure to CRE have also been exacerbated by the crisis, not least because the demand for office, retail and hotel space could recede going forward. Initiatives to upgrade data collection that will allow for enhanced monitoring of CRE-related risks are welcome, while broadening the toolkit for mitigating CRE vulnerabilities could be considered. The authorities should also closely monitor bank balance sheets, which could also suffer if bankruptcies increase following the phasing out of support and will depend on banks' exposure to crisis-affected sectors. The progress in addressing AML/CFT deficiencies is welcome, but the tools, and methodologies of financial supervision need to be expanded, including by improving the frequency and coverage of inspections.

As the pandemic recedes, longer term fiscal and structural policy challenges to boost inclusive and green growth need to be addressed. In light of an expected decline in oil production after the mid-2020s, a projected increase in age-related expenditures, and the high level of government expenditure reached in 2020, the authorities should examine the composition of spending (possibly via an expenditure review by an external committee). This would also help create space for any medium-term reductions in individual and corporate taxation to facilitate labor participation and private investment. Social partners should pursue further changes to the sickness and disability benefit system. VAT reform, through broadening and simplification, remains important. Structural reform priorities include boosting labor force participation, including among vulnerable groups and non-oil productivity, and supporting green growth amid the decline in the offshore sector. The authorities' plans to strengthen investment in R&D, physical infrastructure and green technologies and efforts to promote digitalization, technology adoption and upskilling of the vulnerable parts of the population are all welcome.

Norway is taking a proactive approach in its climate change mitigation efforts, but more can be done. Current efforts to achieve climate mitigation objectives through 2030, centered on carbon taxation and other important initiatives such as research and development of carbon capture, are welcome. Looking further ahead, Norway's commitment to become a low emission country by 2050, with net negative emissions when the uptake of carbon of Norwegian forests and other land is taken into account, are also welcome, and the focus is now on implementation. Norwegian policies regarding the adoption of electric vehicles provide an important example to other countries. However, they could be recalibrated to strengthen their cost effectiveness, including by steps aimed at accelerating the replacement of the most polluting cars by EVs.

Norway: Selected Economic and Social Indicators, 2019–2026

Population (2020): 5.4 million
Per capita GDP (2020): US$ 67,176.4
Quota (3754.7 mil. SDR/0.78 percent of total)
Main products and exports: Oil, natural gas, fish (primarily salmon)
Literacy: 100 percent

			Projections					
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Real economy (change in percent)								
Real GDP 1/	0.9	-0.8	3.0	3.6	2.9	1.8	1.3	1.3
Real mainland GDP	2.3	-2.5	3.2	3.0	2.2	1.8	1.8	1.8
Final Domestic demand	2.1	-4.2	3.5	4.1	2.5	1.9	1.9	1.9
Private consumption	1.4	-7.6	4.8	5.0	2.5	2.0	2.0	2.0
Public consumption	1.9	1.7	2.0	1.8	1.7	1.7	1.7	1.7
Gross fixed capital formation	4.0	-3.9	2.8	5.2	3.3	1.9	1.9	1.9
Exports	4.1	-7.4	2.9	4.6	3.1	2.4	2.4	2.4
Imports	5.3	-12.5	3.8	7.2	3.2	2.2	2.2	2.2
Total Domestic demand (contribution to growth) 2/	2.2	-5.2	3.4	4.1	2.4	1.9	1.9	1.9
Net exports (contribution to growth)	-0.9	2.8	-0.2	-1.1	-0.2	-0.1	-0.1	-0.1
Offshore GDP	-6.1	8.0	2.0	6.6	6.1	1.6	-0.6	-0.7
Gross capital formation	8.9	-4.2	-0.9	-7.5	2.0	1.5	0.3	0.3
Exports	-4.2	8.5	2.3	9.1	6.0	1.7	-0.3	-0.3
Unemployment rate (percent of labor force)	3.7	4.6	4.3	4.0	3.9	3.8	3.8	3.8
Output gap (mainland economy, - implies output below potential)	0.2	-2.8	-1.3	-0.8	0.0	0.0	0.0	0.0
CPI (average)	2.2	1.3	2.6	2.0	2.0	2.0	2.0	2.0
Core Inflation	2.3	3.0	2.1	2.0	2.0	2.0	2.0	2.0
Public finance								
Central government (fiscal accounts basis)								
Non-oil balance (percent of mainland GDP)	-7.4	-14.2	-12.5	-10.5	-8.7	-7.4	-6.4	-5.8
Structural non-oil balance (percent of mainland trend GDP) 3/	-7.9	-12.3	-12.1	-10.1	-9.3	-9.2	-9.1	-9.1
Fiscal impulse	0.4	4.5	-0.2	-2.0	-0.9	-0.1	-0.1	0.0
in percent of Pension Fund Global Capital 4/	-2.9	-3.9	-3.7	-3.2	-2.9	-2.8	-2.8	-2.8
General government (national accounts definition, percent of mainland GDP)								
Overall balance	7.4	-6.9	-5.6	0.9	3.6	5.0	5.4	5.4
Net financial assets	391.1	421.6	405.6	402.8	403.2	405.2	407.4	409.7
of which: capital of Government Pension Fund Global (GPF-G)	328.8	358.7	346.3	346.3	348.9	352.9	357.0	361.2
Balance of payments (percent of total GDP)								
Current account balance	2.8	1.9	5.6	5.0	4.7	4.1	3.4	3.0
Exports of goods and services (volume change in percent)	0.5	-0.9	2.6	6.6	4.4	2.1	1.3	1.3
Imports of goods and services (volume change in percent)	4.7	-12.2	3.5	7.0	3.2	2.3	2.4	2.4
Terms of trade (change in percent)	-7.5	-16.9	14.9	-2.5	-2.4	-2.3	-1.7	
International reserves (end of period, in billions of US dollars)	65.0	73.6	73.6	73.6	73.6	73.6	73.6	73.6
Gross national saving	32.5	32.2	34.4	33.8	33.6	33.0	32.4	32.0
Gross domestic investment	29.7	30.3	28.9	28.8	28.9	29.0	29.0	29.0
Crude Oil Price	61.4	41.3	58.5	54.8	52.5	51.3	50.7	50.5
Exchange rates (end of period)								
Exchange rate regime								
Real effective rate (2010=100)	83.7	78.2	…	…	…	…	…	…

Sources: Ministry of Finance, Norges Bank, Statistics Norway, International Financial Statistics, United Nations Development Programme, and IMF staff calculations.
1/ Based on market prices which include "taxes on products, including VAT, less subsidies on products."
2/ Includes the contribution from the mainland GDP residual.
3/ Authorities' key fiscal policy variable; excludes oil-related revenue and expenditure, GPFG income, as well as cyclical effects. Non-oil GDP trend estimated by MOF.
4/ Over-the-cycle deficit target: 3 percent of Government Pension Fund Global.

INTERNATIONAL MONETARY FUND

NORWAY

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 14, 2021

KEY ISSUES

Norway's key challenge is to get the right balance of support for recovery and adjustment until the crisis is firmly in its past. The authorities intend to continue exceptional policy support into 2021, adjusted to reflect the rebound in economic activity and pace of vaccinations in the second half of the year, and with better targeting to affected sectors. This will support the expected closing of the output gap by 2023 and help mitigate scarring, while also facilitating reallocation of capital and labor.

- *Policies should remain focused on mitigating the fallout of the Covid crisis*. Fiscal space is substantial, and a premature withdrawal of support should be avoided. However, the shift to more targeted fiscal measures in 2021 while ensuring those worst hit get support, is warranted. In the event downside risks emerge, fiscal policy should be the main countercyclical tool. Monetary policy should remain accommodative and be stepped up if the fiscal stimulus proves inadequate or inflation expectations falter, while also balancing financial stability and inflation risks. Asset quality and insolvencies should be monitored closely, given the banks' exposure to commercial real estate (CRE), SMEs and other Covid-19-affected sectors. The authorities should seek out means to facilitate reallocation and adjustment.

- *Once the recovery is firmly in hand, policy attention can further shift to advancing reforms needed to boost inclusive growth, and intergenerational fairness*. These challenges include how to boost labor force participation and non-oil productivity, navigate the gradual decline in the offshore sector[1] while building up the green economy, and achieve intergenerational fiscal equity over the long-term.

[1] The offshore sector includes exports of oil and gas as well as ships, oil platforms and aircraft, plus investment related to these industries. Offshore GDP accounts for almost 18 percent of total GDP, 17 percent of total investment, and close to 40 percent of total exports. It directly accounts for about 1 percent of total employment and this rises to more than 5 percent once indirect employment in other oil-dependent industries is included (down from about 9 percent in 2013).

Approved By
P. Gerson (EUR) and D. Zakharova (SPR)

The Article IV Consultation discussions took place in a virtual format during April 13–23, 2021. The staff team was comprised of P. Dohlman (head), S. Dell'Erba, A. Fotiou, F. Misch, V. Pillonca (EUR), and K. Elfayoumi (SPR). B. Slettvag (OED) joined the discussions. H. Jung and T. Wang (both EUR) provided administrative and editorial assistance.

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ANNEXES

CONTEXT

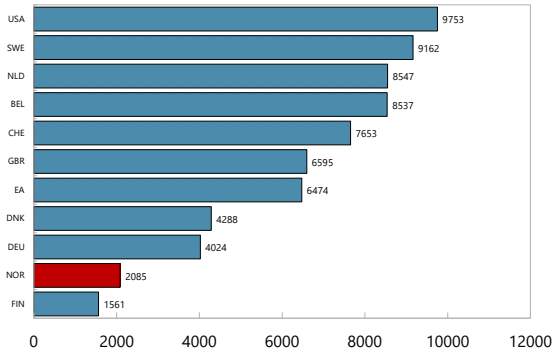
1. Norway entered the Covid-19 crisis with ample policy buffers and steady growth. In 2019, robust mainland real GDP growth of 2.3 percent helped close the output gap, the current account was in surplus and the unemployment rate stood under 4 percent. Fiscal policy was in line with the fiscal rule and the balance of the sovereign wealth fund (GPFG) rose to USD1.2 trillion (3.3 times mainland GDP). Norges Bank hiked the policy rate to 1.5 percent during 2019, reflecting the strong economic backdrop and slightly above-target core inflation. Macro-prudential policies were also tightened.

2. The authorities' strong policy response to the pandemic has helped Norway weather the health and economic crisis relatively well (Box 1). Early moves to restrict travel and mobility helped flatten the contagion curve. Substantial fiscal measures, the easing of monetary and financial policies, structural features (the share of jobs that could be done from home was a relatively high 40 percent), and an improved non-oil trade balance have helped Norway experience one of the mildest downturns in Europe.

Box 1. Covid-19 Cases and Vaccines

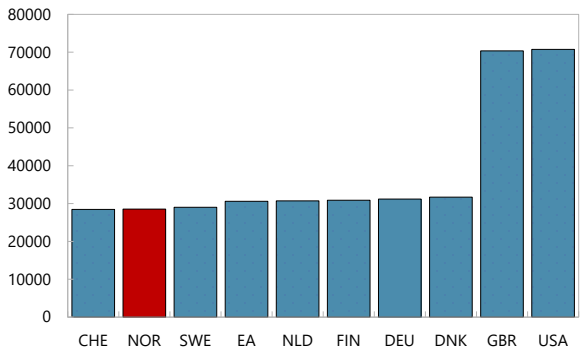
Norway has one of the lowest infection and mortality rates in Europe thanks to swift action, but vaccination rollout has been slowed by supply availability. Although mobility restrictions have not been particularly stringent by international standards, their sequencing—along with other characteristics such as the high level of digitalization across the public and private sectors, the relative ease of remote working, and high public compliance and social responsibility—helped flatten the contagion curve.[1] The pace of vaccinations remains comparable to most other European countries, and the authorities currently expect most of the adult population vaccinated by end-July 2021. In April, Norway's Prime Minister Solberg outlined the government's plan to lift national Covid-related restrictions into four broad steps, which will be determined by evolution of the pandemic, the capacity of the health care system, and the vaccination rollout. Each step involves a further easing of mobility, social distancing and public gathering restrictions, though stricter regional measures may still be applied if needed.

Number of Covid-19 Total Cases, per 100,000 population
(Number, as of 04/29/2021)



Sources: Johns Hopkins University, Haver Analytics.

Vaccinations per 100,000 Population
(Number, as of 04/29/2021)



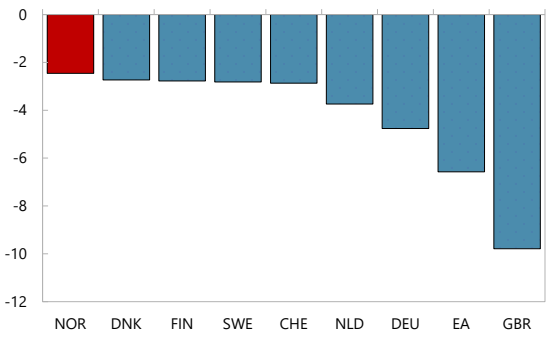
Sources: Our World in Data.

1\ In 2020, Norway ranked in the top three "high success" countries in containing (age-adjusted) Covid-19 death rates in Europe (Fotiou and Lagerborg, 2021).

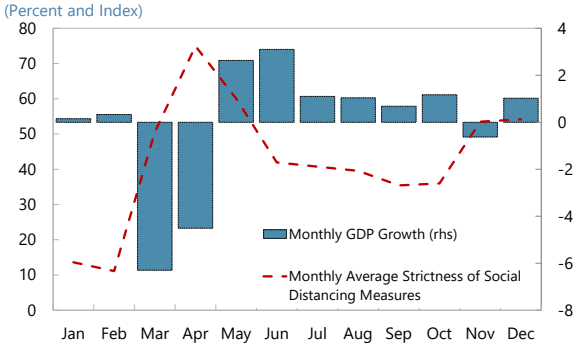
3. The challenge ahead is to achieve the right balance and mix of support for recovery and adjustment. The Norwegian authorities are continuing exceptional policy support into 2021 to help affected sectors and in a more targeted manner in line with the rebound in economic activity from the second half of the year. This should facilitate the reallocation of capital and labor (and include green and digital spending) and help mitigate scarring. Given Norway's relatively modest economic fallout from the crisis, the policy debate is gradually shifting back to medium-term challenges in a context of national elections in September. These challenges include how to boost labor force participation and productivity and navigate the gradual decline in the offshore sector and build-up of the green economy while also ensuring long-term intergenerational fiscal equity.

RECENT DEVELOPMENTS

4. Norway's mainland real GDP fell by 2.5 percent in 2020—one of the mildest downturns in Europe. After a steep drop in March/April, the economy bounced back. For the full year, private consumption fell the most (-7.6 percent), reflecting a sharp increase in household (HH) savings, followed by a 4 percent drop in investment. Mainland net exports had a *positive* contribution to growth of 2.8 percent, thanks to a significant decline in imports of travel services and krone depreciation. The fiscal impulse (see Section A) was sharply positive. Notably, output growth saw a smaller decline (-0.6 percent m-o-m) and faster rebound in response to second wave mobility restrictions in November.



Sources: National Statistical Offices, Haver Analytics, and IMF staff calculations.

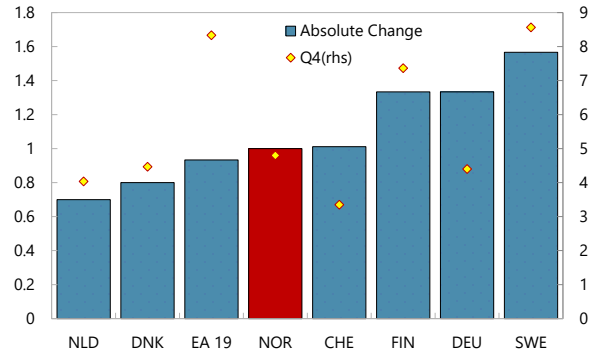


Notes: 100 is the maximum possible value and 0 corresponds to no measures.
Sources: Oxford University and IMF staff calculations.

5. Unemployment reached an all-time high in 2020, with several service sectors hit particularly hard. The spike in unemployment reflected both the nature of the shock as well as Norway's flexible labor market policies and increased unemployment benefits. The registered unemployment rate rose to more than 10 percent in March, but then declined thanks to the strong policy response and adaptation to the lockdown. The average unemployment rate (ILO definition) remained elevated at 4.6 percent during 2020—about 0.9 percentage points above end-2019 levels. The impact on employment was concentrated in high-contact sectors such as

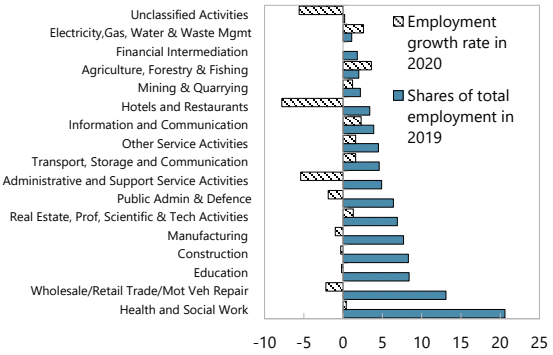
hotels and restaurants, lower income households,[2] younger males and immigrant labor force were the more exposed groups. Despite the decline in economic activity, real wages grew at an average rate close to 1 percent on the back of lower headline inflation.

Change in Unemployment Rate (ILO Definition), 2020-2019
(LHS: percentage points; RHS: level)



Sources: National Statstical Offices, Eurostat, and Haver Analytics.

Employment Shares and Growth Rates by Sector
(Percent)



Sources: Haver Analytics.

6. Core inflation (CPI-ATE[3]) peaked well-above Norges Bank's 2 percent target during 2020. Core inflation reached 3.7 percent in August (y-o-y) due to NOK depreciation, temporary VAT cuts (which led to an increase in pre-tax prices) and tight supply conditions. In contrast, headline CPI averaged just 1.3 percent, reflecting lower energy prices.

7. Norway's external balance remains positive and broadly in line with fundamentals. Oil prices declined to historic lows in April 2020 before partially rebounding in the second half of 2020, pushing terms of trade down by 12 percent for the year. The decline in the trade balance to -0.9 percent of total GDP (from +1.6 percent in 2019) was mitigated by a resilient oil and gas sector (production was lower than pre-pandemic expectations, but still grew by 6 percent). Despite the weaker trade balance, the current account posted a surplus of 1.9 percent of total GDP in 2020, thanks to a higher primary income balance.[4] Overall, staff assesses the current account gap in 2020 to be around -0.9 percentage points of total GDP, which is broadly in line with what is implied by fundamentals and desirable policies, while the REER index in 2020 to be overvalued by 2.8 percent relative to the REER index norm (Annex I).

OUTLOOK AND RISKS

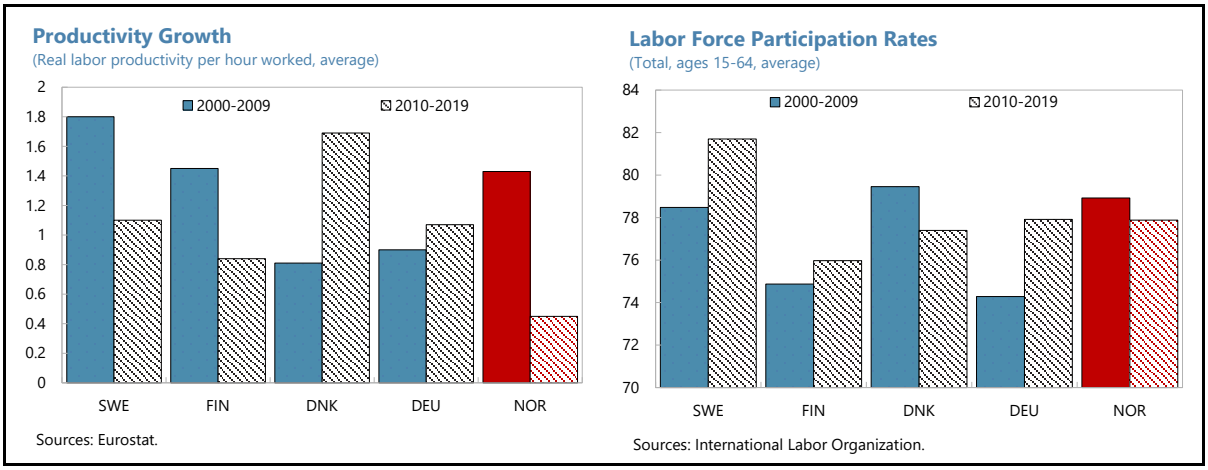
8. Norway's near- and medium-term prospects look relatively favorable, with a strong recovery projected in 2021–22 and limited scarring, but longer-term growth prospects are more muted. Mainland real GDP is expected to rebound by 3.2 percent this year and surpass

[2] Frisch Center, an independent Norwegian think tank, estimates that the fall in hours worked between February and August 2020 for the sample of households employed in February was 11 percent for the lowest income decile, compared to only 3 percent for the highest income decile.

[3] CPI-ATE is a measure of core inflation, adjusted for tax changes and excluding energy products.

[4] The increase reflects lower flows abroad due to postponed dividend and interest payments and the positive effect of a depreciated NOK on the value of foreign income relative to GDP.

2019 levels by late 2021, driven primarily by rebounding domestic demand towards the second half of 2021 (assuming the vaccination rollout continues and herd immunity is reached by the end of the year). The current account balance is expected to remain positive, but net exports will have a negative contribution to GDP growth as imports recover. In 2022, real mainland GDP is forecast to grow by 3 percent. By the end of the medium-term, the level of mainland GDP is expected to be about 1 ¼ percent below its pre-Covid forecast, given limited expected scarring in Norway (Annex II). Higher inclusive growth over the long term will require further reforms, given negative demographics that will boost pension and health spending, slow productivity growth, and falling labor participation.[5]



9. Near-term risks to the outlook are main balanced, but significant and are tilted to the upside over the medium-term (while ample policy space provides comfort). Recovery remains dependent on the efficiency and effectiveness of the still-uncertain vaccine rollout. Elevated domestic and global uncertainty increase risks to the recovery in household consumption (e.g., due to uncertainties surrounding the motives for higher savings) and investment (e.g., prolonged wait-and-see decisions). Risks of a spike in bankruptcies and unemployment once fiscal support for household income and corporate balance sheets is withdrawn pose a risk of persistent losses. However, the higher rate of household savings,[6] and the ongoing recovery in oil prices tilt risks to the upside and large fiscal buffers can be deployed if needed. The authorities also face trade-offs in balancing inclusive policies against possible weakening of incentives for labor force participation and reallocation (Annex III). Norway's medium-term oil production plans have been relatively stable (despite the 2020 swings in oil prices) given very low operational costs, but there is increased uncertainty about the longer-term future of oil production beyond its expected 2024 peak (Annex IV).

[5] After several decades of positive trends, the working age population has begun to decline, and this trend will continue in coming decades despite pension, employment, and tax reforms.

[6] The authorities stated that the increase in household savings was more likely involuntary due to strict lockdown policies.

Authorities' Views

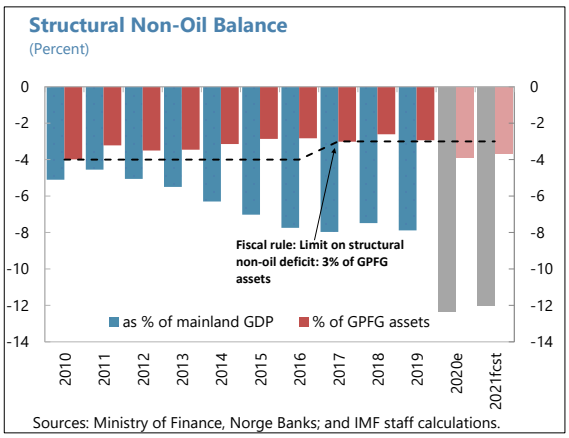
10. The authorities expect a slightly stronger rebound in mainland GDP growth and agree that medium-term risks to the outlook are tilted to the upside. The authorities expect a faster and more durable rebound in consumption following vaccinations and therefore higher growth, especially in 2022, and minimal medium-term scarring. Norges Bank expects the economy to experience a positive output gap as early as 2022, with low risk of inflationary pressures given well-anchored expectations. The authorities agreed that the risk of an increase in unemployment and bankruptcy rates, as Covid support measures are withdrawn, persists. The authorities expect higher ongoing contributions to growth from the offshore sector, despite the Covid-19 shock and expect limited medium-term scarring in the sector.

POLICY DISCUSSIONS

Near-term policies should remain firmly focused on mitigating the pandemic, limiting scarring, and supporting recovery and adjustment. Given substantial space, fiscal policy should continue to play the lead role, adjusting to changing circumstances as needed. The monetary policy stance is appropriate given a need for near-term support while also recognizing risks to financial stability and inflation. Financial policies should remain focused on balancing support for the recovery with containing vulnerabilities, addressing the 2020 FSAP recommendations, and remaining vigilant regarding any emerging non-performing loans (NPLs). Near-term structural policies should aim to mitigate scarring and facilitate adjustment and reallocation. As the recovery firms up, Norway should gradually withdraw policy support and shift its focus more squarely on medium-term challenges to boost inclusive (and green) growth prospects and ensure intergenerational fairness.

A. Fiscal Policy

11. Fiscal policy was broadly neutral leading up to the crisis, with ample fiscal space. Norway's structural non-oil deficit during 2017–19 was consistent with the fiscal rule that the structural non-oil deficit should help smooth economic fluctuations and average no more than 3 percent of the GPFG over the cycle. This restraint marked a welcome change from previous episodes of pro-cyclicality, notably before the fiscal rule was tightened in 2017.[7] The combination of Norway's flexible fiscal rule and the GPFG's substantial wealth meant that Norway had ample fiscal space when the Covid crisis hit.



Sources: Ministry of Finance, Norge Banks; and IMF staff calculations.

[7] The fiscal rule was tightened from 4 percent of the GPFG to 3 percent, effective 2017, reflecting a downward revision of the fund's expected real rate of return. Large movements in the fund's value, such as in 2019–20, are intended to be smoothed over several years, based on a forward-looking assessment of the GPFG's real rate of return.

Text Table 1. Fiscal Measures 2020

Discretionary Measures, 2020

	NOK billion	Percent GDP[1]
Measures targeting businesses	67.4	2.22
Measures targeting households	15.8	0.52
Other compensation schemes[2]	11.1	0.36
Measures to support critical sectors of "critical importantace to society" [3]	30.1	0.99
Other measures	7.0	0.23
Total	**131.3**	**4.3**

Sources: Ministry of Finance, IMF calculations

1\ Mainland GDP.

2\ Including, inter alia, short-term work schemes (reduced obligation for employers towards wages upon furloughing), reduced liability for care benefit and covid-related sickness absence, temporary tax reductions and support schemes for the furloughed empoyees to get back to work.

3\ Municipalities, health sector and public transport.

Main Below the Line Measures, 2020

	2020 Committed	
Guarantee and loan schemes for businesses 2020	**NOK Billion**	**Percent GDP[2]**
Government Fund to purchase Norwegian corporate bonds	50.0	1.6
Increased funding for Norway's innovation loan scheme	1.6	0.1
Guarantee scheme for bank loans to businesses	50.0	1.6
Aviation guarantee scheme	6.0	0.2
Loan scheme for package tour operators	1.5	0.0
Guarantee scheme for re-insurance of credit insurance[1]	20.0	0.7
Total	**129.1**	**4.2**
Corporate investment and other		
Increased funding for Innovation Norway and Research Council:	5.4	0.2
Increased investment capital in Investinor	1.0	0.0
Purchase of domestc air routes	2.0	0.1
Total	**8.4**	**0.3**
Grand Total	**137.5**	**4.5**

Source: Norway MoF;

1\ Risk relief for private credit insurance providers.

2\ Mainland GDP.

12. The fiscal policy response to the crisis has been appropriately forceful and adaptable, focusing on saving lives, mitigating the downturn, and protecting the most vulnerable. Amid the prospect of a deep and uncertain downturn, the government initially committed to discretionary above-the-line (ATL) measures of up to 5 ¼ percent of mainland GDP for 2020 (NOK 162 billion). The ATL measures included income support schemes for corporates and individuals, such as a temporary layoff scheme that provided a flexible tool for companies to temporarily reduce their work force. As economic prospects improved, the authorities refocused and adjusted downwards these discretionary measures to 4 ¼ percent of mainland GDP (NOK 131 billion), which came on top of Norway's large automatic stabilizers (estimated at 1 ¾ percent of mainland GDP, or NOK 50 billion). ATL income support schemes were reduced somewhat while other compensation and support schemes were increased.[8] In addition, the government committed to 4 ½ percent of GDP in below the line (BTL) measures, mainly consisting of loans and guarantees, that notionally doubled the size of the initial fiscal package, though take-up has been modest (Text Table 1). Together, these measures have protected the most vulnerable, maintained livelihoods and, so far, kept bankruptcies low (Section C).

13. Fiscal support in 2021 is appropriately expected to be adjusted in line with pandemic developments but also become more targeted, consistent with the path of recovery. The 2021 budget aims to continue support for pandemic-hit private sector activity and employment, with ATL measures amounting to somewhat over half that of last year and with limited BTL measures. However, the proposed supplementary budget (published on May 12), takes into account the additional lockdowns and somewhat delayed opening of the economy in the second half of 2021, therefore, subject to the Parliament's decision the ATL stimulus for this year is likely to exceed the 2.1 percent of mainland GDP outlined in the 2021 budget (Table 2). Key 2021 budget measures (before any supplement) include:

[8] Income support schemes for individuals were revised down the most partly because unemployment was not as high as anticipated. This was partly offset by an increase of other compensation schemes, including part-time work schemes and measures for sectors of critical importance.

Text Table 2. Discretionary Measures Adopted or Proposed, 2021

	NOK billion	Percent GDP[1]
Measures targeting businesses	29.7	0.9
Measures targeting households	13.0	0.4
Measures for sectors with duties of critical importance to society	26.2	0.8
Total	**68.9**	**2.1**

Sources: Ministry of Finance, and IMF staff calculations.
1\ Mainland GDP.

- **Supporting businesses that suffered large falls in income** *(nearly 1 percent of mainland GDP)*. This represents a continuation of 2020 measures, but at less than half the size, partly targeted in part at hard-hit sectors such as aviation, tourism, and culture. As the recovery gathers traction, it will become increasingly important to lessen this support and facilitate the transition to a post-Covid economy.
- **Getting people back to work, building skills and human capital** *(nearly 0.5 percent of mainland GDP)*. This includes initiatives such as increasing the capacity of the tertiary and secondary education systems, integrating vulnerable groups (e.g., youth) so that they enter and remain in the labor force, and combining unemployment benefits with skill-enhancing training programs.
- **Support for sectors of 'critical importance' to society** (*nearly 1 percent of mainland GDP*). This mainly consists of transfers to municipalities, the health sector to deal with the social and health ramifications of the pandemic, and the transport sector.

14. The 2021 budget also includes:

- **A welcome mix of tax measures.** The authorities introduced further permanent changes to individual and corporate taxation to encourage labor participation and private investment. including by reducing the tax on operating assets (by increasing the valuation discount for shares and fixed assets), and reducing the wealth tax for working capital. The tax-exempted benefit on employee purchases of shares of their company has been raised. These changes to taxation provide companies with incentives to invest. A 5 percent CO2 tax hike will complement Norway's drive towards green technologies and is the first step in a multi-year planned broadening and increase in carbon taxation (while reducing other taxes in a revenue-neutral manner).
- **An appropriate increased focus on R&D, investment, and green technologies.** Norway is participating in various EU programs (e.g., Digital Europe) and R&D funds will be increased. This includes funding for a "green platform" where companies will compete for grant and investment funding for new climate technologies. Other (BTL) measures include a temporary ship guarantee scheme (0.3 percent of mainland GDP, NOK 10 billion) and increased funding for innovation. The government will continue its medium-term effort (launched in 2020) to

incentivize climate-friendly transport solutions and a multi-year funding effort for CO2 capture and storage facilities.

15. The expected reversion towards a neutral fiscal stance is appropriate once the Covid crisis is behind Norway, but the authorities should remain responsive to changing circumstances. The current budget (which will be revisited during May with a supplementary budget) envisages that remaining Covid-related measures will gradually taper by end-2021 as the economy recovers and compensatory fiscal measures for companies and households to become progressively less utilized, effectively tapering the size of the stimulus as the output gap closes. Under a revised proposal published in April 2021, the repayment of company tax deferrals has been postponed from end-July 2021 to end-October 2021, with equal repayments over 12 months (instead of 6 months, see ¶27). This change reflects the fact that some mobility restrictions are now more likely to be lifted later than previously envisaged. Reflecting the anticipation of some additional fiscal loosening in the supplementary budget, staff expects the structural non-oil deficit to decline to 3.7 percent of the GPFG in 2021 (from 3.9 percent in 2020) and then fall under 3 percent by 2023, thus remaining within the limits set by the fiscal rule. If the recovery falters, staff fully supports the authorities' intention to firmly draw more from GPFG's savings if needed to protect health and livelihoods and mitigate scarring.

Medium Term Fiscal Issues to Be Addressed Post-Crisis

16. Looking ahead, the authorities should evaluate measures to address the persistent rise of government spending and revisit tax and spending composition in line with past Staff advice. Despite large government net worth and sustainable fiscal position (Annex V), a long-term fiscal adjustment of around 5 percent of GDP will be needed to secure intertemporal solvency, given negative demographics and other factors (see ¶17).[9] Norway can afford to spread this adjustment over decades.

- *Revenues*. Simplifying and broadening the VAT system remains a priority, consistent with the recommendations of the Government-appointed VAT Commission and past IMF advice (Annex IX). Norway's standard ('ordinary') VAT rate of 25 percent is among the highest in the OECD, and multiple reduced rates and exemptions add complexity. Simplification and base-broadening would facilitate a small reduction of the top rate and improve efficiency (and still yield net revenue improvements). Relatedly, the temporary VAT cuts introduced during the pandemic should be unwound on schedule. The impact of any rate increases on the most vulnerable can be offset by more targeted measures. Staff supports the authorities' intent to more than triple Norway's carbon tax by 2030 to around EUR 200 per ton (with offsetting tax cuts to make the plan revenue neutral and to mitigate the social impact of the higher carbon tax) to help Norway achieve its climate mitigation goals (see below).

- *Spending*. The expenditure share reached a post-war high of around 65 percent of mainland GDP in 2020, up from 60 percent in 2019 (Figure 1). Although the shares of pension and

[9] See Cabezon and Henn, 2018 for a broader discussion of Norway's Public-Sector Balance Sheet.

social spending are not especially high compared to peers, negative demographics suggests they will climb, while oil revenues are expected to decline after the mid-2020s (Annex IV). The authorities should consider additional measures to boost labor supply such as further changes to the sickness and disability benefits system, in line with the recommendations of the expert commission and long-standing Fund advice. The authorities could consider an expenditure review with the aim of improving the cost-effectiveness of government spending.[10]

17. Norway needs to continue its longer-term adjustment away from dependency on oil revenues. Responsible management of oil revenues and their investment into financial assets has enabled Norway to diversify away from oil to a considerable extent. Nonetheless, with oil revenues set to decline sharply in coming decades (Annex IV), Norway's task will increasingly become one of consolidating and preserving the accumulated wealth and ensuring intergenerational fairness against deteriorating demographics. This adjustment will require more prudent MLT fiscal policy to build substantial buffers; staff believes the fiscal rule remains compatible with this long-term objective.

Authorities' Views

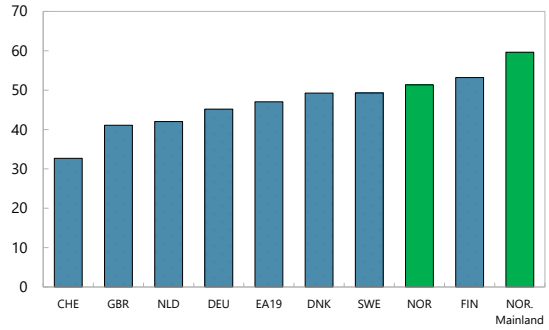
18. The authorities affirmed that the fiscal stance will remain accommodative in 2021 and responsive to any changes in economic conditions, and that the structural deficit will be slightly larger than previously assumed in the 2021 budget. The authorities noted that compensatory fiscal measures for companies and households would become progressively less utilized, effectively tapering the size of the stimulus, while automatic stabilizers are also going to become less active. On this basis, the authorities concurred that fiscal policy should revert towards neutrality as the output gap closes, with the structural deficit edging back towards 3 percent of the oil fund balance (GPFG). However, the supplementary budget presented to the Parliament on May 12, proposes a looser fiscal stance than previously envisaged for 2021, reflecting a somewhat more prolonged lockdown and uncertainties over the rollout of vaccinations. The authorities agreed on the importance of maintaining the focus on vulnerable segments of the population and striving towards a more inclusive labor force. The authorities concur with staff's assessment on the long-term pressures on public finances, and believe that continued adherence to the fiscal rule will result in addressing Norway's fiscal and structural challenges related to aging and the gradual decline of oil-related revenues, which will peak in the mid-2020s. The authorities were open to the notion of an expenditure review to ensure high efficiency of public spending. However, they believed expenditure rules were not compatible with, nor necessary within, the framework of the fiscal rule.

[10] The authorities could also consider the merits of a fully independent external fiscal council, as in other AEs (and other Nordics). Currently, Norway has a 'Model and Method Commission' which is an internal advisory body working inside the Ministry of Finance.

Figure 1. Norway: Fiscal Indicators

General Government Expenditure, 2019

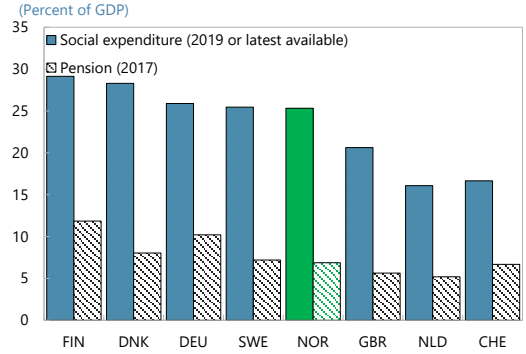
(Percent of GDP)



Sources: Haver Analytics, Eurostat, and IMF staff calculations.

General Government Social Expenditure

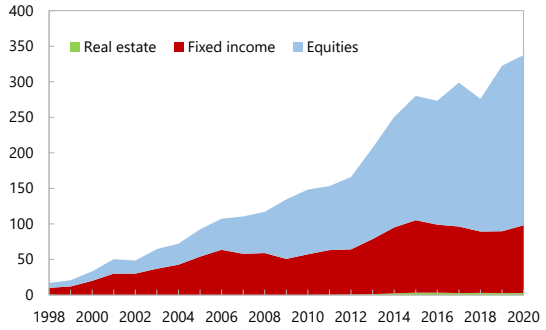
(Percent of GDP)



Sources: OECD and Eurostat.

Government Pension Fund Global Breakdown by Asset Class

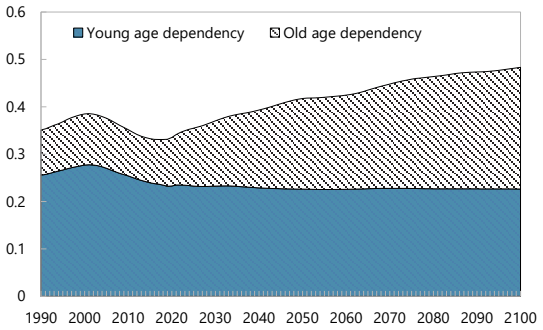
(Percent of Mainland GDP)



Sources: Norges Bank and IMF staff calculations.

Dependency Ratio

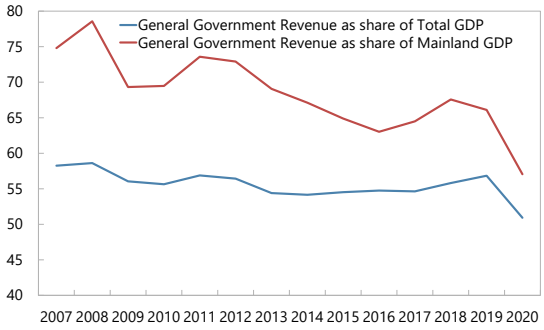
(Persons aged 0-14 and 75+ per person aged 15-74)



Sources: Statistics Norway and IMF staff calculations.

General Government Revenue

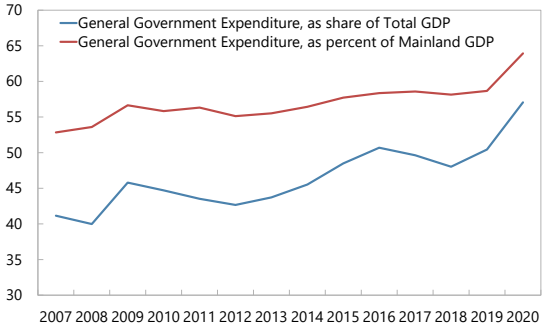
(Percent)



Sources: Haver Analytics, Ministry of Finance, and IMF staff calculations

General Government Expenditure

(Percent)



Sources: Haver Analytics, Ministry of Finance, and IMF staff calculations.

B. Monetary Policy

19. Norges Bank's swift and significant monetary policy easing, and actions in response to a sharp NOK depreciation in 2Q2020, were appropriate. Norges Bank cut the policy rate by 150 basis points to zero in three steps and provided liquidity to the banking sector through market operations with varying maturities at or slightly above the policy rate. The effectiveness of the rate cuts was magnified due to the high share of flexible rate mortgages and household indebtedness (Figure 2). The interest burden-to-income ratios fell by almost 1.5 percentage points in 2020:Q1–Q3, providing a boost to disposable household income. In response to NOK depreciation (even relative to the Swedish krona and other small country currencies), Norges Bank deviated from its long-standing practice and intervened in the foreign exchange market for financial stability-related considerations.[11] It also offered USD loans to counterparties as a backstop and entered into a swap agreement with the Fed, to bolster market confidence. The depreciation was triggered by temporary and historically large shocks to oil prices and global equity prices (the GPFG has high exposure to global financial markets) which contributed to a decline in market liquidity, a rise in risk premia in the bond market, and non-bank financial institution (NBFI) hedging behavior in response to asset price drops. Subsequent to Norges Bank's interventions, the NOK appreciated and market liquidity improved as measured by bid ask spreads. Going forward, the authorities could consider improving monitoring of and providing guidance on liquidity risk management of NBFIs as recommended by BIS (2020).

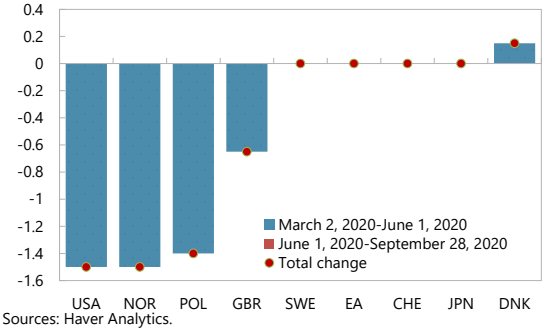
20. Norges Bank's actions have helped stabilize markets and sustain credit. After some spikes early in the crisis, spreads in corporate funding fell (likely also helped by the government's bond buying program—see below). Overall, bank lending has held up during the crisis, with lending to households increasing, though there was some decrease in mid-2020 (Figure 2 and Section C).

21. Going forward, Norges Bank needs to be mindful of financial risks and keeping inflation around the target while also supporting the recovery, in line with its mandate. Some factors that have contributed to high core inflation are temporary and will subside this year, thereby possibly resulting in below-target inflation. However, strong wage growth and increasing capacity utilization (and the shrinking output gap) could increase inflationary pressures as reflected by high one-year ahead inflation expectations (though two-year ahead expectations remain anchored). Recent estimates from the tripartite wage commission suggest that core inflation could be 2.8 percent in 2021, slightly above staff's projections, which feeds into wage growth (the early April wage agreement among social partners settled on wage hikes of 2.7 percent, but some sectors not included in that round have indicated dissatisfaction with this outcome). While tightening could slow the recovery, especially if downside risks materialize, continued loose monetary policy could worsen financial vulnerabilities (Figure 3).

[11] The interventions totaled NOK 3.5 billion over March 19th and 23rd, as discussed in Norges Bank (2021).

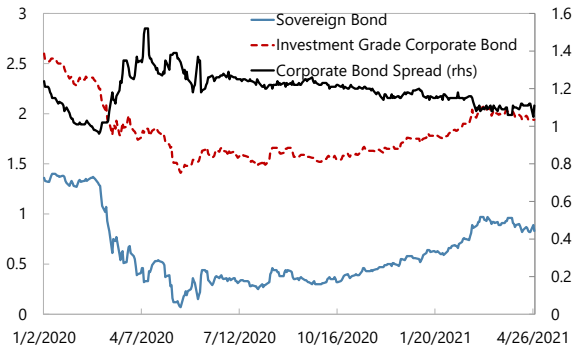
Figure 2. Norway: Monetary Policy

Policy Rate Changes
(Percentage points)



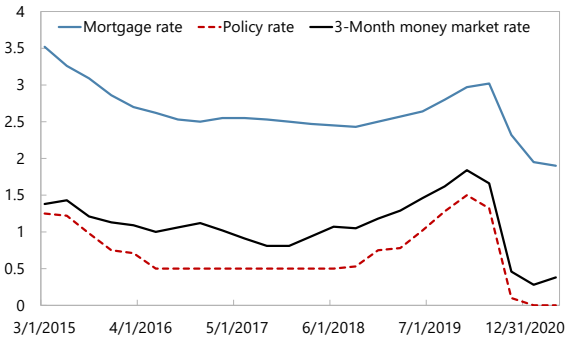
Sources: Haver Analytics.
Note: EA = Euro area. Country abbreviations are International Organization for Standardization country codes.

Corporate and Sovereign Bond
(Yield to Maturity; Percent)



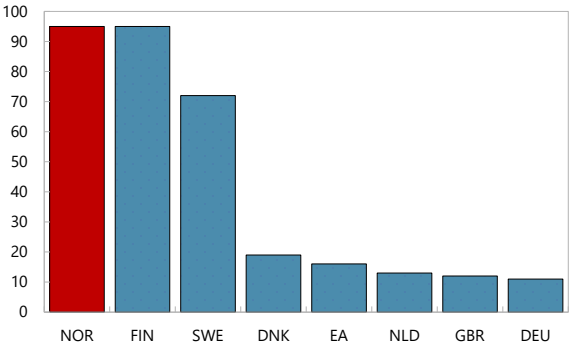
Sources: S&P Down Jones Indices.

Interest Rates
(Percent)



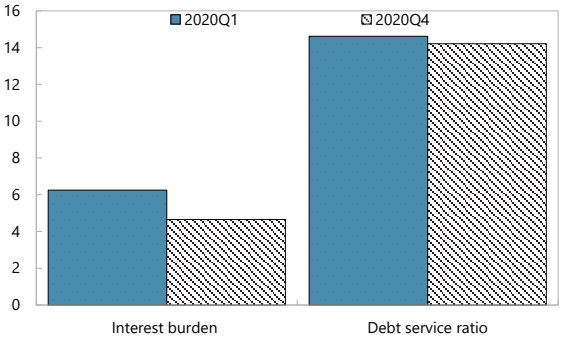
Sources: Statistics Norway and Norges Bank.

Flexible Rate Mortgages
(in percent of all mortgages)



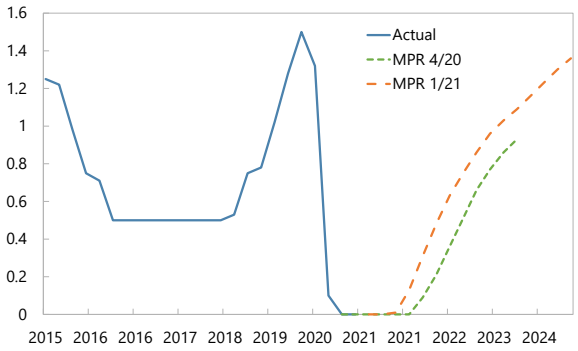
Sources: Statistics Norway and European Mortgage Foundation

Debt Service-to-Income Ratios
(Percent)



Sources: Statistics Norway and Norges Bank.

Key Monetary Policy Rate and Norges Bank Forward Guidance
(Percent)



Sources: Norges Bank.

22. Against these tradeoffs, Norges Bank's current monetary policy stance strikes the right balance. In March 2021, Norges Bank brought forward the projected initial increase of the policy rate to late this year (Figure 2). This stance provides needed support for the economy while preventing sustained above-target inflation (Figure 3) and build-up of stability risks. Norges Bank's reluctance to pursue asset purchases seems appropriate. Given low government debt, any asset purchases would most likely need to focus more on private sector securities, which could magnify unwanted financial stability side effects. Finally, a government agency, the Government Bond Fund, is already purchasing *corporate* bonds. This fund's resource envelope and range of eligible purchases is large compared to the Riksbank's corporate bond buying program (Text Table 3).

23. Norges Bank's readiness to ease further, should the recovery falter, is welcome. Given that Norges Bank recently tightened forward guidance, any reversal of its stance could bring risks to credibility. However, should the recovery and inflation expectations falter in a downside scenario, NB should stand ready to step up support (with negative interest rates as an option).

Text Table 3. The Government Bond Fund and the Riksbank's Corporate Bond Purchases

	Sweden	Norway
Authority	Riksbank	Government Bond Fund (reports to MoF)
Market	Secondary	Primary and secondary markets
Holdings (January 2021)	SEK 4 billion	NOK 6.1 billion
Total envelope	SEK 10 billion (0.2 percent of GDP)	NOK 50 billion (1.6 percent of GDP)
Rating of bonds	Baa3/BBB– or higher	Ba, B/BB, B or higher
	Investment / med risk	junk / high risk

Other Issues

24. Norges Bank's continued exploration of Central Bank Digital Currency (CBDC) is welcome. Cash usage has been falling significantly and is now among the lowest among advanced economies in terms of cash-to-GDP. This is mirrored by the significant increase in electronic means of payments, including Norway's mobile payment system ('Vipps') which essentially replaces the need for cash in person-to-person transactions. Norges Bank does not see any immediate need to issue CBDC, but has recently decided to continue its CBDC project.

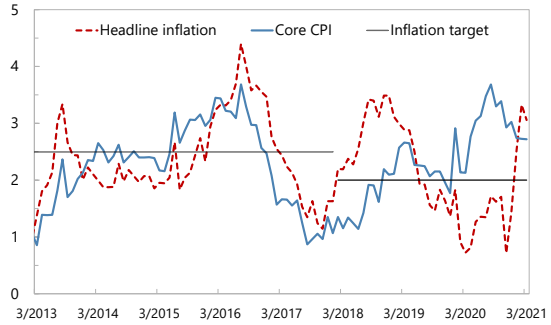
Authorities' Views

25. The authorities broadly concurred with staff's assessment of monetary policy. They emphasized that the exchange rate intervention was the first in over 20 years and that they did not target a specific level of the exchange rate, but rather aimed at improving market conditions, including by reducing volatility and augmenting liquidity. They also agreed that Norway was in a fortunate position of having more space to cut rates than did other central banks, while also benefitting from a strong monetary policy transmission owing to the combination of high household indebtedness and the high share of flexible rate loans. Going forward, Norges Bank did not foresee any deflationary pressures building up as they projected core inflation to remain close but below target, which remains consistent with their flexible inflation target framework.

Figure 3. Norway: Inflation Indicators

Annual Inflation

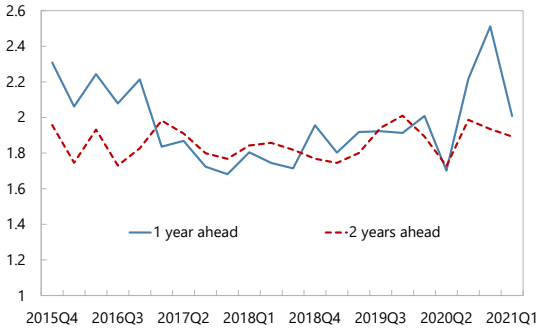
(Percent)



Sources: Statistics Norway and IMF staff calculations.

Inflation Expectations

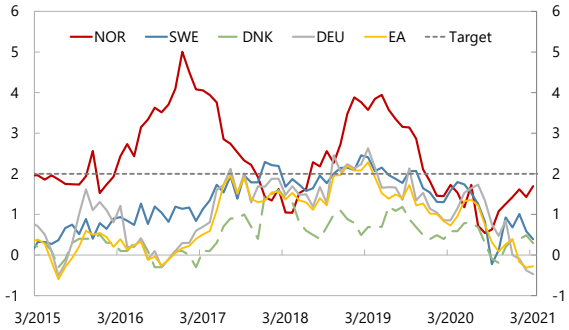
(Percent)



Source: Consensus Economics.

Harmonised Index of Consumer Prices

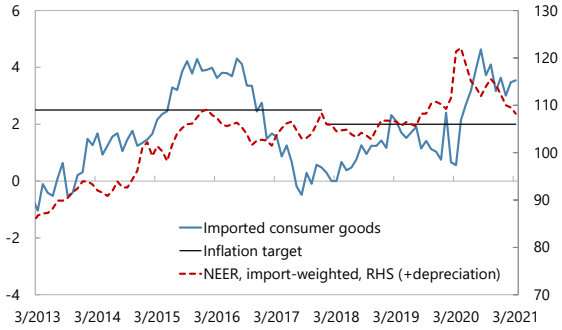
(Percentage change; y/y)



Sources: National Authorities, Eurostat, and IMF staff calculations.

Exchange Rate and Imported Price

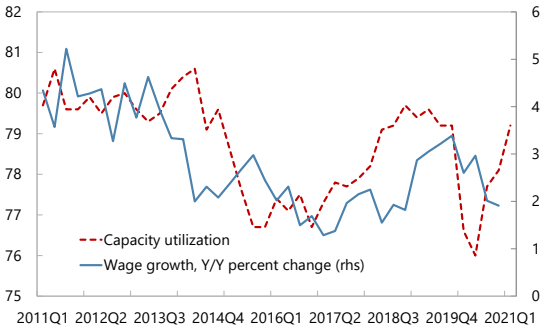
(Percent change, yoy)



Source: Haver Analytics and IMF staff calculations.

Capacity Utilization Rate and Wage Growth

(Percent)



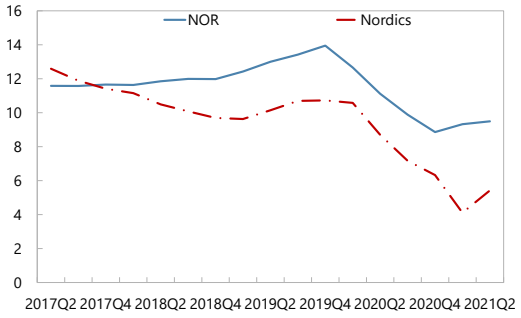
Sources: Statistics Norway and IMF staff calculations.

C. Financial Sector Policies

26. The 2020 FSAP for Norway concluded that banks entered the Covid crisis well prepared. Bank profitability was strong compared to that of its peer countries, owing to low operating expenses (partly due to high digitalization) and credit losses. While much of the FSAP work was conducted prior to the Covid-19 outbreak, the FSAP considers a shock in the stress tests that is considerably larger than what Norway experienced in 2020[12] and finds that the banks would generally continue meeting capital requirements, not least because of the very high capital buffers at the onset of the crisis. Banks' liquidity positions were found to be generally robust in the short term, though risks become significant over longer horizons. The FSAP further found that the macroprudential policy framework is comprehensive, but with room for further improvement (Annex VI), and that the authorities should guard against a weakening of capital requirements arising from the implementation of European regulations.

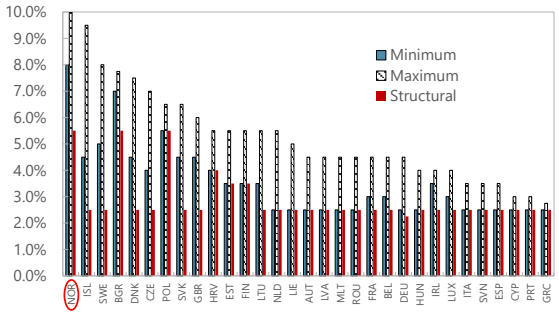
Pre-Covid

Return on Equity 1/
(Percent; 4-quarters rolling average)



Sources: IMF Financial Stability Indicators.
1/Nordics is the average value for Sweden, Denmark and Finland.

Combined Capital Buffer Requirements
(Percent, Q1-2020)



Sources: National Authorities, ECB, and IMF staff calculations.
Note: Structural buffer requirement is defined as the minimum combined buffer requirement net of the CCyB.

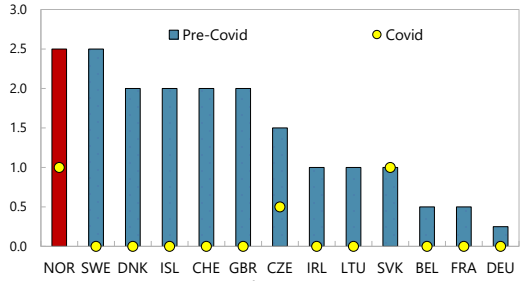
27. These factors, along with timely macroprudential policy measures, have helped cushion the effects of the Covid shock on the financial sector. The partial release of the countercyclical capital buffer (CCyB) from 2.5 percent to 1 percent eased constraints on bank lending.[13] The temporary relaxation of mortgage lending regulation (allowing temporary deviations from LTV, DTI, and other requirements for up to 20 percent of new loans, compared to a previous "speed limit" of 10 percent nationally and 8 percent in Oslo) has facilitated debt restructuring and temporary home-equity withdrawals, thereby helping to provide liquidity to households and reducing borrowers' financial distress. The authorities have also urged banks and insurers to restrict dividend payouts and share buy-backs until economic uncertainty subsides.

[12] In the central scenario, mainland GDP contracts by almost 5½ percent in 2020, while in the downside scenario, GDP declines by about 7 percent. The actual decline was 2.5 percent.

[13] Effective end-2020, the systemic risk buffer has been increased from 3 to 4.5 percent for IRB banks. These changes will maintain current requirements in real terms when European rules alter the way Norwegian banks calculate their capital adequacy ratios.

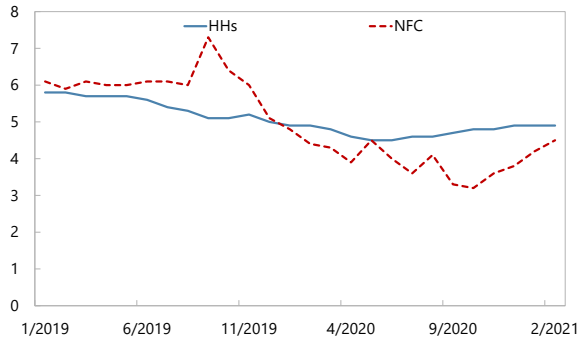
CCyB and Bank Lending in Norway

Cuts in Countercyclical Capital Buffer Rates in 2020
(Percentage points)



Note: The data include cancellation of previously-announced increases in the buffer. For Switzerland, change in the sectoral CCyB targeted at mortgage loans financing residential property is shown.
Sources: European Systemic Risk Board, and IMF Staff calculations.

Domestic Loan Debt
(Percent; 12-month growth rate)



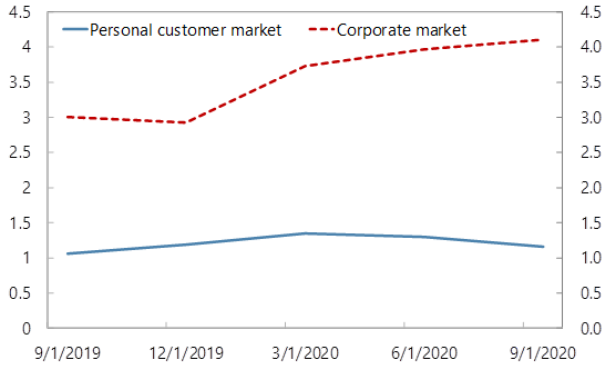
Sources: Statistics Norway.

28. Overall NPLs remain low, but are increasing in some segments of the banks' loan portfolios, and the full effect of the pandemic on the banking sector remains uncertain. Banks' profitability fell in the first half of 2020, in part due to higher credit losses, and because the policy rate cuts affected banks' income immediately, whereas funding costs fell more slowly, but then stabilized. NPLs have been increasing among NFCs, while non-performing consumer loans already stood at 11 percent at end-2019 (well above the average for all loan categories). While higher credit losses could erode bank profitability going forward, loan provisioning has not shown a clear upward trend, possibly due to the banks' overall relatively limited exposure to the most affected sectors. Bankruptcies declined by 18 percent y-y in 2020, in part thanks to the support measures. A government-appointed commission emphasized that the reasons for reduced bankruptcies in 2020 relative to 2019 are difficult to determine. However, the extraordinary fiscal support and the decline of bankruptcy claims by the tax administration have been contributing factors.[14] In recent months, total bankruptcies have reverted toward their historical average and there is some risk of an acceleration once macroeconomic policy support is withdrawn and the repayment of tax deferrals resumes, thereby raising corporate stress (Annex VII) and NPLs. To mitigate these risks, the government has proposed to extend some extraordinary support (see fiscal discussion in Section A). Given the prevalence of variable-rate loans, any increase in borrowing costs (e.g., through policy rate tightening and/or lending risk premia) could be quickly passed on to corporate and HH borrowers, potentially increasing NPLs.

[14] Bankruptcy claims by the tax administration declined from 4.9k in 2019 to 2.5k in 2020, however only half of the tax administration's filed bankruptcy claims leads to declaration of bankruptcy.

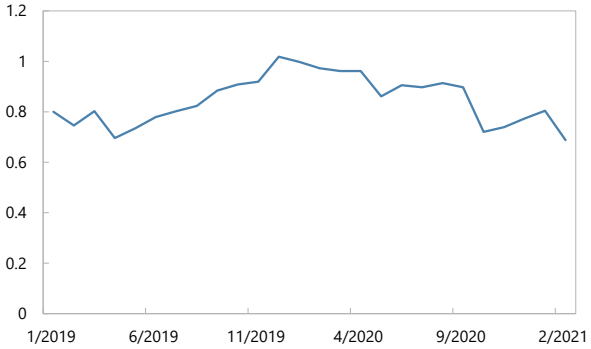
Figure 4. Norway: Banks' Asset Quality and Bankruptcies

Non-Performing Loans
(as % of gross lending)



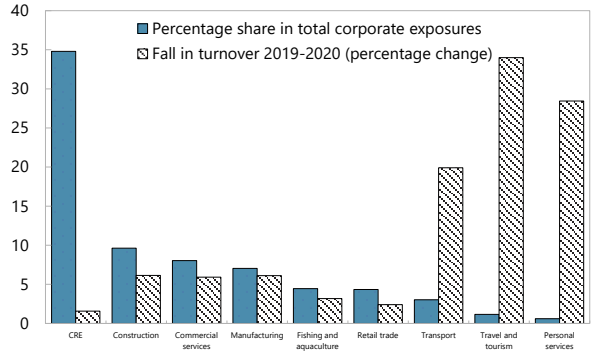
Sources: Finanstilsynet.

Loan Provisioning
(Share of total loans)



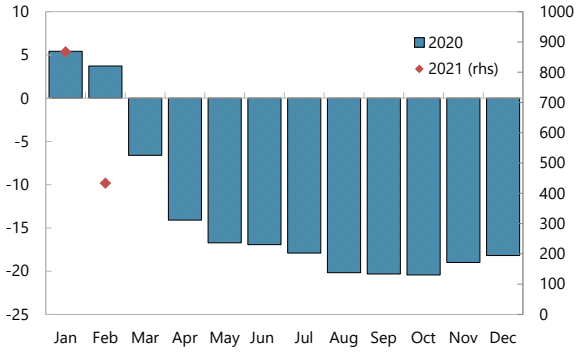
Sources: Statistics Norway.

Fall in Turnover and Bank Lending by Sector
(Percent)



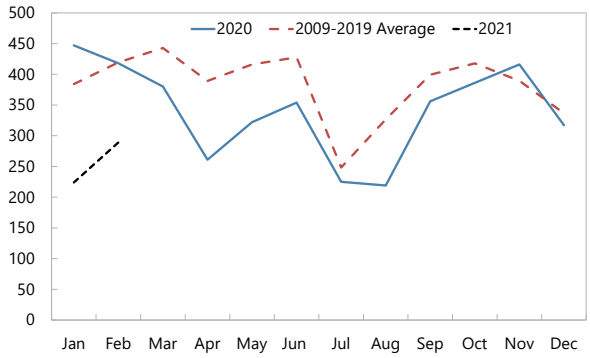
Sources: Finanstilsynet, Norges Bank, and IMF staff calculations.

Growth Rate of Bankruptcies, 2020
(Percent; Cumulative y/y growth)



Sources: Statistics Norway.

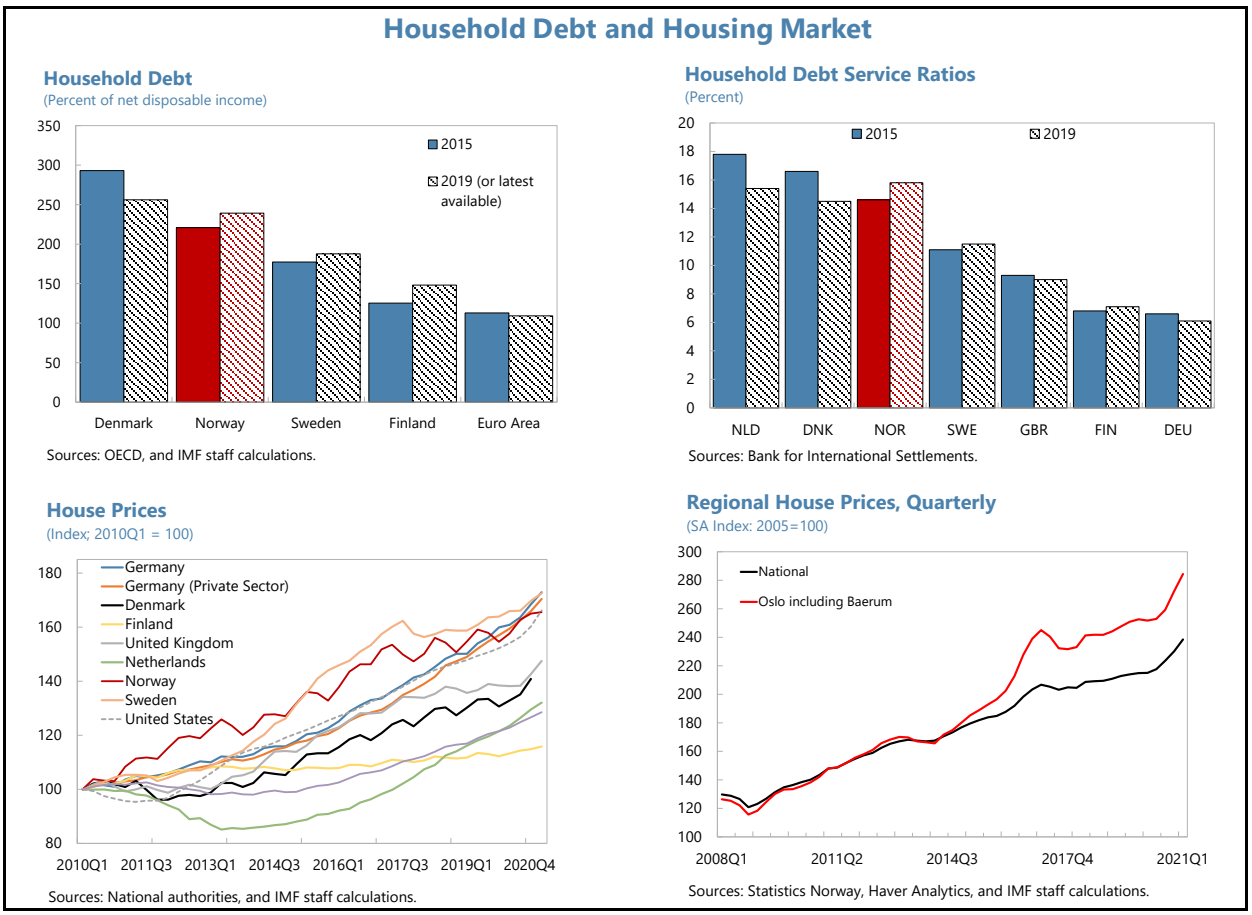
Number of Bankruptcies



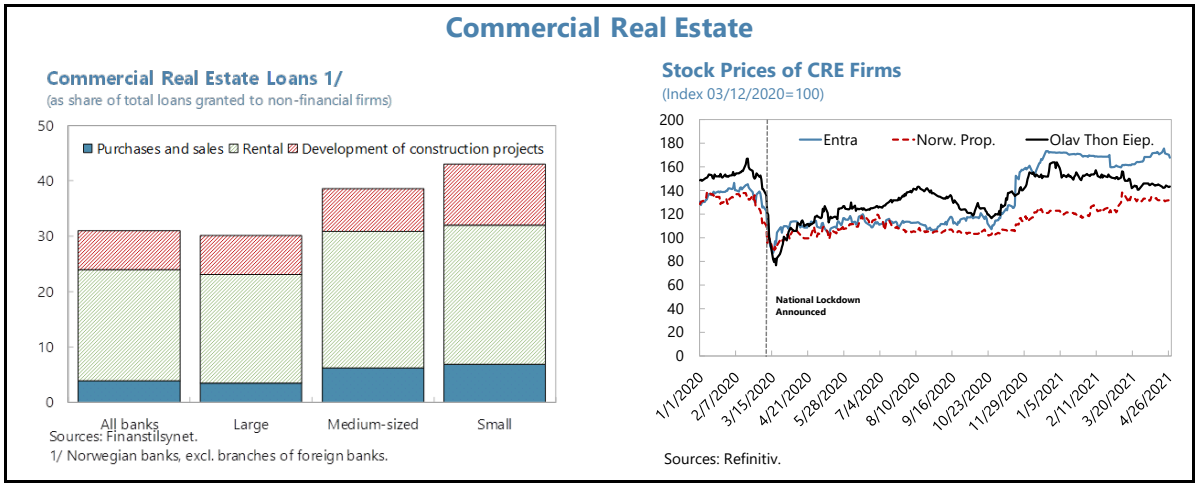
Sources: Statistics Norway.

29. Financial sector vulnerabilities remain elevated and could worsen going forward as a result of the Covid shock, though the areas of risk have not substantially changed. The three key underlying (and long-standing) sources of financial vulnerabilities include:

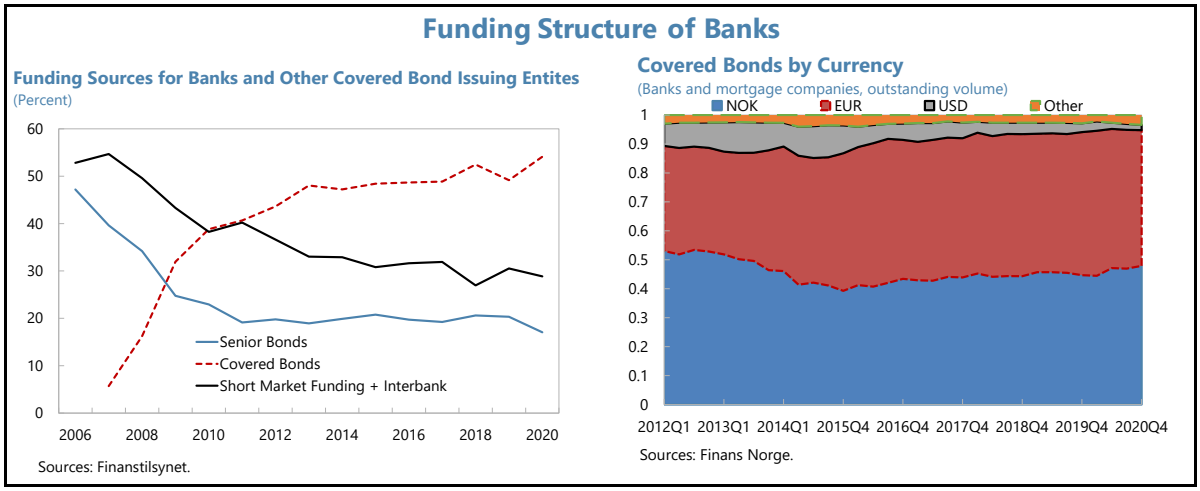
- **Households are highly leveraged.** Debt ratios and household debt service ratios exceed those of most peers. Furthermore, the share of households with debt exceeding five times their gross income has been rising (FSAP, 2020). In light of the prevalence of flexible rate mortgages, the interest burden has fallen alongside rates. The continued increase in house prices together with loose monetary policy could contribute to a further increase in household indebtedness (which could then exacerbate the impact of eventual rate hikes). In this context, the recent lengthening of the period after which the mortgage regulation needs to be renewed is welcome. The expiration of the crisis-related relaxation of borrower-based requirements, the eventual hikes in the policy rate and the planned increases of the CCyB could help curb house price growth going forward. The authorities should consider tightening mortgage regulations in line with FSA recommendations (though these were rejected by the Ministry of Finance) if house price growth does not slow and if other targeted measures, including easing restrictions in the supply of new housing and curbing demand through a gradual phasing out of mortgage interest deductibility, are not timely implemented.



- **CRE accounts for a large share of bank lending to corporates.** So far, vulnerabilities have been contained, in part by the crisis response measures, and because public sector institutions are important tenants of CRE companies. However, the stock price performance of the three major listed CRE companies since the onset of the pandemic (an albeit imperfect indicator of the health of the sector used in the absence of better data) has been mixed and suggests that higher retail sector exposures show a relatively worse performance. In addition, the pandemic could accelerate shifts to e-commerce, teleworking, and less travel, thereby undermining revenue streams of CRE firms. The new initiatives to upgrade data collection will help monitoring the sector going forward (Annex VI), and the authorities' consideration of broadening the toolkit for mitigating CRE vulnerabilities, including the use of sectoral capital tools, is welcome.



- **Norwegian banks obtain nearly half their overall funding from wholesale markets** ('market funding') and the scope for expanding the deposit base is limited. The banks' relatively high dependence on international wholesale funding (48 percent of all wholesale funding) creates risks in situations when liquidity in these markets is compromised. The maturity of such market funding has lengthened over recent years, which provides some comfort. While covered bonds have partially substituted for other riskier sources of wholesale funding, there is substantial cross-ownership of covered bonds between banks, adding to their real estate exposure.



30. Other significant structural sources of financial sector risk relate to climate change, cybersecurity threats, and financial integrity. Norway's recent progress in addressing AML/CFT deficiencies is welcome, but more efforts are needed on AML/CFT supervision. A 2019 FATF follow-up assessment noted progress on the understanding of ML/TF risks, national AML/CFT coordination and development of the Norwegian FSA's risk-based approach to AML/CFT. However, the scope, intensity, tools, and methodologies of FSA supervision need to be further improved. In addition, the frequency of AML/CFT inspections of banks, including branches of foreign banks, needs to be increased while paying greater attention to cross border payments. The FSA should also pursue an active enforcement approach, including continuing application of penalties as needed, using its new sanctioning powers.

Authorities' Views

31. The authorities broadly concurred with staff's assessment of the financial sector and financial vulnerabilities. With respect to growth in housing prices, the authorities agreed that measures to ease supply would be helpful, but would take time to feed through to housing prices (and any impact could be limited). While the Ministry of Finance and Norges Bank assumed that the reversal of the policy rate cuts would be sufficient to address housing price growth over the near term, the FSA continues to recommend tightening mortgage regulation. The authorities considered that the eventual increase the in the CCyB back to pre-crisis levels would also help curb housing price growth. With respect to CRE-related risks, while the authorities agreed that data remain subject to gaps, so far available indicators on transactions and prices suggest that the market is resilient, and ongoing initiatives will improve data availability. They warned that with scarring of some sectors, this situation could change. They did not rule out sectoral capital tools in the future.

D. Structural Policies

32. As the effects of the pandemic subside, policies should be increasingly geared toward facilitating greater efficiency in resource allocation.

- On the corporate side, attention should be paid to identifying business solvency risks/risk-of-default. The insolvency regime in Norway appears efficient relative to those of peers (DB, 2020), and the authorities have temporarily adjusted the insolvency framework to facilitate debt restructuring and avoid unnecessary bankruptcies. In this context, the authorities could explore means to identify and possibly facilitate equity-type support for stressed but viable SMEs and mid-cap companies, looking to examples elsewhere in Europe where banks help make assessments regarding viability and subordinated loans backed by government guarantees). As highlighted by the Group of Thirty (2020), mechanisms that enable rapid, inexpensive debt restructuring and encourage equity-like investment in qualifying firms can help mitigate scarring effects and could be considered for Norway.

- On the labor side, the 2020–21 efforts to include more vulnerable and diverse workers in the labor force could be furthered and deepened. For workers permanently laid-off, promoting

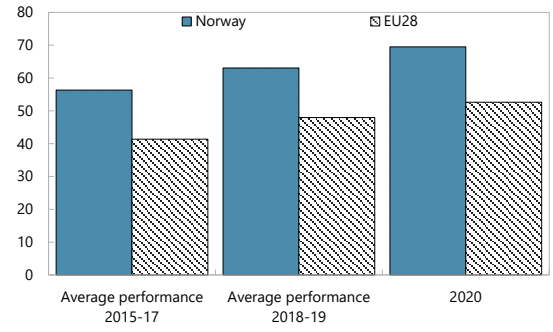
mobility and training can encourage the transition to new viable businesses (OECD, 2020). Furthering sickness and disability reforms, as noted above, would also help boost labor force participation.

- On the regulatory side, relaxing restrictions on land-use can facilitate more productive use and help both businesses and households (e.g., by addressing housing supply constraints—see above) (FSAP, 2020).

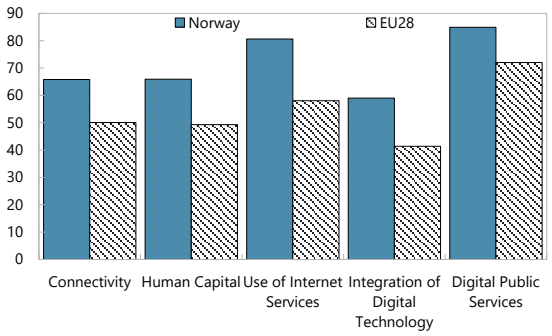
- Regarding digitalization, Norway ranks among the three most digitalized countries in Europe, but there is some room for further improvement. The Ministry of Regional Development and Digitalization has advanced areas such as broadband and mobile coverage, public digital services and digital competence. The increased digitalization implies significant changes in the economy, creating both new business needs as well as new vulnerabilities in privacy and security (see Annex III regarding cyber-attack risks). While 51 percent of individuals have above-basic digital skills, there is a shortage of big data analysts and ICT specialists for businesses that needs to be addressed.[15] A more developed open government data ecosystem could further advance the digital transformation of the public sector.

- The authorities' efforts to further strengthen R&D and the higher education system will help build closer and more productive links between public research, innovation, and businesses, and facilitate adoption of new technologies.

Digital Performance



Sources: European Commission, and IMF staff calculations.



Sources: European Commission, and IMF staff calculations.

33. Norway is taking a proactive approach in its climate change mitigation efforts, but more can be done (Annex VIII). Norway's challenge is in one sense bigger than that confronting its peers, given its large offshore sector (over a quarter of emissions). Current efforts to achieve climate mitigation objectives through 2030, centered on carbon taxation and other important initiatives such as research and development of carbon capture, are welcome, and the focus is now on implementation and adjustment of measures as needed to achieve objectives. Looking

[15] According to a 2018 report, SMEs and larger enterprises reported difficulties in filling vacancies for ICT specialists. That said, in Norway, 3.7 percent of all university graduates are ICT graduates according to the DESI index (the EU average is 3.6 percent).

further ahead, Norway's commitment to become a low emission country by 2050, with net negative emissions when the uptake of carbon of Norwegian forests and other land is taken into account, is also welcome.[16] Norwegian policies regarding the adoption of electric vehicles provide an important example to other countries. However, recalibration of these policies could increase their cost effectiveness in a revenue-neutral way and complement Norway's target that all new cars are electric by 2025. This could include steps aimed at accelerating the replacement of the most polluting cars by EVs (see Selected Issue Paper).

Authorities' Views

34. The authorities generally agreed with staff's assessment on structural issues. They highlighted that the priority of their policies is to focus on supporting the most vulnerable groups—youth, foreign-born, low-income—of the population through both education and training programs, and through firms' liquidity-support schemes which have workers' support at their core. Enhanced education will also help resolve any shortage of ICT experts, as well as new needs arising in a more digitalized economy, as for example an expected increase in demand of tele-health experts given the noted negative demographics. Regarding the corporate sector, the authorities believe that there is need to shift from passive financing of income losses to targeting viable firms, while avoiding disincentives to economic activity. They welcomed discussions on possible options in the design of an exit strategy. While this will help promote high productivity in the economy, it will inevitably result in some bankruptcies of non-viable firms. On climate change mitigation, the Norwegian authorities agreed that implementation of measures to achieve their objectives is now key.

STAFF APPRAISAL[17]

35. The challenge ahead for Norway is to achieve the right balance and mix of support for recovery and adjustment. Although Norway has experienced a relatively modest economic fallout from the crisis, the authorities are appropriately continuing exceptional policy support into 2021 to help affected sectors and prevent scarring, at levels consistent with the pace of the rebound in economic activity, as well as internal and external balances (the staff assesses the current account to be broadly in line with what is implied by fundamentals and desirable policies). Support is also designed in a more targeted manner that aims to facilitate reallocation of capital and labor (and include green and digital spending). The outlook is subject to substantial risks, including a slower-than-expected vaccine rollout, a prolonged pandemic and adverse external conditions. The authorities should remain flexible and closely adjust policies to reflect changing circumstances, given ample policy space.

[16] Strictly speaking, a focus on domestic emissions ignores the possibility that the amount of carbon embodied in goods that are consumed domestically and in part imported could be higher. As an example, consider emissions from electricity generation: Norway produces little emissions from electricity generation domestically. However, its imported goods and services were produced abroad where electricity generation tends to be much dirtier than in Norway.

[17] Data remains adequate for surveillance. See Informational Annex.

36. The gradual phasing out of fiscal support, and the reversion to a neutral fiscal stance is appropriate, provided downside risks do not materialize. The 2021 budget's mix of support for private sector activity, employment and green and inclusive growth is welcome. The stimulus should become smaller and more targeted as the recovery gathers traction, while continuing to protect those worst hit. The government's objective to integrate vulnerable groups into the workforce and improve the provision of education and skill-enhancing programs is noteworthy and should remain a priority.

37. Monetary policy is adequately accommodative, while countering financial stability risks. Provided the economy continues to recover in line with Norges Bank's forecasts, the projected gradual tightening of monetary policy is appropriate. However, should the recovery and inflation expectations falter, Norges Bank should stand ready to loosen policies. Its continued work on a Central Bank Digital Currency (CBDC) is welcome.

38. The authorities could draw on a broader set of policy tools to address the acceleration in housing prices. The authorities are relying primarily on a gradual monetary policy tightening, the expiration of the crisis-related relaxation of borrower-based requirements, and the countercyclical capital buffer to curb housing demand. The authorities should consider tightening mortgage regulations if house price growth does not slow as expected and if other targeted measures, including easing restrictions that constrain the supply of new housing (e.g. related to land use) and a gradual phasing out of mortgage interest deductibility to curb demand are not implemented in a timely manner.

39. Banks have weathered the crisis well so far, but the outlook remains uncertain. Besides high household debt, financial sector risks from banks' exposure to CRE have also been exacerbated by the crisis, not least because the demand for office, retail and hotel space could recede going forward. Initiatives to upgrade data collection that will allow for enhanced monitoring of CRE-related risks are welcome, while broadening the toolkit for mitigating CRE vulnerabilities could be considered. The authorities should also closely monitor bank balance sheets, which could also suffer if bankruptcies increase following the phasing out of support and will depend on banks' exposure to crisis-affected sectors. The progress in addressing AML/CFT deficiencies is welcome, but the tools, and methodologies of financial supervision need to be expanded, including by improving the frequency and coverage of inspections.

40. As the pandemic recedes, longer term fiscal and structural policy challenges to boost inclusive and green growth need to be addressed. In light of an expected decline in oil production after the mid-2020s, a projected increase in age-related expenditures, and the high level of government expenditure reached in 2020, the authorities should examine the composition of spending (possibly via an expenditure review by an external committee). This would also help create space for any medium-term reductions in individual and corporate taxation to facilitate labor participation and private investment. Social partners should pursue further changes to the sickness and disability benefit system. VAT reform, through broadening and simplification, remains important. Structural reform priorities include boosting labor force participation, including among vulnerable groups and non-oil productivity, and supporting green

growth amid the decline in the offshore sector. The authorities' plans to strengthen investment in R&D, physical infrastructure and green technologies and efforts to promote digitalization, technology adoption and upskilling of the vulnerable parts of the population are all welcome.

41. Norway is taking a proactive approach in its climate change mitigation efforts, but more can be done. Current efforts to achieve climate mitigation objectives through 2030, centered on carbon taxation and other important initiatives such as research and development of carbon capture, are welcome. Looking further ahead, Norway's commitment to become a low emission country by 2050, with net negative emissions when the uptake of carbon of Norwegian forests and other land is taken into account, are also welcome, and the focus is now on implementation. Norwegian policies regarding the adoption of electric vehicles provide an important example to other countries. However, they could be recalibrated to strengthen their cost effectiveness, including by steps aimed at accelerating the replacement of the most polluting cars by EVs.

42. It is proposed that the next Article IV consultation with Norway be held on the standard 12-month cycle.

Table 1. Norway: Selected Economic and Social Indicators, 2019–26

Population (2020): 5.4 million
Per capita GDP (2020): US$ 67,176.4
Main products and exports: Oil, natural gas, fish (primarily salmon)
Quota (3754.7 mil. SDR/0.78 percent of total)
Literacy: 100 percent

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
Real economy (change in percent)								
Real GDP 1/	0.9	-0.8	3.0	3.6	2.9	1.8	1.3	1.3
Real mainland GDP	2.3	-2.5	3.2	3.0	2.2	1.8	1.8	1.8
Final Domestic demand	2.1	-4.2	3.5	4.1	2.5	1.9	1.9	1.9
Private consumption	1.4	-7.6	4.8	5.0	2.5	2.0	2.0	2.0
Public consumption	1.9	1.7	2.0	1.8	1.7	1.7	1.7	1.7
Gross fixed capital formation	4.0	-3.9	2.8	5.2	3.3	1.9	1.9	1.9
Exports	4.1	-7.4	2.9	4.6	3.1	2.4	2.4	2.4
Imports	5.3	-12.5	3.8	7.2	3.2	2.2	2.2	2.2
Total Domestic demand (contribution to growth) 2/	2.2	-5.2	3.4	4.1	2.4	1.9	1.9	1.9
Net exports(contribution to growth)	-0.9	2.8	-0.2	-1.1	-0.2	-0.1	-0.1	-0.1
Offshore GDP	-6.1	8.0	2.0	6.6	6.1	1.6	-0.6	-0.7
Gross capital formation	8.9	-4.2	-0.9	-7.5	2.0	1.5	0.3	0.3
Exports	-4.2	8.5	2.3	9.1	6.0	1.7	-0.3	-0.3
Unemployment rate (percent of labor force)	3.7	4.6	4.3	4.0	3.9	3.8	3.8	3.8
Output gap (mainland economy, - implies output below potential)	0.2	-2.8	-1.3	-0.8	0.0	0.0	0.0	0.0
CPI (average)	2.2	1.3	2.6	2.0	2.0	2.0	2.0	2.0
Core Inflation	2.3	3.0	2.1	2.0	2.0	2.0	2.0	2.0
Public finance								
Central government (fiscal accounts basis)								
Non-oil balance (percent of mainland GDP)	-7.4	-14.2	-12.5	-10.5	-8.7	-7.4	-6.4	-5.8
Structural non-oil balance (percent of mainland trend GDP) 3/	-7.9	-12.3	-12.1	-10.1	-9.3	-9.2	-9.1	-9.1
Fiscal impulse	0.4	4.5	-0.2	-2.0	-0.9	-0.1	-0.1	0.0
in percent of Pension Fund Global Capital 4/	-2.9	-3.9	-3.7	-3.2	-2.9	-2.8	-2.8	-2.8
General government (national accounts definition, percent of mainland GDP)								
Overall balance	7.4	-6.9	-5.6	0.9	3.6	5.0	5.4	5.4
Net financial assets	391.1	421.6	405.6	402.8	403.2	405.2	407.4	409.7
of which: capital of Government Pension Fund Global (GPF-G)	328.8	358.7	346.3	346.3	348.9	352.9	357.0	361.2
Balance of payments (percent of total GDP)								
Current account balance	2.8	1.9	5.6	5.0	4.7	4.1	3.4	3.0
Exports of goods and services (volume change in percent)	0.5	-0.9	2.6	6.6	4.4	2.1	1.3	1.3
Imports of goods and services (volume change in percent)	4.7	-12.2	3.5	7.0	3.2	2.3	2.4	2.4
Terms of trade (change in percent)	-7.5	-16.9	14.9	-2.5	-2.4	-2.3	-1.7	
International reserves (end of period, in billions of US dollars)	65.0	73.6	73.6	73.6	73.6	73.6	73.6	73.6
Gross national saving	32.5	32.2	34.4	33.8	33.6	33.0	32.4	32.0
Gross domestic investment	29.7	30.3	28.9	28.8	28.9	29.0	29.0	29.0
Crude Oil Price	61.4	41.3	58.5	54.8	52.5	51.3	50.7	50.5
Exchange rates (end of period)								
Exchange rate regime								
Real effective rate (2010=100)	83.7	78.2	...	...	...	...	...	...

Sources: Ministry of Finance, Norges Bank, Statistics Norway, International Financial Statistics, United Nations Development Programme, and IMF staff calculations.

1/ Based on market prices which include "taxes on products, including VAT, less subsidies on products."
2/ Includes the contribution from the mainland GDP residual.
3/ Authorities' key fiscal policy variable; excludes oil-related revenue and expenditure, GPFG income, as well as cyclical effects. Non-oil GDP trend estimated by MOF.
4/ Over-the-cycle deficit target: 3 percent of Government Pension Fund Global.

Table 2. Norway: Medium-Term Indicators, 2019–26

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP	0.9	-0.8	3.0	3.6	2.9	1.8	1.3	1.3
Real mainland GDP	2.3	-2.5	3.2	3.0	2.2	1.8	1.8	1.8
Real Domestic Demand	2.3	-4.7	3.4	3.5	2.3	1.8	1.8	1.8
Public consumption	1.9	1.7	2.0	1.8	1.7	1.7	1.7	1.7
Private consumption	1.4	-7.6	4.8	5.0	2.5	2.0	2.0	2.0
Gross fixed investment	4.8	-3.9	2.4	2.8	3.0	1.8	1.7	1.7
Stockbuilding (contribution to growth)	0.0	-0.7	0.2	0.1	0.0	0.0	0.0	0.0
Trade balance of goods and services (contribution to growth)	-1.3	3.8	-0.1	0.4	0.7	0.1	-0.3	-0.3
Exports of goods and services	0.5	-0.9	2.6	6.6	4.4	2.1	1.2	1.2
Mainland good exports	4.6	-2.3	2.8	3.2	2.8	2.4	2.4	2.4
Imports of goods and services	4.7	-12.2	3.5	6.9	3.2	2.3	2.4	2.4
Potential GDP	0.4	2.2	1.4	3.2	2.0	1.8	1.4	1.4
Potential mainland GDP	1.9	0.5	1.6	2.6	1.3	1.8	1.8	1.8
Output gap (percent of potential mainland GDP)	0.2	-2.8	-1.3	-0.8	0.0	0.0	0.0	0.0
Labor Market								
Employment	1.1	-0.5	0.9	1.1	1.1	0.9	0.8	0.8
Unemployment rate LFS (percent)	3.7	4.6	4.3	4.0	3.9	3.8	3.8	3.8
Prices and Wages								
GDP deflator	-0.4	-3.7	7.9	0.9	1.0	1.4	1.7	1.8
Consumer prices (avg)	2.2	1.3	2.6	2.0	2.0	2.0	2.0	2.0
Consumer prices (eop)	1.4	1.4	2.3	2.0	2.0	2.0	2.0	2.0
Core inflation	2.3	3.0	2.1	2.0	2.0	2.0	2.0	2.0
Fiscal Indicators (percent of mainland GDP)								
Central government non-oil balance	-7.4	-14.2	-12.5	-10.5	-8.7	-7.4	-6.4	-5.8
General government fiscal balance	7.6	-6.9	-5.6	0.9	3.6	5.1	5.4	5.4
of which: overall revenue	67.4	58.2	55.7	61.5	63.5	64.5	64.5	64.2
of which: overall expenditure	59.9	65.1	61.8	60.6	59.9	59.4	59.0	58.7
External Sector (percent of mainland GDP)								
Current account balance	3.3	2.2	6.6	5.9	5.5	4.7	3.9	3.4
Current account balance (percent of GDP)	2.8	1.9	5.6	5.0	4.7	4.1	3.4	3.0
Balance of goods and services	1.9	-0.7	4.5	3.6	3.2	2.5	1.7	1.2
Mainland balance of goods	-11.1	-13.0	-11.8	-11.3	-10.9	-10.9	-10.8	-10.8
Crude Oil Price	61.4	41.3	58.5	54.8	52.5	51.3	50.7	50.5

Sources: Statistics Norway, Ministry of Finance, and IMF staff calculations.

Table 3. Norway: External Indicators, 2019–26

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
	Bil. NOK							
Current account balance	101.6	65.6	211.0	199.7	192.5	172.7	148.7	133.4
Balance of goods and services	57.4	-20.1	145.3	122.3	112.3	91.5	65.9	46.4
Balance of goods	111.8	-36.6	89.8	102.7	109.7	97.6	78.4	63.4
Balance of services	-54.4	16.5	55.5	19.6	2.6	-6.1	-12.5	-17.0
Exports	1296.2	1102.9	1365.6	1421.4	1457.3	1479.7	1499.0	1524.0
Goods	908.5	765.7	946.7	985.8	1014.3	1028.3	1036.2	1047.9
of which oil and natural gas	463.7	365.5	480.4	493.9	504.9	504.6	500.4	500.0
Services	387.7	337.2	419.0	435.6	442.9	451.4	462.8	476.1
Imports	1238.8	1123.0	1220.3	1299.1	1345.0	1388.2	1433.1	1477.6
Goods	796.7	802.3	856.9	883.1	904.6	930.7	957.8	984.5
Services	442.1	320.7	363.5	416.0	440.4	457.5	475.3	493.1
Balance on income	44.2	85.6	65.8	77.4	80.3	81.2	82.8	87.0
Capital account balance	-1.0	-1.1	-1.0	-1.1	-1.1	-1.1	-1.2	-1.2
Financial account balance (excluding change in reserves)	-32.1	11.4	210.0	198.7	191.4	171.6	147.5	132.2
Net direct investment	-81.6	2.0	-81.6	22.3	23.2	23.9	24.7	25.4
Net portfolio investment	66.0	47.4	65.9	185.9	193.1	199.3	205.3	211.9
Net other investment	-16.4	-38.0	225.7	-9.5	-24.9	-51.6	-82.4	-105.2
Net errors and omissions	-134.3	-16.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-1.8	36.9	0.0	0.0	0.0	0.0	0.0	0.0
	Percent of GDP							
Current account balance	2.8	1.9	5.6	5.0	4.7	4.1	3.4	3.0
Balance of goods and services	1.6	-0.6	3.8	3.1	2.7	2.2	1.5	1.0
Balance of goods	3.1	-1.1	2.4	2.6	2.7	2.3	1.8	1.4
Balance of services	-1.5	0.5	1.5	0.5	0.1	-0.1	-0.3	-0.4
Exports	36.3	32.4	36.1	35.9	35.4	34.9	34.3	33.7
Goods	25.5	22.5	25.0	24.9	24.6	24.2	23.7	23.2
of which oil and natural gas	13.0	10.7	12.7	12.5	12.3	11.9	11.4	11.1
Services	10.9	9.9	11.1	11.0	10.8	10.6	10.6	10.5
Imports	34.7	32.9	32.2	32.8	32.7	32.7	32.8	32.7
Goods	22.3	23.5	22.6	22.3	22.0	21.9	21.9	21.8
Services	12.4	9.4	9.6	10.5	10.7	10.8	10.9	10.9
Balance on income	1.2	2.5	1.7	2.0	2.0	1.9	1.9	1.9
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (excluding change in reserves)	-0.9	0.3	5.5	5.0	4.7	4.0	3.4	2.9
Net direct investment	-2.3	0.1	-2.2	0.6	0.6	0.6	0.6	0.6
Net portfolio investment	1.8	1.4	1.7	4.7	4.7	4.7	4.7	4.7
Net other investment	-0.5	-1.1	6.0	-0.2	-0.6	-1.2	-1.9	-2.3
Net errors and omissions	-3.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-0.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Stock of net foreign assets (IIP)	245.1	286.4	263.2	264.3	267.1	271.8	277.0	281.7
Direct investment, net	9.6	9.6	6.5	6.8	7.1	7.4	7.8	8.1
Portolio investment, net	240.9	282.6	256.3	257.3	260.3	265.8	272.3	278.9
Other investment, net	-21.8	-24.7	-16.2	-15.8	-15.8	-16.5	-17.9	-19.7
Official reserves, assets	16.5	18.8	16.7	16.0	15.5	15.1	14.8	14.4
Government Pension Fund Global, percent of mainland GDP	328.8	358.7	...	...	...	...	...	...

Sources: Statistics Norway, Ministry of Finance, and IMF staff calculations.

Table 4. Norway: General Government Accounts, 2009–19

(Percent of mainland GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	69.3	69.5	73.6	72.9	69.1	67.1	64.9	63.0	64.5	67.6	66.1
Taxes	39.2	40.7	42.5	41.6	38.7	35.9	33.5	32.7	33.8	35.6	34.1
Social contributions	12.0	11.9	12.1	12.2	12.2	12.5	12.6	12.4	12.3	12.3	12.4
Grants and other revenues	18.1	16.9	19.0	19.1	18.2	18.7	18.8	17.9	18.3	19.6	0.0
Expense	54.6	54.3	54.9	54.0	53.9	54.6	56.0	56.4	56.4	55.9	56.1
Compensation of employees	16.3	16.3	16.7	16.6	16.7	16.8	17.0	17.1	17.2	17.1	17.2
Use of goods and services	7.8	7.8	7.7	7.5	7.6	7.7	8.0	8.1	8.2	8.2	8.3
Consumption of fixed capital	3.5	3.6	3.7	3.8	3.6	3.7	3.9	4.0	4.0	4.1	4.2
Interest	1.9	1.6	1.5	1.2	1.1	1.1	1.0	0.9	0.8	0.8	0.9
Subsidies	2.2	2.2	2.1	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.2
Social benefits	19.3	19.4	19.7	19.6	19.4	19.6	20.3	20.5	20.3	19.8	19.6
Granth and other	3.5	3.5	3.5	3.3	3.4	3.6	3.7	3.8	3.7	3.7	3.9
Gross operating balance	18.2	18.7	22.4	22.7	18.8	16.3	12.8	10.6	12.1	15.8	14.1
Net operating balance	14.7	15.1	18.7	18.9	15.1	12.6	8.9	6.7	8.1	11.7	10.0
Net acquisition of nonfinancial assets	2.1	1.5	1.4	1.1	1.6	1.9	1.7	2.0	2.2	2.3	2.8
Net financing											
Net lending/borrowing	12.7	13.6	17.3	17.8	13.5	10.7	7.2	4.7	5.9	9.4	7.2
Net acquisition of financial assets	3.2	18.3	1.9	21.6	16.3	9.1	13.6	9.6	9.5	14.5	8.8
Currency and deposits	-0.8	0.5	-2.3	2.9	-1.9	1.4	-0.5	3.0	1.0	1.0	0.4
Securities other than shares	-17.0	8.5	0.7	6.9	14.3	3.1	5.5	1.8	-0.7	-1.1	-0.8
Loans	5.4	3.2	-9.1	1.4	2.7	-2.3	3.4	0.8	2.2	1.1	0.8
Shares and other equity	17.7	4.3	11.5	10.2	2.0	6.6	5.4	3.4	5.7	12.5	8.6
Insurance technical reserves	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.1	-0.1	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.3	0.0	-0.1	0.1	-0.4	0.0
Other accounts receivable	-2.2	1.8	1.1	0.2	-0.9	-0.2	-0.2	0.5	1.3	1.3	-0.2
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-9.5	4.7	-15.4	3.8	2.8	-1.6	6.4	4.9	3.6	5.1	1.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	10.6	1.1	-3.8	3.0	-1.0	0.0	0.6	1.3	0.6	0.7	1.0
Loans	-18.3	2.7	-10.1	0.8	3.2	-1.9	4.8	3.1	2.8	4.3	0.3
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	-0.2	0.0	0.2	-0.1	0.0	0.0	0.0	0.0
Other accounts receivable [1]	-1.8	0.9	-1.6	0.2	0.5	0.0	1.1	0.6	0.3	0.1	0.4
Balance sheet											
Net financial worth	191.5	205.2	207.3	219.2	263.7	308.8	339.6	335.4	365.2	339.5	385.5
Financial assets	251.9	266.7	252.2	265.7	310.2	352.3	387.8	386.7	418.2	394.7	440.0
Currency and deposits	10.6	10.6	7.8	10.3	7.9	9.0	8.2	11.0	11.5	12.0	11.9
Securities other than shares	59.9	64.6	65.6	66.8	80.4	95.3	106.5	102.1	98.4	93.4	93.8
Loans	35.7	37.0	26.5	26.4	28.2	25.2	28.2	27.8	29.3	29.0	29.0
Shares and other equity	130.1	138.3	135.3	144.7	177.5	206.7	229.0	229.5	261.4	242.7	287.5
Insurance technical reserves	0.9	1.0	1.5	1.6	2.1	2.6	2.9	3.4	3.9	3.4	4.4
Financial derivatives	0.0	0.0	0.0	0.1	0.1	0.3	0.5	0.5	0.5	0.2	0.2
Other accounts receivable	14.8	15.3	15.6	15.7	14.0	13.1	12.5	12.5	13.3	13.9	13.1
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	60.4	61.5	44.9	46.6	46.5	43.5	48.2	51.2	53.0	55.2	54.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	26.3	26.1	21.6	23.0	20.4	19.9	19.7	20.1	19.8	19.7	19.9
Loans	26.6	27.8	16.9	17.2	19.7	17.1	21.4	23.8	25.8	28.4	27.7
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.2	0.2	0.5	0.4	0.3	0.3	0.3	0.2
Other accounts receivable	7.5	7.6	6.4	6.2	6.1	6.0	6.8	7.1	7.1	6.9	6.7
Mainland GDP (billions of NOK)	1963.4	2075.3	2158.5	2294.2	2418.9	2533.7	2614.1	2691.6	2792.0	2935.4	3068.4

Sources: IMF *Government Finance Statistics,* Ministry of Finance, and IMF staff calculations.

1/ Includes statistical discrepancy.

Table 5. Norway: General Government Accounts, 2018–26

(NOK, and percent of mainland GDP)

				Projections					
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
General Government				*Percent of Mainland GDP*					
Revenue	68.6	67.4	58.2	55.7	61.5	63.5	64.5	64.5	64.2
Oil Related Revenue	17.0	15.6	7.8	7.1	11.5	13.5	14.0	13.5	13.1
Non-oil Related Revenue	51.5	51.8	50.4	48.6	49.2	49.9	50.4	50.4	50.4
Social Security	12.4	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Interest	3.4	3.2	3.1	3.3	3.3	3.3	3.2	3.2	3.2
Expenditure	59.1	59.9	65.1	61.3	60.2	59.3	58.8	58.6	58.4
Oil Related Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil Expenditure	59.1	59.9	65.1	61.3	60.6	59.9	59.4	59.0	58.7
Social Security	17.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
Interest	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Overall Balance	9.4	7.6	-6.9	-5.6	0.9	3.6	5.1	5.4	5.4
Non-Oil Balance	-7.6	-8.1	-14.7	-12.6	-10.5	-9.1	-8.1	-7.4	-6.9
General Government				*Bil. NOK*					
Revenue	2012.4	2069.2	1770.6	1793.7	2078.9	2236.1	2357.9	2446.0	2527.9
Oil Related Revenue	500.1	480.1	237.7	228.2	387.1	447.2	482.7	488.2	487.8
Non-oil Related Revenue	1512.3	1589.2	1532.9	1565.5	1691.8	1788.9	1875.1	1957.8	2040.1
Social Security	362.8	382.8	379.5	401.5	421.6	439.3	456.0	473.3	491.3
Interest	100.0	99.7	95.2	105.8	110.6	114.9	118.6	122.2	126.1
Expenditure	1735.8	1837.4	1979.1	1972.4	2047.3	2110.8	2172.7	2240.5	2313.8
Oil Related Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil Expenditure	1735.8	1837.4	1979.1	1972.4	2047.3	2110.8	2172.7	2240.5	2313.8
Social Security	505.3	524.0	519.5	549.6	577.1	601.4	624.2	647.9	672.5
Interest	23.5	25.2	25.7	26.3	26.8	27.3	27.9	28.4	29.0
Overall Balance	276.6	231.9	-208.5	-178.6	31.6	125.4	185.2	205.6	214.1
Non-Oil Balance	-223.5	-248.2	-446.2	-406.8	-355.5	-321.9	-297.6	-282.7	-273.7
Central Government									
Structural Non-Oil Balance as % of GPFG	-2.6	-2.9	-3.9	-3.7	-3.2	-2.9	-2.8	-2.8	-2.8

Sources: Statistics Norway, Ministry of Finance and IMF staff calculations.

Table 6. Norway: Financial Soundness Indicators

(Percent)

	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	16.5	18.9	22.1	22.0	22.3	24.2	24.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	14.5	16.7	19.7	19.4	19.6	21.4	22.0
Total Capital to Total Assets	8.6	9.8	10.6	10.6	11.3	11.3	11.2
Asset quality and exposure							
Non-performing Loans to Total Gross Loans	1.1	1.1	1.2	1.0	0.7	0.8	0.7
Non-performing Loans Net of Provisions to Capital	6.7	5.4	4.9	2.5	0.1	0.7	0.3
Earnings and profitability							
Return on Assets	1.1	1.1	1.2	1.3	1.3	1.6	1.1
Return on Equity	13.0	11.2	11.7	12.0	11.9	14.0	9.9
Non-interest Expenses to Gross Income, percent	65.0	69.2	62.5	47.2	46.3	42.1	44.0
Liquidity							
Liquid Assets to Total Assets (Liquid Asset Ratio)	6.3	5.1	10.0	8.8	8.2	10.0	9.8
Liquid Assets to Short Term Liabilities	15.1	10.0	19.5	16.9	15.8	20.0	18.9
Memorandum items							
Change in Housing Price Index (in percent, year average)	2.7	6.1	7.0	5.0	1.4	2.5	...
Total Household Debt (in percent of GDP)	122.3	119.3	121.4	129.8	127.1	127.9	134.7
Total Household Debt (in percent of disposable income)	224.9	221.0	230.9	236.9	239.3	...	...
Gross Debt of Non-financial Corporations (in percent of GDP)	131.6	145.5	160.2	138.1	131.4	141.4	...

Sources: ECB, IMF Financial Soundness Indicators, and OECD.

Annex I. External Sector Assessment

Overall Assessment: The external position of Norway in 2020 was broadly in line with what is implied by medium-term fundamentals and desirable policies, based on both the current account and REER assessments. Against this, Norway has sizable external buffers with a NIIP of more than 3.2 times mainland GDP. Moreover, the latest Covid developments point to prospects of improved competitiveness relative to latest consultation.

Potential Policy Responses: External buffers provide significant time to address competitiveness issues as Norway gradually shifts away from its offshore activities. Fiscal and structural policies should aim to foster productivity growth, high labor market participation, and wage moderation to enhance non-oil sector competitiveness.

Foreign Asset and Liability Position and Trajectory	**Background:** Norway's net international investment and reserve position remain strong. NIIP reached 320 percent of mainland GDP at end-2020, marking a significant increase from 284 percent in 2019. The general government is the main external creditor with net external assets of 339 percent of mainland GDP, notably the Government Pension Fund Global (GPFG), with assets under management reaching 3.6 times mainland GDP by end-2020. The financial sector remains the largest net external debtor given reliance on wholesale funding, at over 30 percent of GDP. International reserves have remained stable at a comfortable 21.5 percent of mainland GDP. **Assessment:** The NIIP position is expected to remain strong and stable due to the sound management of GPFG's assets. Negative revaluation risks are mitigated by asset diversification.					
2020 (% mainland GDP)	NIIP: 320	Gross Assets: 600	Res. Assets: 21.5	Gross Liab.: 275	Gross External Debt: 203	
Current Account	**Background**: Driven by large oil exports, the CA has been persistently strong, averaging 5.5 percent of total GDP over 2015–19. Mainland trade balance on the other hand remains dominated by imports, averaging near -10 percent of mainland GDP over 2015–19, despite the positive real growth of non-oil exports (near 2 percent average) over the same period. In 2020, primarily due to the negative impact of Covid on imports of tourism and travel services as well as the krone depreciation, net real mainland exports grew by 24.4 percent; however, the total nominal trade balance declined to -0.9 percent of mainland GDP, compared to 1.9 percent in 2019, in response to a historic decline in oil prices. Overall, the current account remained stable in 2020 at 1.9 percent of total GDP (2.2 percent of mainland GDP) despite the decline in the trade balance, helped by an increase in the primary income balance. This increase reflects lower flows abroad due to postponed dividend and interest payments, and the positive effect of a depreciated krone on the value of foreign income relative to GDP. It remains uncertain how persistent the impact of Covid will be, particularly on the tourism and oil balances. Staff's current assessment is that the larger share of this dynamic is only temporary, and a rebound in oil prices and travel activities is likely to bring the trade balance closer to its historical pattern. **Assessment**: The current account is assessed to be broadly in line with what is implied by fundamentals and desirable policies. The cyclically adjusted 2020 CA per EBA calculations was 4.2 percent of GDP, while the EBA regression-estimated norm is 10.8 percent of GDP, suggesting a gap of -6.6 percent. After correcting for short-term Covid effects (see technical note[1] below), the estimated gap comes down to -4.9 percent. However, staff assesses that estimation of the EBA norm in Norway is prone to a significant bias due to Norway-specific characteristics (see technical note[2]). The estimated bias exceeds 4 percent of GDP, bringing the overall CA gap to -0.9 percent.					
2020 (% total GDP)	CA: 1.9	Cycl. Adj. CA: 4.2	EBA Norm:10.8	EBA Gap: -6.6	Covid-19 Adj.:1.7	Other Adj.: 4	Staff Gap: -0.9
Real Exchange Rate	**Background:** Norway's real effective exchange rate (REER) depreciated by around 11 percent in 2020, reflecting the weaker trade balance (in turn due primarily to significantly negative terms of trade growth of -12 percent). **Assessment:** The real exchange rate is assessed to be broadly in line with what is implied by fundamentals and desirable policies, although there are considerable uncertainties around these estimates. The real exchange rate index was overvalued by 2.8 percent in 2020 (relative to the real exchange rate index norm). The alternative real exchange rate level approach points to an undervaluation of 23.9 percent; however, this approach is not adequate for commodity exporters like Norway.					
Capital and Financial Accounts: Flows and Policy Measures	**Background:** Flows, both outgoing and incoming, mainly span Nordic and EU countries. With banks' heavy reliance on wholesale funding—accounting for about half of total banks' funding—and about half of wholesale funding from foreign sources, banks are vulnerable to turbulence in foreign financial markets. **Assessment:** Financial account vulnerability is low, but the banking sector's reliance on external wholesale funding remains a source of vulnerability. The increase of duration in part of the funding structure is a positive development.					
FX Intervention and Reserves Level	**Background:** The krone floats freely against other currencies. Norges Bank has not intervened in FX markets since 1999, with a brief exception in March 2020, owing to extraordinary market turbulence spurred by Covid. The central bank has indicated that it remains ready to intervene if the exchange rate deviates substantially from fundamentals. At the end of 2020, Norges Bank reserves were at 21.5 percent of mainland GDP. **Assessment**: Reserves are ample even considering the exposure of banks to wholesale funding and risks of regional macro-financial shocks (imports are less than 35 percent of total GDP and there is no GG short-term financing risk thanks to the large pension fund).[3] Further, Norges bank has expanded swap agreements with the Fed and Nordic central banks to bolster market confidence.					
Technical Background Notes	1\ Particularly with respect to the tourism and oil balance; the corresponding adjustments to the norm are estimated at 3.1 percent for the oil balance and -1.5 percent for the tourism balance. 2\ There are several sources of bias: (i) the large size and particular composition of Norway's foreign assets (tilted towards portfolio equity) makes the country's CA balance particularly prone to the portfolio equity retained earnings bias, which is estimated to be around 4.0 percent of GDP for Norway. In addition, estimated IIP valuation changes averaged around 8.8 percent of GDP over the 2015–19 period, which inflate the amount of dividend yields estimated as part of the CA norm and lead to a sizable overstatement of the CA norm; (ii) productivity of the non-oil sector is lower than implied by average productivity; and (iii) oil affects the norm considerably, but the adequacy of the econometric specification is doubtful. 3\ Standard reserves adequacy metrics are not adequate for the case of Norway given its large pension fund which is mostly invested in foreign markets and is fully diversified away from oil markets.					

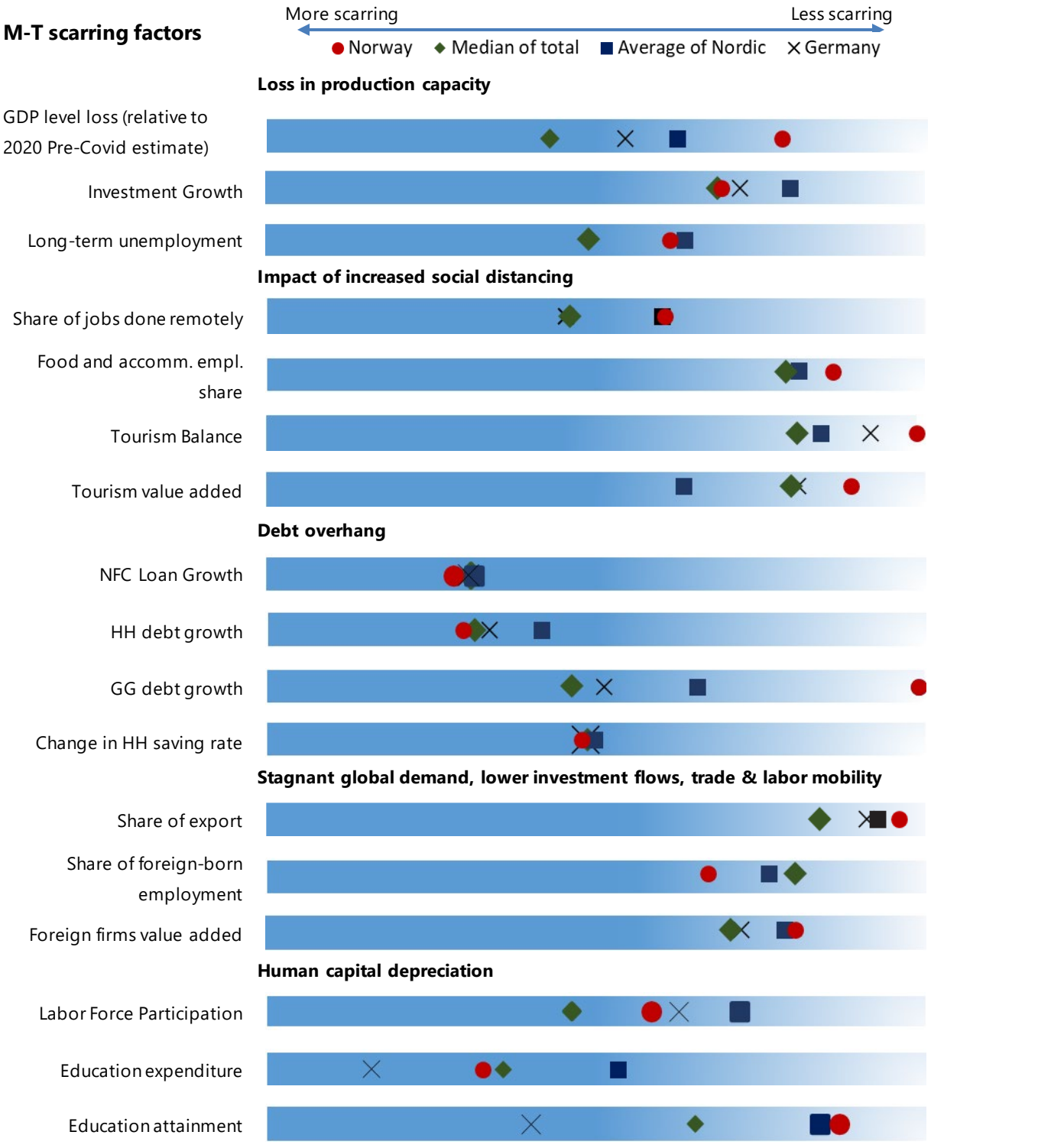
Annex II. Scarring in Context

1. Norway is expected to be one of the earliest economies to rebound to its pre-Covid medium-term GDP trend, with relatively small scarring expected. While severe recessions can cause significant damage (scar) to the production capacity of the economy and impede long-term growth and productivity, Norway appears to have navigated a relatively good path, thanks to its economic and institutional structure and strong policy responses.

2. The dashboard below indicates that Norway ranks favorably relative to other European economies on a broad set of potential scarring channels and key indicators. *Several (positive) factors stand out for Norway*: (i) the recession in Norway was relatively shallow leading to a relatively modest drop in investment and a less significant increase in long-term unemployment; (ii) a significantly larger share of jobs can be done from home in Norway; (iii) the economy is less dependent on the hospitality and tourism activities;[1] (iv) ample fiscal space has shielded Norway from productivity losses associated with higher GG debt; (v) economic activity is relatively less dependent on exports, foreign investment and immigration; and (vi) stronger educational attainment in Norway suggests a more mobile and adaptable (to structural transformation needs) labor force. *On the other hand*, the relatively higher growth in corporate and HH debt during the pandemic exposes the economy to potential scarring effects due to debt overhang affecting investment and consumption.

[1] Norway's trade balance has improved in response to a decline in imports of travel and tourism services. In addition, the domestic hospitality sector has benefited from an expenditure switch as Norwegians allocated more of their travel spending at local instead of foreign destinations.

M-T scarring factors



Variables are normalized such that the scales extend between maximum exposure to scarring effects on the LHS end and minimum scarring on the RHS.

Annex III. Risk Assessment Matrix[1]

(Scale—high, medium, or low)

Risks	Likelihood of Risk	Impact of Risk	Policy Response
Unexpected shifts in the Covid-19 pandemic. ▪ **Asynchronous progress**. Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults). ▪ **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient.	M M	**Medium:** Demand in contact intensive services remains low for longer. Financial markets reassess real economy risks leading to a repricing of risk assets. CRE and corporate vulnerabilities worsen, affecting banks (and insurers). **High:** Strong confidence impact in the near term; activity recovers faster than expected over the medium term and limits scarring as the high level of household savings could be deployed towards consumption.	Maintain adequate support to the broader economy and the health system. Given ample fiscal space and the possibility for better targeting, the policy mix should rely primarily on fiscal policy – aiming to support households and businesses to overcome liquidity needs and limit scarring, while encouraging necessary reallocation of resources. In contrast, monetary policy space appears to be more limited with policy rates already at zero and inflation at relatively high levels despite the negative output gap. A looser monetary policy would also run a greater risk of worsening financial vulnerabilities. Norway's fiscal risks remain fundamentally low due to the world's largest SWF, low government debt levels (around 40 percent of GDP), and AAA sovereign rating.
▪ **Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	L	**Low:** Rapid rebound in domestic demand can increase pressure on inflation. Speculative capital outflows, driven by low risk aversion, can lead to exchange rate depreciation fueling further inflationary pressure. Such downward pressure on exchange rate can be counteracted by increased external demand for oil.	In such an upside scenario, fiscal policy (and monetary policy support) could be withdrawn more rapidly, with policy focus shifting more firmly to address medium-term challenges. There would be scope for the central bank to adjust forward guidance to signal an earlier increase of the policy rate to stem inflationary pressure.

The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

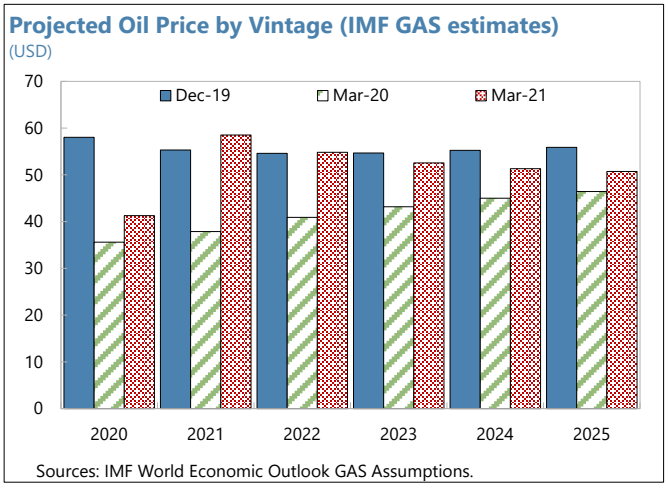
Risks	Likelihood of Risk	Impact of Risk	Policy Response
Higher precautionary household saving rate	M	**High:** The extent of the rebound of household consumption is uncertain, with risks broadly balanced. If uncertainty remains high, due to setbacks on vaccines and the pandemic, the consumption rebound could be muted, leading to lower growth and higher businesses distress in the services and retail sectors. However, if vaccination proceeds swiftly and uncertainty declines, the high household savings could result in a swift unwinding of pent-up demand, leading to a strong demand-driven economic rebound.	See the first downside scenario "prolonged pandemic" (see top of previous page). In addition, accelerate structural reforms to boost sustainable and equitable growth, including focusing on labor market measures to boost labor participation, particularly of more vulnerable segments of the population. Should consumption surprise to the upside., refer to the "faster containment" scenario, immediately above.
Slow reallocation of labor and capital away from distressed firms with lower long-term productivity (i.e. Zombification).	H	**Medium:/High:** Decline in aggregate productivity; increase in financial sector vulnerability; increase in fiscal burden (e.g., social benefits); increase in aggregate uncertainty and debt overhang on investment; increase in household precautionary savings uncertainty and lower consumption.	Speed up default and restructuring procedures; faster transformation of untargeted fiscal support to targeted measures; use market information (potentially through private lenders) to filter through firms that have long-term potential. Invest in retraining and requalification programs; target support to sectors and firms with long-term potential to allow labor reallocation to follow capital reallocation.
Decline in labor supply and rise of long-term unemployment.	H	**Medium:/High:** Lower aggregate productivity, decline in potential output and increased fiscal burden.	See policy response to slow reallocation risks. In addition, time and calibrate unemployment benefits to maintain household incentives to be part of the labor market. Once recovery is undergoing, make timely phase out of recession related changes in social benefits.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults.	M	**Low:** Further pressure on bank capital adequacy triggering credit tightening. Adverse spillover to other (viable) sectors through lower incomes and intermediate input demand. Higher unemployment due to bankruptcies and pressures on the social security system.	Stand ready to implement further policy support. Deploy Government fund to purchase fixed income assets to facilitate corporate funding. Maintain flow of credit by making sure financial policies are adequately targeted and effectively deployed. The guarantee scheme for bank loans to businesses could be prolonged as needed. Norway's extremely large SWF, low government debt levels, and AAA rating suggest limited fiscal risks in response to a rise in global risk premia.

Risks	Likelihood of Risk	Impact of Risk	Policy Response
Oversupply and volatility in the oil market. Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from Covid) lead to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility. There are also upside risks to oil prices, particularly in the case of a marked rebound of economic activity from the second half of 2021.	M	**Medium:** See Annex IIV on Norway's oil supply curve.	Further liquidity measures to help control the pace of the expected gradual shift away from the offshore sector (in response to a negative shock) could be deployed, as well as funding for transition/investment to (green) projects that are likely to be resilient to lower future oil prices. In the case of a sharper than expected rebound of prices and stronger economic activity, the path of interest rates may need to be steeper, and fiscal support may need to be unwound more promptly (although part of this adjustment may come from diminished engagement of automatic stabilizers).
Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	M	**Medium:** Disruption in economic activity can weaken confidence, generating adverse effect on consumers, financial markets.	Provide monetary and fiscal support and improve spending on cyber-security.
Accelerating de-globalization. Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	M	**High:** Higher barriers to trade would dampen exports and investment and weaken growth.	Provide monetary and fiscal support, implement labor market reforms, and enhance bankruptcy regime to facilitate sectoral reallocation of labor and capital.
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	M/ L	**High:** severe disruptions in economic activity and weaker confidence for consumers, financial markets. Deterioration in banks' loan portfolio can weaken lending, reduce investment, weaken growth.	Continue the drive towards green technologies and climate change mitigation policies (including CO2 capture plant and Green Platform). Ample fiscal space should be deployed if needed, delaying the needed and comparatively small medium-term fiscal adjustment.
Significant property price decline in Norway due to structural changes. Price declines could possibly affect commercial property markets and/or residential property.	M	**High:** Investment and collateral values for lending could be undermined by sizable falls in commercial property prices. Loan quality impacted, primarily of firms serving domestic market. Lending could be curtailed if doubts about the quality of covered bonds rise, elevating bank funding costs. Given the banks' high exposure to CRE, NPLs could increase significantly.	Monitor recent developments through better data collections and supervise banks commercial real estate lending closely; consider broadening the toolkit for mitigating CRE vulnerabilities. In the event, provide funding support to banks.

Annex IV. Oil Supply Curve Developments and Petroleum Wealth in Norway

1. In the years leading up to 2020, Norway's offshore sector grew steadily more resilient to energy price fluctuations. The Norwegian long-run oil supply curve shifted upward, implying higher expected lifetime well production at most price points, and in turn higher potential oil revenue flows. This upward shift of the supply curve specifically reflected lower break-even prices of new discoveries, such as the Johan Sverdrup field (close to $20 per barrel; or 'Bbl') and improvements in operating cost (that by 2020 averaged just $5/Bbl) (Figure AIII-1). However, field-level data from Rystad Energy[1] indicate that the larger share of improvement took place at the higher end of the cost distribution (i.e., that the 'higher' lifetime production would only be viable at higher price points); changes were marginal in the amount of resources viable for extraction at an oil price up to $40/Bbl, while viable extraction at prices above $40/Bbl rose significantly. For example, in 2019, the data indicated that, with oil at $50/Bbl, Norway expected to have around 9.7 bn Bbls viable for production, up by 50 percent when compared to the 6.5 bn Bbls that were expected based on a 2015 vintage. Overall, the analysis here indicates that the weighted average of Norway's break-even price, weighted by the size of field resources, was around $59/Bbl in 2015 and improved to $52/Bbl in 2019 and $46/Bbl by 2020 (government authorities estimate of the breakeven price is a bit lower, around $38/Bbl).

2. These gains have helped shield the sector's medium-term outlook from the Covid shock. In 2020, oil prices fell by more than 30 percent and the projected medium-term price was revised down by near 10 percent. Nonetheless, the medium-term implications were muted. As the right column in Figure AIII-1 shows, the decline in projected petroleum production in the five years ahead was limited. During 2020, production actually grew by 6 percent (against initial expectations of a more than 10 percent increase[2]), despite government mandated supply curbs in response to OPEC recommendations to limit excess oil supply. Under current projections, Norwegian energy production is expected to continue on an upward growth trend, peaking in 2024–25 at a level 12 percent higher than 2020, and then begin a gradual fall.



[1] An independent energy research and business intelligence company headquartered in Oslo, Norway.

[2] Official production plans signaled a significant increase starting 2020 due to large investments and discoveries over the last three years. This plan was only marginally revised down by the crisis; the short-term oil price elasticity of supply is near zero (the larger part of the production costs is fixed, and therefore was sunk by the time the crisis took place and the variable costs of production is well below $10).

3. However, the analysis suggests that the sector's long-term outlook suffered significantly from the 2020 shock. As a result of the decline during 2020 in the oil markets' long-term outlook, Norway's investment in the sector, including exploration activities, was significantly scaled back. Comparing expected production per day by 2040 between the 2019 and 2020 vintages suggests a drop of more than 50 percent. This change in the oil and gas production path is reflected in the strong downward shift in Norway's long-run oil supply curve. For example, the size of viable extractable resources at an oil price of $50/Bbl shrank by 33 percent, almost back to its 2015 levels. The impact was even stronger on higher cost resources, i.e. oil production anticipated to be viable at high price points of $80/Bbl or more. The Norwegian authorities have noted that they expect further exploration activities and technology developments to result in a high activity level on the shelf for the next 50 years, potentially at levels higher than indicated above.

4. Similar developments are observed across other oil exporting economies. Field-level data from peer oil exporting countries (UK, Mexico, Brazil) with similarly large offshore production segments (Figure AIII-1) reveal similar patterns. Namely, oil supply curves shifted upward in the years leading up to the Covid shock, following more active exploration and technological investment in the oil sector, but gains were revised down in 2020 (Brazil is an exception, reflecting a wave of new discoveries, per Rystad). This lack of significant heterogeneity across countries suggests that there is limited scope for how much national governments could do to mitigate the impact of global trends.

5. The degree to which the deterioration in Norway is permanent will be heavily influenced by the scale of the rebound in global economic activity and indeed the future role of hydrocarbon energy. The observed rapid adjustment in the long-term supply curve in response to the events of 2020 indicates that the sector's longer-term investment plans remain highly responsive to changes in the oil market outlook. The potential of long-term losses in global economic activity (see GRAM), such as scarring in the transportation sector, and accelerated green transformation thanks to generous green recovery stimulus packages, weigh down on long-term prospects in the Norwegian offshore sector.

6. The Norwegian Government's efforts to mitigate the negative impact on offshore sector investment will also influence outturns. In 2020, the government introduced a temporary targeted amendment to the petroleum tax system under which companies can carry out immediate expensing of offshore petroleum investments in 2020 and 2021 against the sector's special tax obligation of 56 percent of profits (a sharp frontloading of the usual 6 year expensing period). The Ministry of Finance estimated that the measure would improve companies' liquidity by more than NOK 100 billion over 2020 and 2021. This represents a substantial portion of the sector's expected tax obligation over 2020–21.[3] While the full impact

[3] The amendments to the petroleum tax system include an immediate but temporary tax allowance, with a 24 percent uplift, in the special tax base for investment costs and a cash payout of tax losses; companies will receive the tax value of future depreciations including an increased uplift and losses at an earlier point in time, increasing the present value of deductions and providing additional liquidity to companies that invest and/or end up in a tax loss position. In spring 2020, the Ministry of Finance estimated the additional liquidity in 2020 and 2021 to be about NOK 115 billion in total (the accrued tax revenue loss in 2020 and 2021, compared to ordinary tax rules). Based on investment forecasts, the temporary amendments were estimated to give a tax relief (unrecoverable tax revenue loss) of about NOK 8 billion (in present value terms).

of the measure on investment has yet to be assessed, there has already been an acceleration in frontloading future development and exploration plans into 2021.

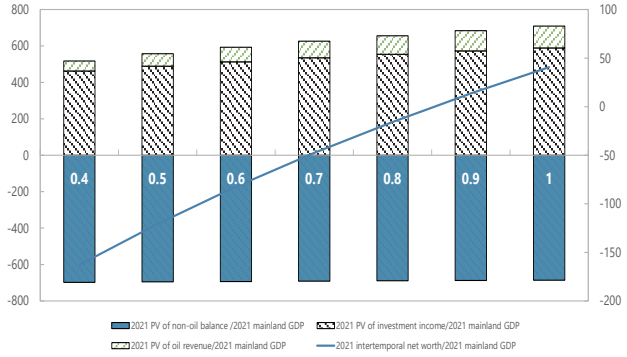
Fiscal Implications

7. The analysis above points to several risks with fiscal implications.

- *The oil supply curve analysis suggests that there is a potentially significant gap between Norway's commercially viable petroleum wealth and the value of the total volume of petroleum reserves.* The Norwegian Petroleum Directorate estimates that 52 bn of oil equivalent barrels are left to produce, of which 27 bn barrels are proven resources as of 2019. However, the above analysis of field-level data on the breakeven oil price indicates that only 64 percent of the total proven resources in reporting fields were commercially viable for extraction at an oil price of around $50/Bbl. The present value of the intertemporal net worth of the Norwegian government, accounting for future revenues and expenditures over an 80 years horizon, drops by almost 125 percent of 2021 mainland GDP when only 60 percent of proven petroleum resources are viable for extraction. The effect of lower oil revenues into the oil fund is amplified by less investment income.

- *To make up for such a downward revision, the government would need to lower its non-oil deficit by more than 1 percent of mainland GDP over the full horizon of the simulation.* The same net worth position could be reached through reforming key expenditure items such as sickness, disability and old age pensions, which is currently projected to grow at an average of 4.1 percent a year. Our intertemporal net worth analysis suggests that reaching the same fiscal position associated with a full extraction of oil and gas resources would require lowering growth on this expenditure item by around 0.35 percentage points. [4]

Government Intertemporal Net Worth (rhs) and Its Decomposition Across NPV of Future Flows (LHS) for Different Viable Shares of Total Petroleum Resources

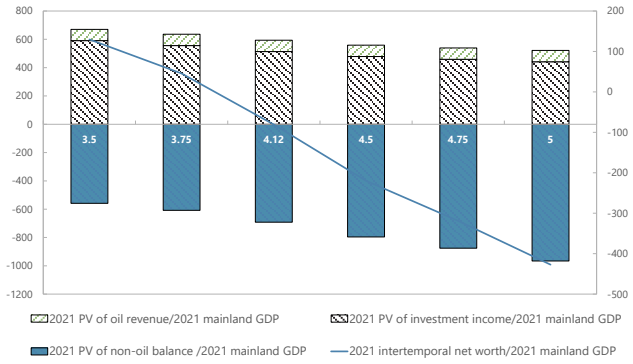


Source: IMF staff calculations and Rystad Energy.

[4] The baseline analysis assumes a long-term value of non-oil revenue to mainland GDP similar to the historical average of 49 percent.

- *The magnitude of viable petroleum wealth is sensitive to changes in the global energy sector outlook and domestic investment in the sector*. This is reflected in the significant shifts in supply curves shown above. While Norwegian production prospects could be positively influenced by a subsequent uptick in the energy industry outlook, there is significant uncertainty (not least due to global efforts at climate change mitigation). A mitigating factor for Norway's long-run fiscal position is the shrinking role of oil revenues relative to the size of financial wealth in the GPFG—this limits the impact of oil revenues on the government's overall fiscal position, as reflected in the previous chart by the size of the oil contribution (green) relative investment income (red).

Government Intertemporal Net Worth (rhs) and Its Decomposition Across NPV of Future Flows (LHS) for Different Growth Rate of Pension Expenditures



Source: IMF staff calculations and Rystad Energy.

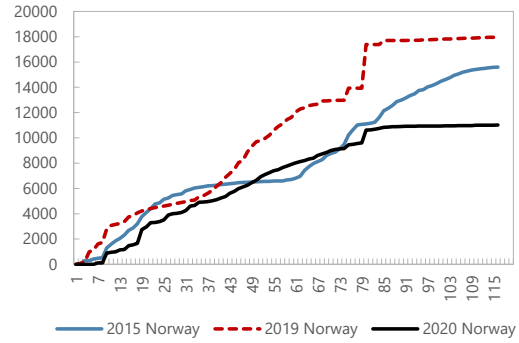
Policy Implications

8. This analysis strengthens the case for longer term fiscal adjustment to maintain intergenerational equity. The risk of a faster decline in petroleum revenues raises risks to Norway's longer-term ambitions for intergenerational equity in the use of the GPFG. Compensating for higher than expected oil revenue losses would require offsetting fiscal adjustment over the long-term.

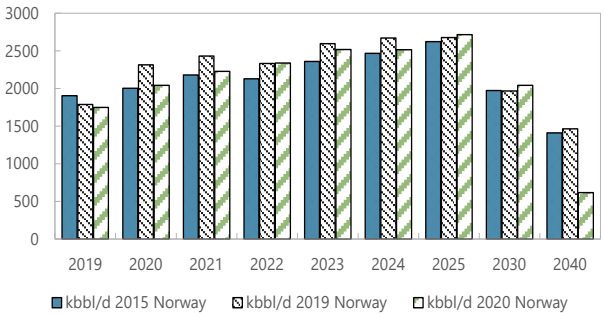
9. While government fiscal support the for the offshore sector during 2020 was aimed at mitigating rapid disruptive movements, future support should be balanced against the need to facilitate a gradual shift towards green (and other) sectors with higher long-term growth potential. The government liquidity support was untargeted, but quick to deploy and allowed the sector to ease the impact of the Covid shock on a sector that will be important for Norway's economic prospects for many years to come. However, going forward, government policies should be weighted increasingly towards efforts to boost green growth and to meet climate change mitigation goals.

Figure 1. Norway: Long-Term Oil Supply Curves and Projected Oil Production, across the 2015, 2019 and 2020 Vintages

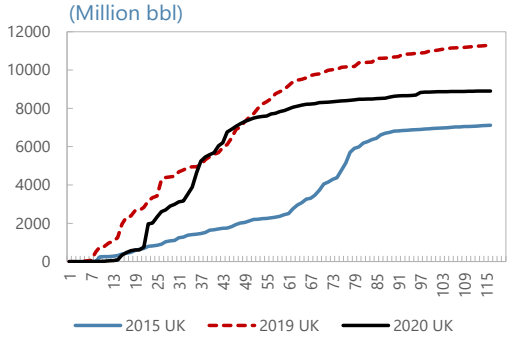
Norway: Oil Supply Curve
(Million bbl)



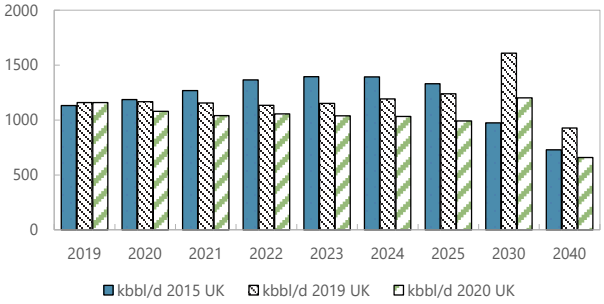
Norway: Projected Future Oil Production
(kbbl/day)



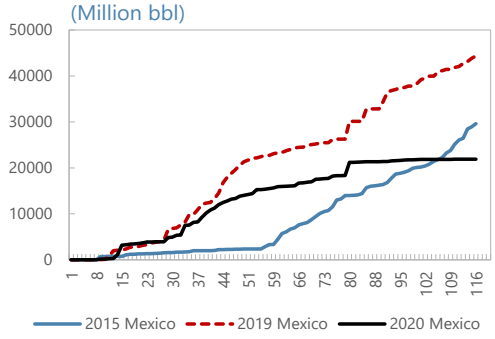
UK: Oil Supply Curve
(Million bbl)



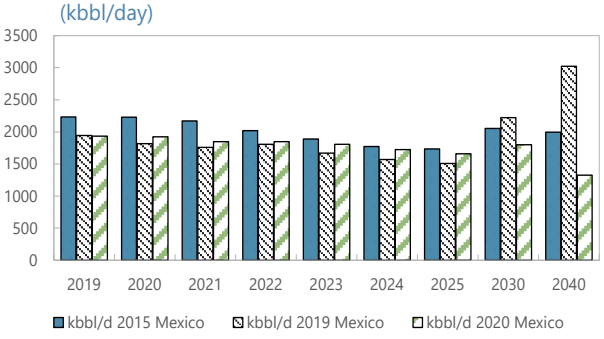
UK: Projected Future Oil Production
(kbbl/day)



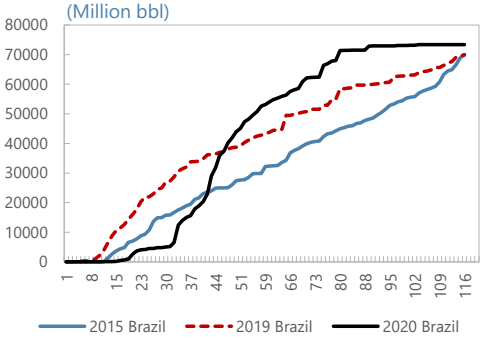
Mexico: Oil Supply Curve
(Million bbl)



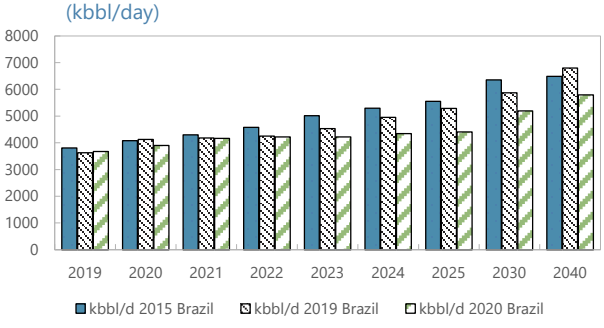
Mexico: Projected Future Oil Production
(kbbl/day)



Brazil: Oil Supply Curve
(Million bbl)



Brazil: Projected Future Oil Production
(kbbl/day)

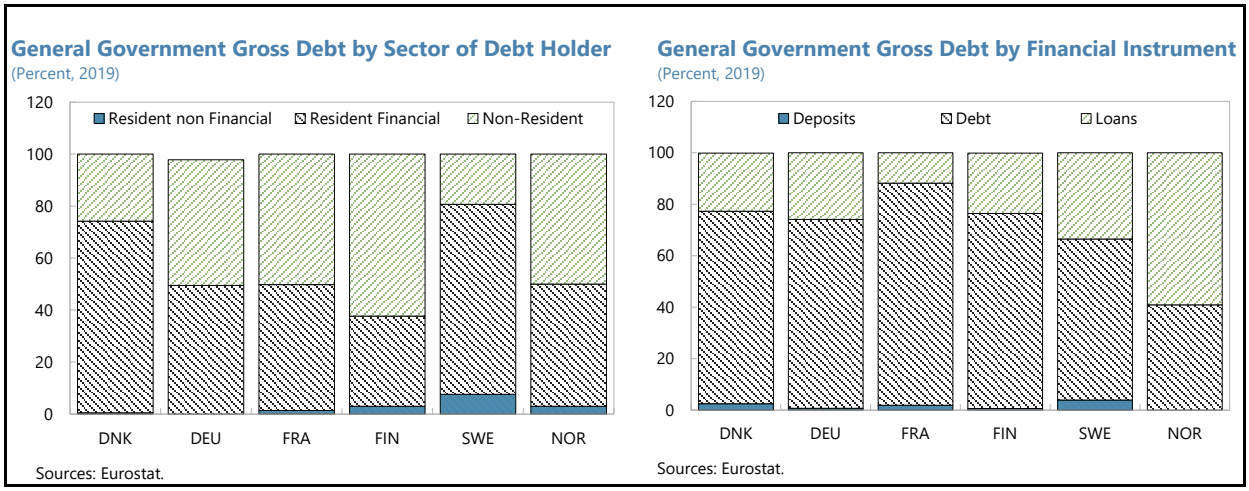


Source: IMF staff calculations and Rystad Energy.

Annex V. Public Debt Sustainability Assessment

(preliminary—to be updated with input from the Norwegian authorities)

1. Summary: Public debt sustainability risks remain contained due to the strict implementation of fiscal rules and high net worth of government (reflecting the large sovereign wealth fund and the low stock of public debt). The debt-to GDP ratio in 2020 stood at 41.4 percent despite the fiscal response to the pandemic, given the funding for budget comes from GPFG transfers. About half of the debt is held by non-residents, and about 40 percent is represented by debt securities.



2. Baseline scenario: The key assumptions underlying the baseline scenario are a gradual, but steady recovery of economic growth and the continued adherence to the fiscal rule. Under the baseline scenario, public debt is projected to decline slightly over the coming years, from 41.4 percent of GDP in 2020 to about 40.1 percent of GDP in 2026, returning to pre-Covid levels. Gross financing needs are expected to remain moderate over the medium term.

3. Stress tests: Adverse growth, interest-rate, financing-needs shocks, and combined shocks affect debt trajectories only to a minor extent.

Figure 1. Norway: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(in percent of GDP unless otherwise indicated)

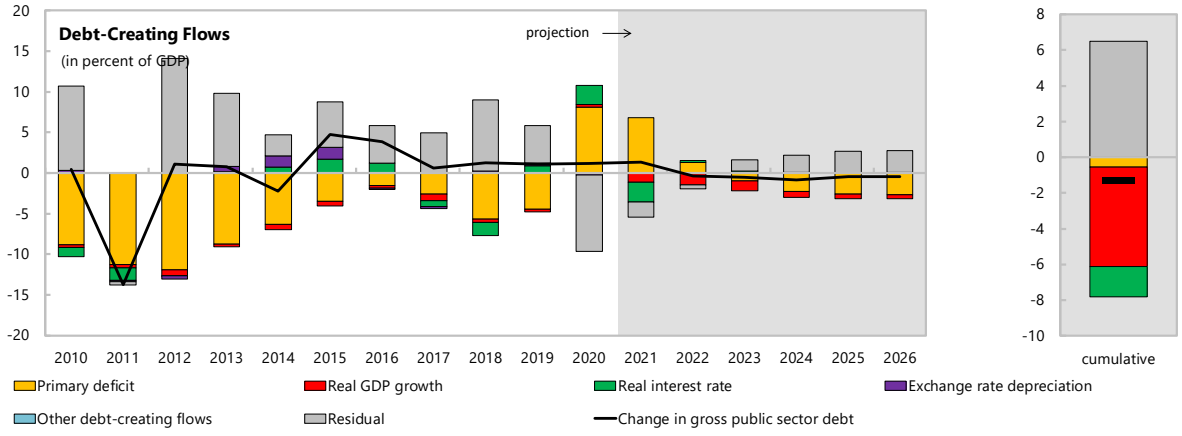
Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of February 20, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	34.3	40.2	41.4	42.7	42.4	41.8	41.0	40.5	40.1	EMBIG (bp) 3/		160
Public gross financing needs	-5.5	2.8	9.1	7.1	5.3	3.0	2.0	1.2	1.5	5Y CDS (bp)		9
Real GDP growth (in percent)	1.5	0.9	-0.8	3.0	3.6	2.9	1.8	1.3	1.3	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	2.8	-0.4	-3.7	7.9	0.9	1.0	1.4	1.7	1.8	Moody's	Aaa	Aaa
Nominal GDP growth (in percent)	4.4	0.4	-4.5	11.1	4.6	3.9	3.2	3.0	3.2	S&Ps	AAA	AAA
Effective interest rate (in percent) [4/]	2.7	1.9	2.0	1.4	1.7	1.6	1.7	1.7	2.2	Fitch	AAA	AAA

Note

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.4	1.1	1.2	1.4	-0.4	-0.5	-0.8	-0.5	-0.5	-1.3	
Identified debt-creating flows	-7.0	-3.5	10.6	3.2	0.1	-1.9	-2.9	-3.2	-3.1	-7.8	
Primary deficit	-6.7	-4.4	8.1	6.8	1.3	-1.0	-2.3	-2.6	-2.7	-0.6	-0.4
Primary (noninterest) revenue and grants	52.2	54.1	48.1	43.6	48.7	50.5	51.7	52.0	52.1	298.6	
Primary (noninterest) expenditure	45.4	49.6	56.2	50.4	49.9	49.5	49.4	49.4	49.4	298.0	
Automatic debt dynamics [5/]	-0.3	0.9	2.5	-3.6	-1.2	-0.9	-0.6	-0.5	-0.4	-7.3	
Interest rate/growth differential [6/]	-0.6	0.6	2.7	-3.6	-1.2	-0.9	-0.6	-0.5	-0.4	-7.3	
Of which: real interest rate	-0.1	0.9	2.4	-2.5	0.3	0.3	0.1	0.0	0.1	-1.7	
Of which: real GDP growth	-0.5	-0.3	0.3	-1.1	-1.5	-1.2	-0.7	-0.5	-0.5	-5.6	
Exchange rate depreciation [7/]	0.4	0.3	-0.2	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., drawdown of deposits) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	6.6	4.6	-9.4	-1.8	-0.5	1.4	2.1	2.7	2.6	6.5	



Source: IMF staff calculations.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

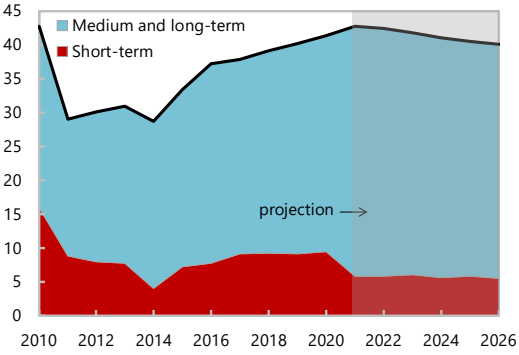
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Norway: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

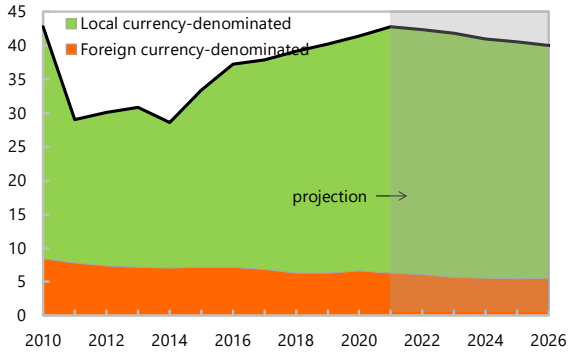
By Maturity

(in percent of GDP)

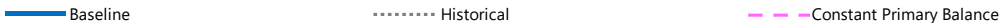


By Currency

(in percent of GDP)

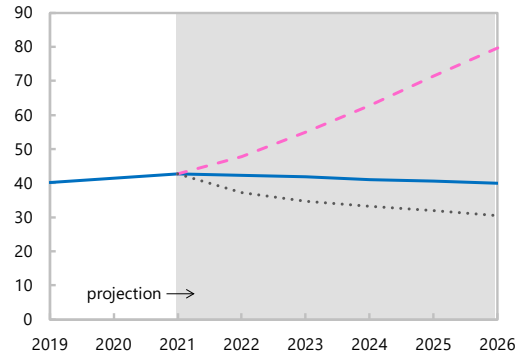


Alternative Scenarios



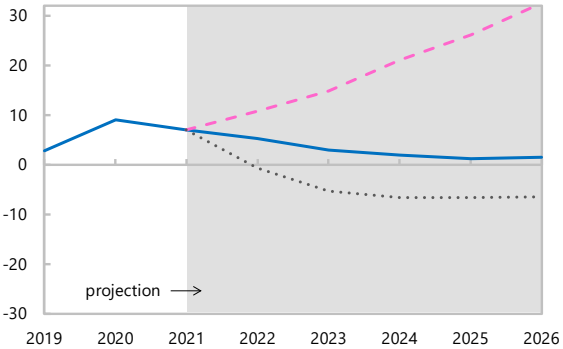
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.0	3.6	2.9	1.8	1.3	1.3
Inflation	7.9	0.9	1.0	1.4	1.7	1.8
Primary Balance	-6.8	-1.3	1.0	2.3	2.6	2.7
Effective interest rate	1.4	1.7	1.6	1.7	1.7	2.2
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.6	2.9	1.8	1.3	1.3
Inflation	7.9	0.9	1.0	1.4	1.7	1.8
Primary Balance	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
Effective interest rate	1.4	1.7	1.5	1.5	1.5	1.7

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.0	1.3	1.3	1.3	1.3	1.3
Inflation	7.9	0.9	1.0	1.4	1.7	1.8
Primary Balance	-6.8	4.8	4.8	4.8	4.8	4.8
Effective interest rate	1.4	1.7	1.8	1.9	1.9	2.5

Source: IMF staff calculations.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Systemic Risk Oversight and Macroprudential Policy		
Develop and publish a macroprudential policy strategy. (MoF, Norges Bank, FSA)	ST	**Partly addressed.** The authorities have expanded on key aspects of macroprudential policy in the 2020 edition of the Ministry's annual Financial Markets Report.
Use existing triparty meetings more effectively to discuss risks and policy actions needed to address them. (MoF, Norges Bank, FSA)	I	**Partly addressed.** The authorities have implemented some adjustments to facilitate candid and targeted exchanges on risks, and to better align the meeting schedule with planned policy decisions.
Give Norges Bank recommendation powers over macroprudential policy tools that can be relaxed under stress, with a comply-or-explain mechanism. (MoF)	I	**Under consideration.**
Make key household sector measures permanent features of the framework. (MoF)	ST	**Partly addressed.** While the mortgage regulation still requires renewal, it has now been implemented for 4 years, up from 1.5 years previously.
Consider broadening the toolkit for mitigating CRE vulnerabilities, including sectoral capital tools. (MoF)	MT	**Evaluation ongoing.**
Banking and Insurance Supervision		
Strengthen the FSA's prudential powers, operational independence, and budgetary autonomy. (MoF)	ST	**Under consideration.**
Expand review of banks' risks in supervisory activities to strengthen oversight over systemic foreign bank branches and domestic medium and small sized banks. (FSA)	ST	**Addressed**. Finanstilsynet has strengthen internal guidelines for monitoring and supervising foreign branches and subsidiaries, and the supervisory teams responsible for foreign branches have been provided additional resources. Finanstilsynet has developed a new automatic tool which provides a risk dashboard for each institution on a quarterly basis, facilitating risk-based supervision of medium and small sized banks.
Further enhance the oversight of banks' IRB models, in view of the implementation of CRD IV. (FSA)	I	**Partially addressed.** Finanstilsynet intends to publish a circular clarifying supervisory practice and expectations regarding IRB models in 2021H1.
Intensify oversight of banks' risk management of real estate loans and funding/liquidity conditions. (FSA)	ST	**Under consideration.**
Strengthen risk-monitoring of individual insurers. (FSA)	ST	**Partially addressed**. A project has been established to further develop the Early Warning Risk Dashboard.
Complement EIOPA efforts with Norway-specific in-house stress tests of the whole insurance sector. (FSA)	MT	**Ongoing**. An EIOPA stress test will be conducted in 2021. Finanstilsynet will consider if this stress test can be modified and applied to a larger share of the Norwegian market.

Recommendations and Authority Responsible for Implementation	Time	Status
Cybersecurity Supervision		
Make processes for cybersecurity risk supervision and oversight more structured and comprehensive. (FSA, Norges Bank)	I	**Ongoing.** Finanstilsynet will consider how to strengthen the approach for cybersecurity risk supervision, and also consider if it is appropriate to provide further guidance on IT/ cybersecurity risk. Norges Bank is also in the process of establishing a more structured process for oversight and supervision. Important elements are annual risk-based planning, more active use of reports from third parties and self-assessments from FMIs. The introduction of the TIBER framework in Norway will contribute to the oversight of cyber risk in the payment system.
Establish incident reporting and crisis management frameworks for systemic cyber incidents. (FSA, Norges Bank)	ST	**Partly done.** Norges Bank and Finanstilsynet have updated routines for reporting of incidents from FMIs to The Financial Infrastructure Crisis Preparedness Committee (BFI) in 2020. Finanstilsynet works closely with Nordic Financial CERT (NFCERT) on cyber-attacks/incidents with "open line" and monthly status meetings. Finanstilsynet and BFI are looking to further enhance incident reporting and crisis management by leveraging the EBA Guidelines, the European Commission's Digital Operational Resilience Act and the ESRB's work on systemic cyber risk.
Anti-Money Laundering / Countering Financing of Terrorism (AML / CFT) Supervision		
Enhance AML/CFT supervision by increasing the frequency of targeted and thematic inspections and improving the risk-based approach and tools for AML/CFT risk assessments. (FSA)	I	**Partly addressed.** Full scope on-site inspections dedicated to AML/CFT and off-site inspections are increasing. The risk-based approach has been adjusted and the risk classification model has been further developed.
Ensure appropriate use of sanctions, including monetary penalties, for AML/CFT violations. (FSA)	I	**Addressed.** The sanctioning power has been used as appropriate in cases of serious breaches. Several banks have been sanctioned, and Three banks were sanctioned in 2019. one bank in 2020, and three cases are ongoing.
Financial Crisis Management and Safety Nets		
Make the new resolution tools operational and strengthen the crisis preparedness framework. (FSA, MoF)	ST	**Ongoing.** Finanstilsynet is continuously working to enhance the crisis preparedness framework. In 2021 a new project, focused on developing a bail-in playbook, will be initiated.
Ensure BGF's integration into the broader resolution framework. (BGF, FSA).	ST	**Ongoing.** MoUs between Norges Bank and BGF and Finanstilsynet and BGF have been drafted and are currently being discussed with the aim to sign them spring 2021. BGF is also invited to take part in a crisis simulation exercise together with Norges Bank, MoF and Finanstilsynet in April 2021.

Recommendations and Authority Responsible for Implementation	Time	Status
Systemic Liquidity		
Monitor banks' collateral eligible for central bank liquidity. (Norges Bank)	ST	**Addressed.** Both Norges Bank and Finanstilsynet have access to databases containing information on banks assets. Through our system for collateral management, detailed information is available on pledged securities, while information on other securities can be found in Finanstilsynet's Liquidity Reporting (ILAP). Norges Bank follows up potential mortgages by examining the liquidity in the Norwegian bond market both through a semi-annual survey and through issue and price data from commercial databases that are updated daily. Information about foreign mortgages is retrieved through general market insight, including information from Norges Bank's own management of foreign exchange reserves. Norges Bank is also establishing a model for analysis of cash flows in the banks.
Develop, test, and implement a mechanism for acceptance of mortgage loan collateral for emergency liquidity support to solvent banks. (Norges Bank)	ST	**Ongoing.** Norges Bank has initiated a project with the larger Norwegian Banks and Finance Norway to implement such a mechanism.
Financial Stability Analysis		
Upgrade data collection for risk monitoring to include more granular data on bank lending (including for commercial real estate), group mappings, and liquidity positions of foreign branches. (FSA, Norges Bank)	ST	**Addressed.** More data on banks' CRE exposures will now be included in Finanstilsynet's enquire on banks' exposures to non-financial firms ("ENGA database"). In addition, Norges Bank will from 2021 on, subscribe to a novel private sector database that combines several sources of information, i.e. with help from algorithms, resulting in a by far more comprehensive data set on CRE for all Norwegian regions than has been available so far. Norges Bank has also started to exploit payment remarks data for quantitative analysis of credit risk on loans to non-financial companies. Finanstilsynet has developed new sector specific bankruptcy models (10 sectors), which as a by-product has expanded non-financial company coverage. Work on group mappings will commence during Q2 2021, and Finanstilsynet is setting up a common reporting framework for foreign branches, including liquidity information.
Improve collection and analysis of derivatives exposure data and analyze banks' margin arrangements. (FSA, Norges Bank)	ST	**Ongoing.** Norges Bank and Finanstilsynet are working on making more data on agents' derivatives contracts accessible and usable (EMIR data). Norges Bank is analyzing the effects of margining agreements; see Norges Bank Staff Memo 2/2021 for part of the analysis). Finanstilsynet has analysed bank derivatives exposures using EMIR-data.

[1]I Immediate (within 1 year); ST Short term (1–3 years); MT Medium Term (3–5 years)

Annex VII. The Impact of Covid Pandemic on Corporate Liquidity and Solvency[1]

1. Despite the large negative impact of the pandemic, widespread bankruptcies have not materialized in Norway. This observation, which is common across Europe, reflects the strong financial position of the European corporate sector at the onset of the crisis, as well as the sizable, and multifaceted policy responses.

2. A recent IMF working paper assesses the impact of the Covid shock on the corporate sector and the contribution of country specific Covid relief measures across Europe. The analysis by Ebeke, Jovanovic, Valderrama, and Zhou (2021) simulates the effects of the Covid-19-induced shock on firms' liquidity and solvency position by end 2020, accounting for heterogeneity in the effects of the shock on firms' turnover.[2] For Norway, the sectoral shocks are consistent with observed shocks to GVA across NACE-1 industries and further spanned to cover over 55 NACE Rev. 2 two-digit economic activities. The analysis also uses a new granular dataset of corporate policy measures and maps interventions at the firm level taking into account the conditionality of the scheme. The analysis covers balance sheet and income statement data for more than four million European firms, including 283,800 Norwegian firms.[3]

3. For Norway, the analysis shows that absent policy measures, liquidity and solvency gaps of firms would have increased by around 4.7 and 1.2 percent of GDP, respectively. The charts in Figure AVII-1 summarize the analysis of the impact of Covid on Norwegian firms' liquidity gaps (defined as the difference between liquid assets and operational cash-flows net of maturing liabilities)[4] and solvency gaps (defined as the negative book value of equity). While the level of the increase in the two gaps as a share of GDP in Norway is comparable to the rest of Europe, which is somewhat surprising given the milder downturn, Norway is estimated to have a relatively smaller increase in the *share* of firms with a post-Covid liquidity and solvency gaps.

[1] Laura Valderrama contributed to this annex.

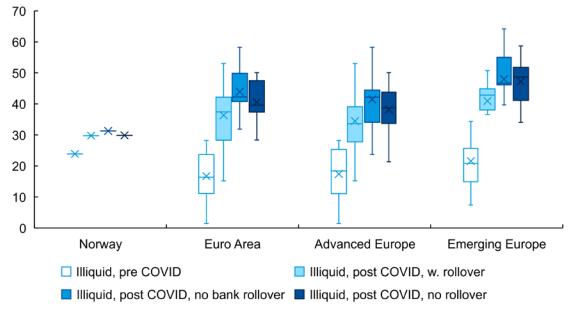
[2] In Norway (and most European economies), the pandemic has had uneven effects across non-financial corporate sectors. Hardest hit were industries in contact-intensive sectors such as hospitality, transport, arts, and recreational activities as well as administrative services and supports. The Norwegian economy was also particularly exposed to the economic effects of the pandemic through other industries where the country is a net exporter such as oil and gas and electricity.

[3] The data includes 1,458 large firms and 282,342 SMEs (based on the European commission definition). The total number of firms amounts to 96 percent of the total stock of Norwegian firms based on the number reported in the OECD structural statistics for Norway. Overall, while SMEs account for 99 percent of firms in the dataset, they represent 60 percent of aggregate turnover. The share of domestic turnover represented by these firms reaches over 85 percent. To ensure representativeness of results, projections are re-weighted by the sectoral share of turnover in national statistics in Norway.

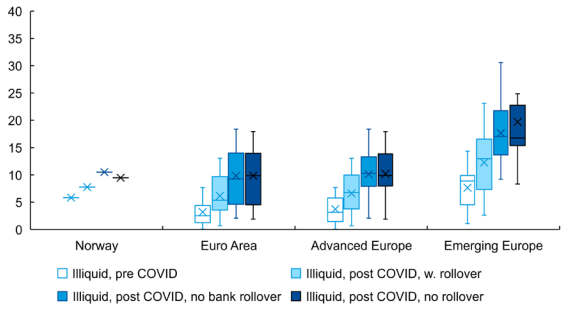
[4] The analysis on liquidity gap considers three different scenarios depending on whether firms could rollover their bank debt and trade credit obligations.

Figure 1. Norway: Estimated Pre-Policy Measures Effects of the Covid Shock

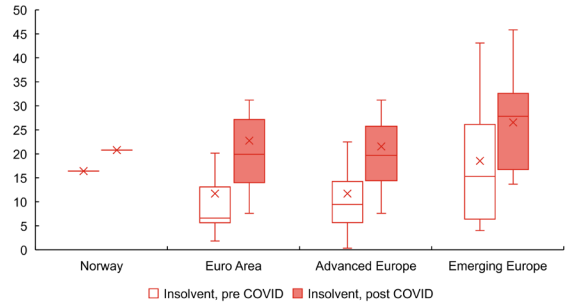
Share of Illiquid Firms (Percent)



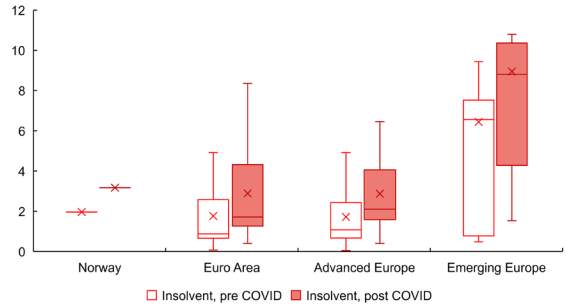
Liquidity Gap (Percent GDP)



Share of Insolvent Firms (Percent)

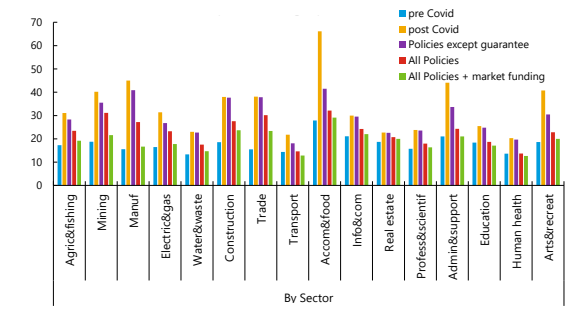


Equity Gap (Percent GDP)



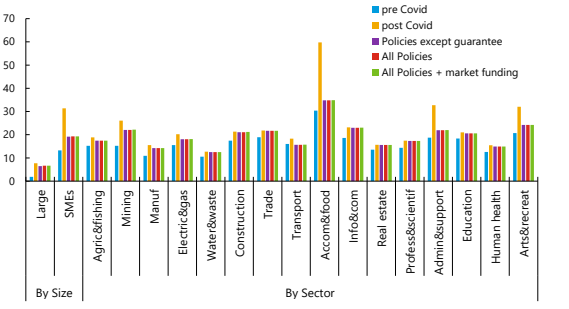
Share of Firms with Liquidity Needs

(as a per of their group)



Share of Firms with Equity Needs

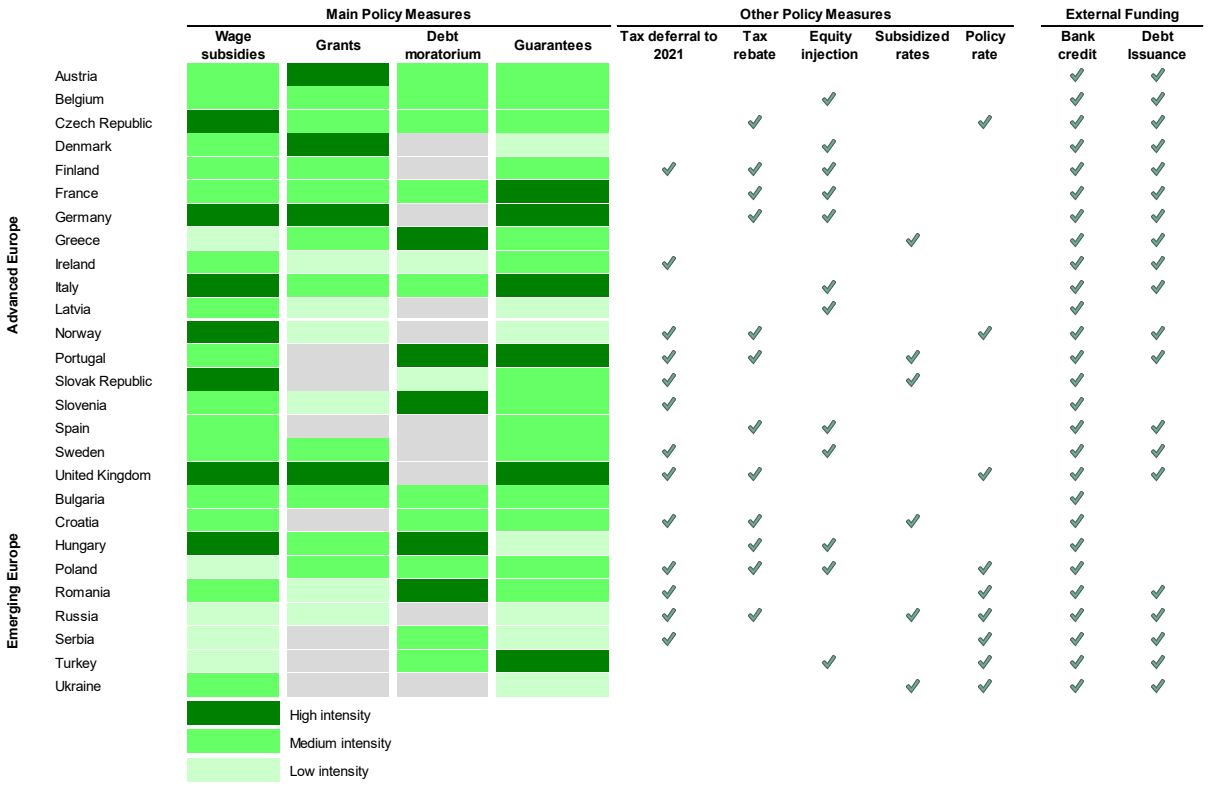
(As a percent of their group)



Source: Orbis and IMF staff calculations. Based on Ebeke, Jovanovic, Valderrama, and Zhou (2021).

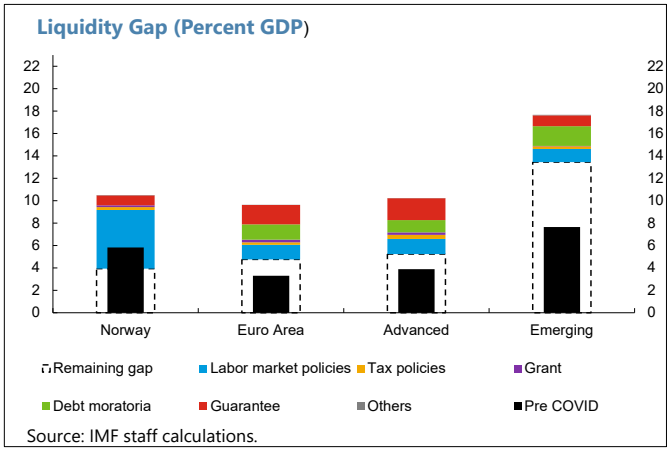
Notes: The first row reports the three post-Covid alternative scenarios, pre-policies, with a) rollover of 100% of maturing liabilities (bank; trade credit), b) rollover of 100% of maturing trade credit, but no bank credit, and c) no rollover of maturing liabilities (bank; trade credit). In the second row, when the analysis controls for policies, the benchmark scenario for Covid first assumes rollover of 100% of maturing trade credit, but no bank credit (as in b), and then applies the policies. In the third row, market funding (non-guaranteed credit and bond issuance, allocated at the firm level) is included.

Figure 2. Norway: Strong and Multifaceted Direct Policy Support Across Europe



Sources: National data sources and IMF staff calculations.
Note: The left nine columns reference the form of the direct aid scheme granted to corporates, i.e. wage subsidies (contribution to wage costs to avoid layoffs), grants (direct compensation for loss in revenues), debt moratorium (moratorium on bank loan repayments), guarantees (loan support through guarantees channeled through financial institutions and official loans), tax deferral (ability to defer tax obligations to 2021) tax rebates (decrease/exemption on VAT, corporate income tax, business rates, or payroll tax), equity injections (individual recaps), subsidized rates (on new loans), and policy rate (effective pass-through of policy rate cuts to lending rates). The first four columns (main policy measures) are color-coded to reflect policy intensity taking into account granular information on budget, duration, and firm coverage, relative to peer countries. The rightmost two columns show the external funding sources included in the simulation, i.e. (non-guaranteed) bank loans (for all firms) and debt issuance (for large firms).

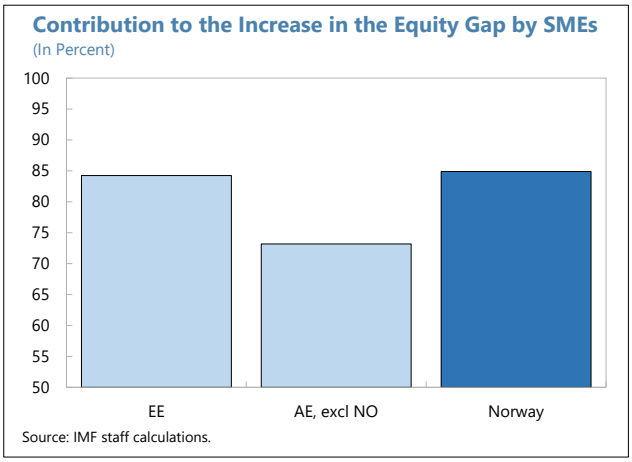
4. The results indicate that the Norwegian authorities' policy response more than compensated for the Covid induced liquidity gap. Model estimates suggest that policies geared towards alleviating the wage bill burden played the most important role in supporting firms' liquidity needs in Norway, while government guarantees occupied only a secon dary role. The latter observation is consistent with the preliminary fiscal figures that suggest a low take up of government guarantees and loan schemes. In comparison to the rest of Europe where a liquidity gap remains open despite government support measures (for advanced economies, only 80 percent of the gap is covered by government policies), the results indicate that Norwegian firms are less likely to face a liquidity shortfall both due to the projected quick rebound in economic activity once the economy enters in the reopening phase and the expected continuation of targeted support of viable firms.

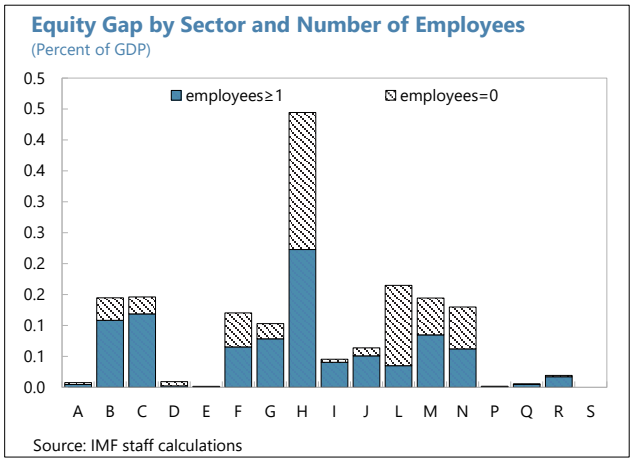


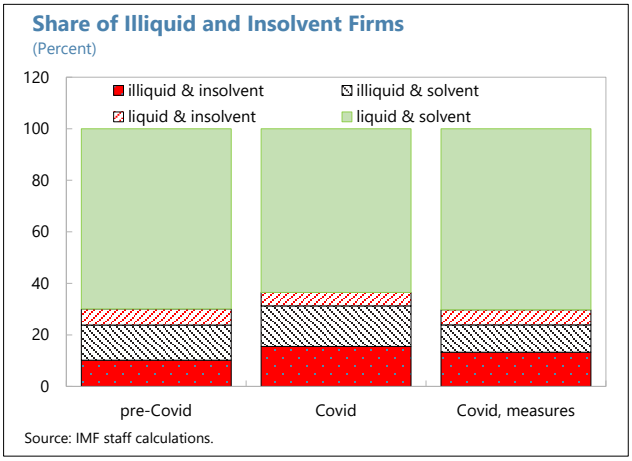
Source: IMF staff calculations.

5. However, the Norwegian corporate sector remains vulnerable to a rise in bankruptcies due to a significant uncovered solvency gap. Simulations suggest that even with policy support, the share of insolvent firms could increase by 3 percentage points. While government policy support for the business sector could help firms meet their short-term liquidity needs, it may fall short of strengthening the capital structure of distressed firms hit by Covid-19[5] with SMEs being particularly vulnerable. Focusing on firms that were solvent before the pandemic, the analysis suggests that the support needed to close these equity gaps is estimated at 1.5 percent of GDP, with an additional 2.7 percent of GDP needed to reach the minimum equity threshold above which firms are not considered "in difficulty" according to EU regulation.[6]

6. There is a risk that sustained liquidity measures can, in the case of firms with solvency gaps, create a *zombification* pattern and a decline in aggregate productivity. While the government has provided significant support during the pandemic, evidence (from this analysis and mission discussions) suggests that some firms may enter the reopening phase dependent on government lifelines with high leverage, and mounting losses. Moreover, current liquidity support schemes may incentivize firms to operate below capacity to qualify for income support. Government policies will need to continue to engineer a shift from a passive financing of income losses to facilitating support for viable firms that have stronger future prospects (and facilitating exit or sustainable







[5] The authorities noted that the focus of across the different support schemes has primarily been to protect jobs and workers, rather than owners.

[6] A breakdown of equity gaps by economic sector suggest that most of the equity needs originate in the transportation sector (NACE code H). The contribution to the negative equity gap by Norwegian firms reporting no employees in the dataset, reaches 40 percent. This share is more relevant in the real estate sector (NACE code L) at 80 percent, suggesting that the complex ownership structure of Norwegian firms could be a significant contributor to the identified equity gaps.

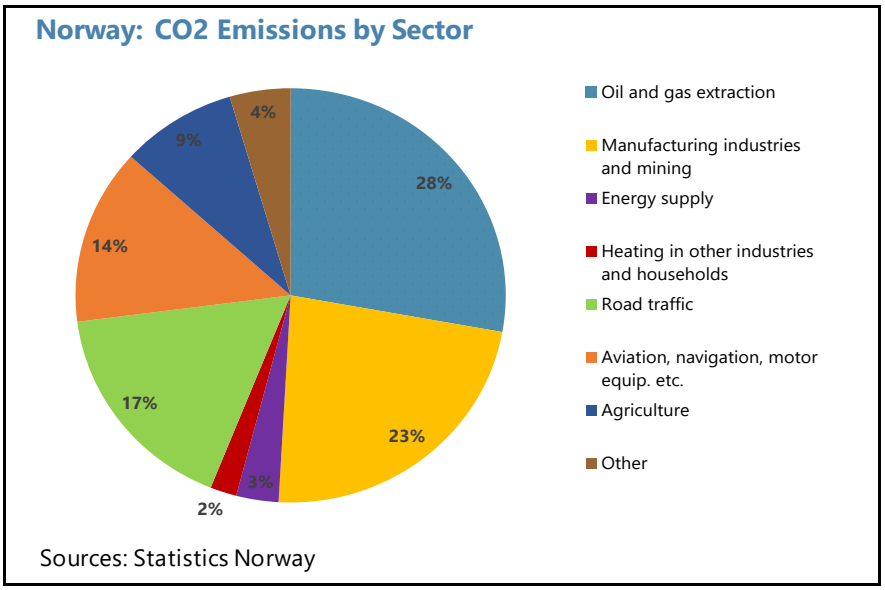
restructuring of debt for distressed firms), while continuing to support affected workers. This will help incentivize reallocation of resources and mitigate a decline in aggregate productivity.[7] Norway is in a strong position to handle such reallocation and support, given its efficient bankruptcy process and strong social safety net.[8]

[7] The public sector is not well placed to assess the viability of a large number of small businesses nor to monitor their performance. Involving banks, which know their clients and routinely assess business plans, is an important principle that can help address adverse selection. Incentivizing private investors to contribute equity mitigates moral hazard (see IMF blog).

[8] The government also showed flexibility during the pandemic by temporarily adjusting its bankruptcy process.

Annex VIII. Climate Mitigation

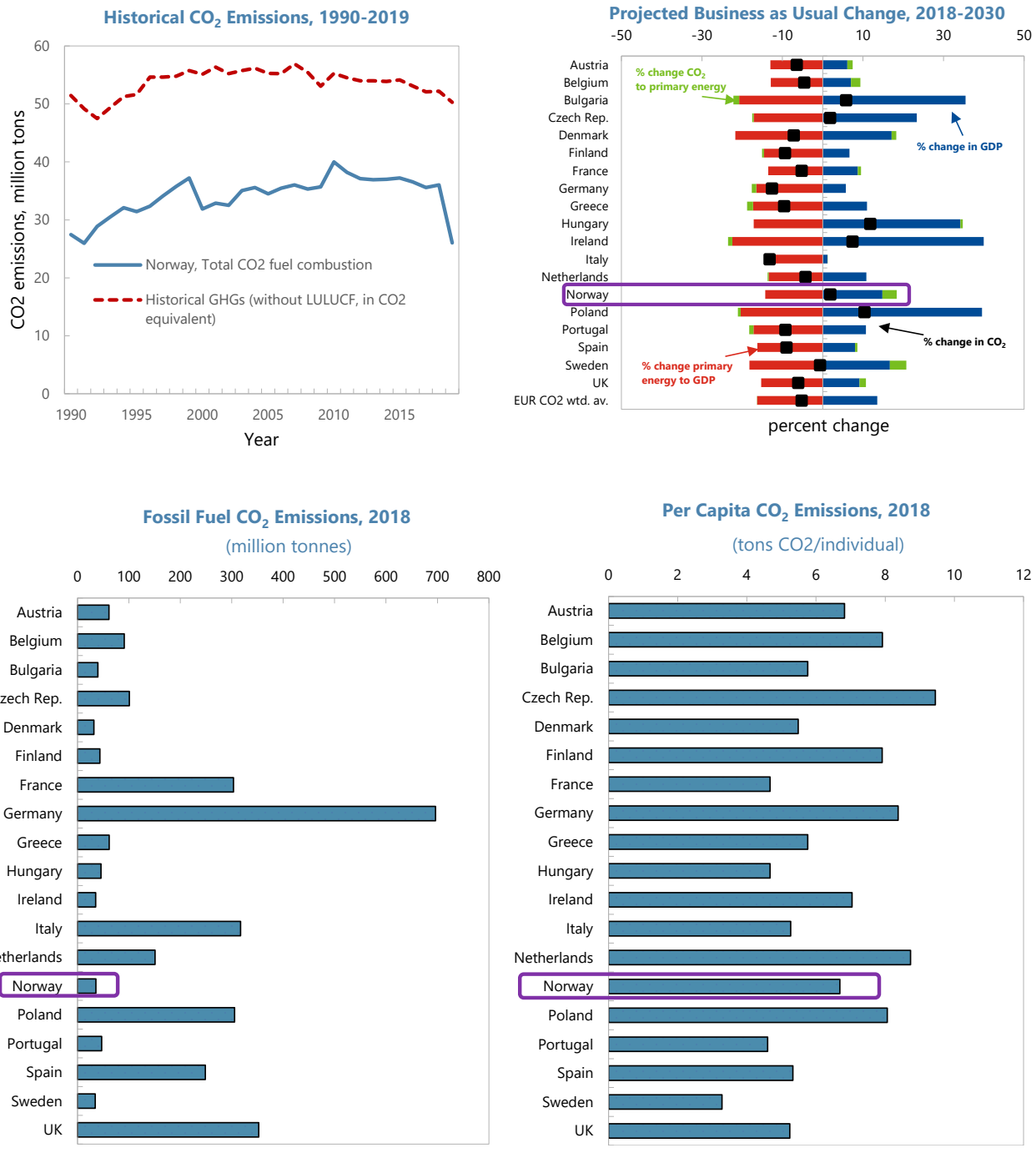
1. Norway has made steady progress in bringing down per capita emissions over the past five years. It compares favorably among OECD countries in terms of its domestic total greenhouse emissions per capita but is on the high-side relative to Sweden and Denmark. The oil and gas extraction industry remains the most polluting sector in Norway, amounting to more than a quarter of total domestic emissions, though notable progress has been made in this sector (see below). This is followed by manufacturing and road transport. Nearly 100 percent of electricity is generated by renewables (mostly hydropower). Accounting for exported carbon emissions of the offshore sector would substantially increase Norway's impact (to approximately 90 tons per capita), but full comparisons across countries of the combined net carbon content of production and trade are not available.



2. Norway has cut its CO2 emissions by about five percent since 1990. However, emissions per capita are still quite high and above some peers in the EU. In a business as usual (BAU) scenario, IMF staff projects stable positive emissions after 2020 as trend reductions in the energy intensity of GDP are not enough to offset the effect of expanding GDP – an opposite trend from what is generally observed for most EU countries.[1]

[1] A BAU scenario assumes that current mitigation policies are frozen. This means that in the baseline fuel mixes are broadly unchanged going forward and energy efficiency increases at historical rates.

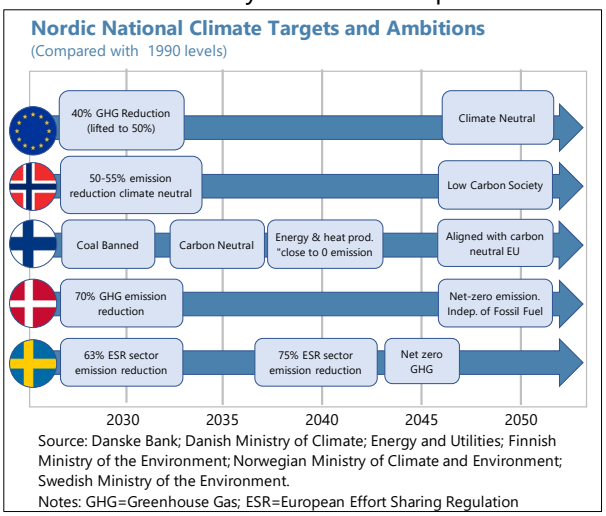
Figure 1. Trends in Fossil Fuel CO2 Emissions



Source: IMF staff calculations, Statistics Norway, and UNFCCC.

Note: Top right figure decomposes the percent change in BAU emissions into the change in GDP, the change in the energy intensity of GDP, and the change in the emissions intensity of energy.

3. Norway's green agenda is broad ranging and somewhat more complex than peers, reflecting the role of petroleum production in the economy. Norway participates in the EU's Emissions Trading System (ETS), the EU effort sharing regulation for non-ETS emissions, and the EU's LULUCF regulations. Recently, the government announced it would likely exceed its 40 percent non-ETS target (aiming for up to 45 percent cut) by 2030. Norway's Paris Commitment is to lower GHGs by 50–55 percent in 2030 relative to a 1990 baseline and its national objective is to become a 'low-carbon' society by 2050, thus nominally lags its Nordic peers. However, the Norwegian authorities noted that the national objective does not include the uptake of carbon of Norwegian forests and other land. When these are included, Norway expects to achieve net negative emissions by 2050. Norway is undertaking other steps such as an ESG investment strategy for its massive GPFG (oil fund), promoting rollout of electric vehicles (see SIP), green labeling, funding cutting edge carbon capture technology R&D, and funding green projects abroad. The focus is now on implementation.



Source: Danske Bank; Danish Ministry of Climate; Energy and Utilities; Finnish Ministry of the Environment; Norwegian Ministry of Climate and Environment; Swedish Ministry of the Environment.
Notes: GHG=Greenhouse Gas; ESR=European Effort Sharing Regulation

4. The 2021 budget includes a number of green measures. In addition to the carbon tax hike (see fiscal discussion),[2] the authorities are implementing measures to broaden the CO2 tax coverage by abolishing exemptions and lower rates (Norway already has one of the broadest CO2 tax coverage rates of emissions),[3] regulatory measures such as the recent increase in the road transport biofuel sales requirement (from 12 to 20 percent in 2020), and setting zero or low emission objectives for some passenger vessels. The government also believes that the private sector will play a key role in climate mitigation (see fiscal section for discussion of R&D and innovation spending).

5. Norway's oil and gas industry has taken big steps to improve its domestic carbon emissions. Sector emissions are driven mostly by combustion of natural gas and diesel in turbines, engines, and boilers, as well as flaring of natural gas. The industry has been successful in reducing and stabilizing its carbon emissions, despite the projected growth in oil production, thanks to continuing investment in more advanced energy efficiency measures and carbon capture technologies as well as the proximity of newly developed fields such as the Johan Sverdrup to onshore clean electricity supply. Norskpetroleum estimates that emissions from activities related to oil and gas production declined by more than 7 percent from 2015 to 2019 and projects a further 3 percent decline by 2024 (versus 2019).

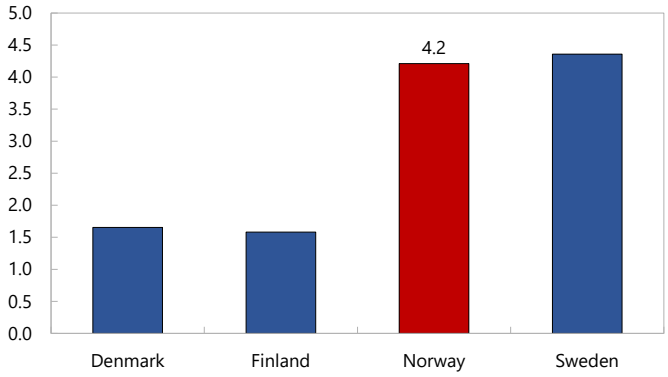
[2] The authorities aim to compensate for increases in carbon taxation by reducing other taxes (e.g., for groups affected by climate-related taxation) in a revenue-neutral manner.

[3] EUR Department Paper on Climate Mitigation (2020).

6. Norway is among the countries leading the way in ownership of electric vehicles. The share of battery electric vehicles (EVs) in total sales of new cars now exceeds 50 percent, much higher than in peers, thanks to generous tax and other incentives for both the purchase and operation of EVs. However, the fiscal costs of tax subsidies for the purchase of EVs relative to emissions saved are relatively high. The effectiveness of these schemes could be improved through not only incentivizing the purchase of new EVs, but also the scrapping of conventional cars, especially the most polluting ones.[4]

7. Norway's proactive approach to climate change mitigation has earned international recognition , but also calls to do more to achieve its targets. Norway secured one of the top spots in the recently published Climate Change Performance Index, which "evaluates and compares the climate protection performance of 57 countries and the European Union" across four categories: GHG Emissions, Renewable Energy, Energy Use, and Climate Policy. Norway ranks high across all categories though with a relatively weaker score in energy use, as energy-intensity remains high. Others have concluded that Norway will fall short of its targets (though these assessments were prepared before Norway's January 2021 announcements of further measures). The Climate Action Tracker points to a substantial shortfall against its target under current policies. The IEA assesses that Norway will need to increase its domestic mitigation efforts to achieve its GHG reduction targets. It cites major potential to do so in transportation, oil and gas production and manufacturing. Infrastructure investments for climate change adaptation could also be larger than expected. Recent staff analysis (Fiscal Monitor, Oct 2020) suggests that Norway's investment needs for climate adaptation are large relative to peers, including in coastal protection as well as in upgrading and retrofitting assets.

Estimates of the Annual Costs to Improve Public Infrastructure for Climate Change Adaptation
(Percent of GDP)



Source: IMF Fiscal Monitor October 2020.

[4] See SIP on Electric Vehicles, Tax Incentives and Emissions: Evidence from Norway.

Annex IX. Authorities' Responses to Past IMF Article IV Consultation Recommendations

Fund Policy Advice	Authorities' Actions
Fiscal Policy	
Further tax reforms should be considered to promote an efficient allocation of resources and sustain longer term growth.	The measures introduced in 2020 and 2021 rightly focused on mitigating the downturn and savings lives. Despite this, there have been some incremental reductions to corporate and personal income taxes, and small changes to broaden the tax base further. Valuation discounts for shares and operating assets on net wealth taxes have been increased further, improving the incentives to invest.
Simplify the VAT system	There is room to simplify and broaden the VAT system considerably and make it more efficient, in line with VAT Commission and recent Fund advice, and boost revenues relative to GDP. The temporary rate cuts introduced during the crisis should be unwound as soon as the Covid crisis is resolved.
Financial Stability	
Make mortgage regulations permanent to contain risky mortgages.	See Annex VI
Step up effort to collect and disseminate CRE data for better monitoring of risks.	See Annex VI
Structural Reforms	
Further measures are needed to sustain high labor participation amid growing demographic pressures. Facilitating technological change and shift towards green technologies	Further reforms of sickness and disability schemes, in line with the commission's proposal and long-standing IMF advice and in agreement with social partners, could contribute to the effort of boosting labor participation and making the labor force more inclusive.

INTERNATIONAL MONETARY FUND

NORWAY

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 14, 2021

Prepared By

European Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2021)

Membership Status: Joined: December 27, 1945; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	3,754.70	100.00
Fund holdings of currency	2,758.88	73.48
Reserve tranche position	995.83	26.52
Lending to the Fund		
New Arrangements to Borrow	56.21	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	1,563.07	100.00
Holdings	1,526.11	97.64

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2021	2022	2023	2024	2025
Principal					
Charges/Interest	0.01	0.04	0.04	0.04	0.04
Total	0.01	0.04	0.04	0.04	0.04

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative: Not applicable

Implementation of Catastrophe Containment and Relief (CCR): Not applicable

Exchange Arrangements:

The *de jure* and *de facto* exchange rate arrangements in Norway are classified as freely floating. The exchange system is free of restrictions on the making of payments and transfers for current international transactions other than restrictions notified to the Fund in accordance with Decision No. 144 (52/51).

Article IV Consultation: Norway is on the 12-month consultation cycle.

Financial Sector Assessment Program (FSAP) Participation:
A review under the Financial Sector Assessment Program (FSAP) was completed in 2020.

Technical Assistance: None

Resident Representative: None

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General. Data provision is adequate for surveillance. Data is generally of high quality, timely, and comprehensive. One specific exception is the commercial real estate sector, where better data could better help monitor growing risks. **Monetary and Financial Statistics.** Monetary statistics compiled by the authorities are consistent with the methodology of the *2016 Monetary and Financial Statistics Manual and Compilation Guide*. Norway reports regular and good-quality monetary statistics for publication in IFS, although there is room for improving the timeliness of the data on other financial corporations. Norway reports data on several series and indicators in the Financial Access Survey (FAS), including two indicators of the United Nations Sustainable Development Goals. **Financial Sector Surveillance.** Norway reports Financial Soundness Indicators (FSIs) to the Fund, which are published on the IMF's FSI website. All core FSIs for deposit takers are reported on a quarterly basis. Only one of the encouraged FSIs for deposit takers is reported but many of the encouraged FSIs for other sectors are provided.

II. Data Standards and Quality	
Subscriber to the *IMF's Special Data Dissemination Standard (SDDS)* since 1996. Uses SDDS flexibility option on the timeliness of the general government operations-financing. SDSS metadata is posted on the Dissemination Standards Bulletin Board (DSBB).	Data ROSC (*Report on the Observance of Standards and Codes)* completed in 2003 is publicly available.

Norway: Table of Common Indicators Required for Surveillance

(As of May 7, 2021)

	Date of latest observation (For all dates in table, please use format dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	30/04/21	30/04/21	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/21	05/21	M	M	M		
Reserve/Base Money	04/21	05/21	M	M	M	O, O, O, LO	O, O, O, O, O
Broad Money	04/21	05/21	M	M	M		
Central Bank Balance Sheet	04/21	05/21	M	M	M		
Consolidated Balance Sheet of the Banking System	04/21	05/21	M	M	M		
Interest Rates[2]	04/21	05/21	M	M	M		
Consumer Price Index	04/21	05/21	M	M	M	O, O, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2020	2021	A	A	A	LO, LNO, O, O	LO, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	04/21	05/21	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4 2020	04/21	Q	Q	Q		
External Current Account Balance	Q4 2020	03/21	Q	Q	Q	O, O, O, O	LO, O, O, O, LO
Exports and Imports of Goods and Services	Q4 2020	03/21	Q	Q	Q		
GDP/GNP	Q1 2021	05/21	M	M	M	O, O, O, O	O, O, O, O, LO
Gross External Debt	Q1 2021	04/21	Q	Q	Q		
International Investment Position[6]	Q4 2020	04/21	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on July 15, 2003, and based on the findings of the mission that took place during November 11–26, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the Staff Representative on Norway

1. This statement reports on developments that occurred since the staff report was issued to the Executive Board. This supplementary information does not alter the thrust of the staff appraisal.

2. The details of the government's proposed supplementary budget, published on May 12, have become available. A decision on the supplementary budget is expected during 2H June. If approved without modification, it would extend some crisis measures and modify others, resulting in 2021 above-the-line (ATL) exceptional fiscal measures totaling NOK 93.9 bn, approximately 2.9 percent of mainland GDP (versus NOK 68.9 bn, or 2.1 percent of mainland GDP, currently projected by staff). The government has described the modifications as part of its strategy to take Norway safely out of the corona crisis, aiming to reduce the long-term economic effects of the crisis and help those that are still hard-hit. Staff supports the stated objectives and will assess the details and impact of the measures as they emerge.