



DET KONGELIGE
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Report to the Storting (White Paper)

Long-term Perspectives on the Norwegian Economy 2017
– A Summary of Main Points



1 Safeguarding the welfare of future generations

Norway is well equipped for the future. Employment is high, the country is endowed with vast natural resources, and public finances are on a solid footing. The labour force is highly skilled, due in large part to a strong education system. Income and wealth are evenly distributed.

Norway's good foundations are the result of both luck and wise decision making. The political choices in the coming years must help Norway remain a good country to live in for future generations. Significant challenges lie ahead, but also possibilities. The main message from this White Paper is that our ability to overcome the challenges and take advantage of the possibilities will depend on how successful we are in three main areas:

1. An inclusive labour market with high participation rates

A corner stone of Norwegian society is its high employment rate. For the individual, having a job means a stable income, personal development, and an arena for social inclusiveness. At the same time, a sustainable welfare state is dependent on maintaining a balance between the number of people financially contributing to the system and the number receiving benefits.

In the coming years, an ageing population means that a smaller share of the population will contribute to financing the welfare state unless the retirement age increases. If lack of relevant skills keep many outside the workforce, the fiscal strain on the working population will increase further. Higher immigration can amplify these challenges unless immigrants are well integrated in the labour market.

Rapid technological change is having a big impact on society. Broader and more efficient use of technology is crucial for raising productivity in the private sector. Automation and artificial intelligence renders some jobs superfluous, but at the same time creates large opportunities for the creation of new jobs, new investments, and innovation.

Education and skill enhancement are key to successfully addressing these challenges. More people need to take vocational training programs and higher education.

Additionally, increasing life expectancy means we have to work longer. The tax and welfare benefit system must strengthen the incentives to work. Health related problems, language difficulties, or a lack of a relevant and updated skillset must not prevent people from participating in the labour market. Tackling these challenges will help achieve a society that creates opportunities for all.

2. Rising living standards must benefit everyone in society

In many countries, the majority of the population has only to a limited extent benefitted from economic growth. The experience in Norway has been different. Economic growth has been inclusive and income inequality is low. Social mobility is high; the income of the next generation is less dependent on that of their parents than in many other countries.

3. Improved performance in the private and public sectors

After a long period of favourable economic conditions, in the coming decades the room for manoeuvre for fiscal policy will diminish considerably. The Government Pension Fund Global is expected to grow more slowly than in the past. Investment returns are anticipated to

moderate, and the oil price is not expected to return to previous highs. At the same time, an ageing population will raise spending on pensions, health, and long-term care.

Norway has a good and far-reaching system of social welfare benefits and a well-functioning public sector. However, to deal with future challenges one must continuously ask whether things can be done better. Clear priorities and an active, systematic, and continuous process for improving efficiency in the public sector is necessary. Safeguarding our welfare state in the coming decades necessitates using public sector resources efficiently.

Improving living standards will require raising productivity growth in the private sector. Over the past decade, productivity has grown more slowly than before. To reverse this trend, as well as meeting the challenges associated with lower demand from oil and gas extraction, businesses and employees must adapt more quickly and smoothly to changing circumstances. The economy needs restructuring with stronger growth in the private non-oil sector.

More, and more efficient use of, technology is a prerequisite for raising productivity. Technological breakthroughs will be necessary to confront climate change. New technological solutions are also a precondition for better and more sustainable social services in the future. Welfare technology may make public health care more efficient and improve our ability to tackle the increased demand for social services from an aging population.

Sustaining our high level of welfare requires a commitment, and ability, to change. With a productive private sector, high employment, and strong public finances, Norway is well equipped to face the future. Our ability to create good jobs, further increase employment rates, and develop and make use of new technological solutions will have a decisive impact on our future standard of living and the level of welfare we can afford.

2 Main challenges

Despite a strong starting point, the Norwegian economy faces significant challenges that require wise choices. Some of the developments underlying these challenges are well known. In other areas, we are in the midst of transitions that were not clearly visible at the time of previous white papers on long-term perspectives on the Norwegian economy. The challenges relates in particular to:

1. Raising productivity growth

To ensure a continued increase in living standards we need to find ways to reverse the trend of low productivity growth. Although the level of productivity in Norway is high, like in many other countries productivity growth has been relatively weak for the past decade, see figure 1. The recent economic downturn can explain part of this development, but structural factors are also at play. The pace of structural reforms in the 2000s was lower than in the 1990s, and the rise in immigration from 2004 onwards has raised employment in low-productivity industries.

Raising productivity growth will depend on the smart and efficient use of our available resources. Economic policy should smooth ongoing transitions in the economy, facilitate greater innovation, and clear the way for capital and labour to move to new industries.

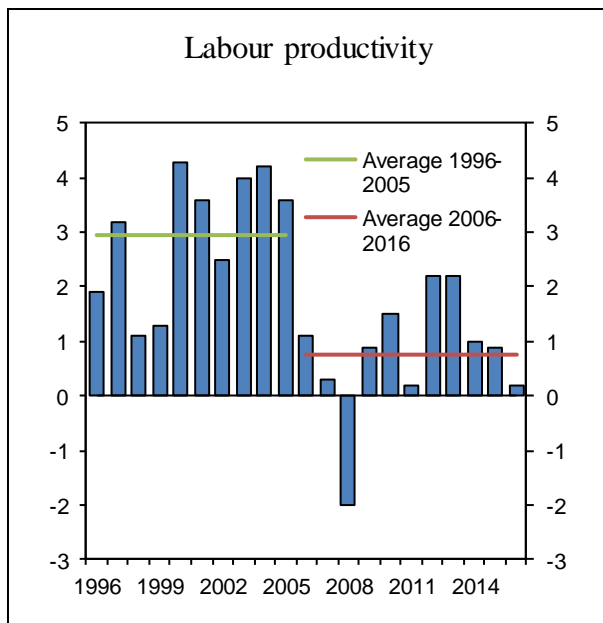


Figure 1: Annual growth in GDP per hours worked in market-oriented, mainland industries (ex. dwelling services). Percent

Source: Statistics Norway.

2. Transitioning to a new economic reality

The oil- and gas sector will no longer contribute to economic growth to the same extent as in the past. Between 2003-10 demand from the petroleum sector raised growth in the mainland economy by an average of 0,3 percentage points per year. In the years ahead, the sector is not expected to contribute to growth in other parts of the Norwegian economy, see figure 2. On the contrary, the petroleum sector's impact on the economy in the coming decades is expected to decline.

The oil sector will remain an important part of the economy. However, it is necessary to create more jobs in other knowledge-based industries. The challenge is to engineer a smooth transition of the Norwegian economy towards a state that more closely resembles that of western economies not endowed with oil-and gas resources.

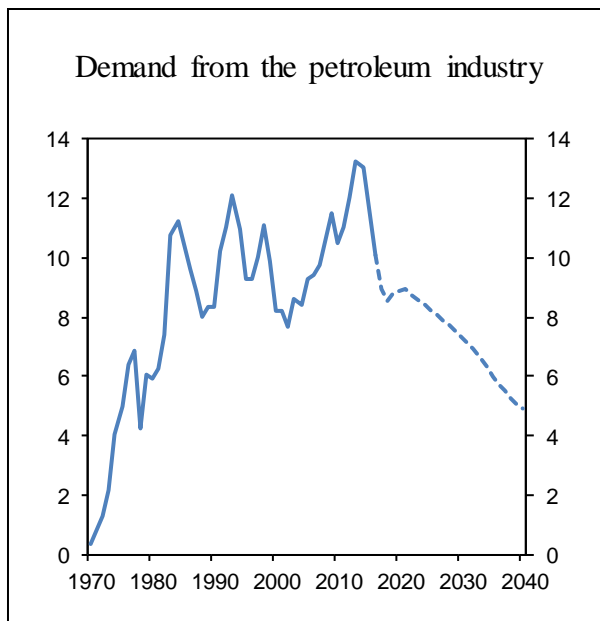


Figure 2: Demand from the petroleum sector. Share of Mainland GDP. Percent

Note: The demand components are investments, production inputs, and compensation per employee in the petroleum industry.

Sources: Norwegian Petroleum Directorate, Ministry of Petroleum and Energy, Statistics Norway and Ministry of Finance.

3. Combat rising protectionism

Few countries have benefitted more from cross-border trade and investments than Norway. Globalization facilitates access to financing, capital and labour inputs, export markets, technological transfers, and increases competition. The result is a more efficient use of available resources, which has contributed to a doubling of average global per capita purchasing power over the past 45 years. From the turn of the century until oil prices started falling in mid-2014, Norway also benefitted from rising export prices and falling import prices. Figure 3 illustrates how a large fall in the price of clothing and shoes relative to other prices coincided with a marked increase in the share of this category of goods imported from China.

The trend towards rising cross-border trade has been ongoing for a long time, but at an uneven pace and with significant setbacks. Technological innovations in transport and information sharing, and the development of tools that negate the need for personal interaction, have contributed to greater trade flows. Wars and periods of protectionism have interrupted these trends.

A small open economy like Norway is vulnerable to turmoil in the rest of the world. A well-defined legal framework and a predictable global trading environment is especially important for small countries. Rising protectionism and signs of a more isolationist posture in some large countries show that the trend towards greater economic integration among countries cannot be taken for granted. Rising protectionism may have strong negative consequences for small, open economies like Norway.