

# NORINT 0500 - Norwegian Economy

The Norwegian economy is an example of a mixed economy - a welfare state and social democratic country featuring a combination of free market activity and large state ownership in certain key sectors.

Measured in GDP per capita, Norway is ranked the fourth most wealthy country in the world among OECD-countries. It has not always been like this. Since 1970, Norway has gone from being a medium wealthy OECD-country to be among the richest.

200 years ago, Norway was a fairly poor country. During the 19<sup>th</sup> century the economy underwent rather strong growth. Key growth-industries were fish export and shipping, as well as certain manufacturing industries. There was extensive development of important infrastructure such as postal service, railways and telegraphic network. In the beginning of 1900s, wood processing and canned food industry became important. New methods for producing electricity using hydropower gave Norway an advantage because of the many waterfalls in the country.

The industrial and economic development was strong in most modern economies during the 1900s. The following four factors are usually pointed at as important for this development:

- Technological progress, by incorporating new inventions and new production methods into economic activity
- Increased capital stock, like new machinery, means of transport, buildings, infrastructure, communication equipment, etc.
- Increased human capital: Improved educational system has secured a better level of knowledge throughout the population.
- Transfer of production capital, for example labor, to more productive industries.

During the last 50 years, however, economic growth in Norway has been significantly higher than in most other industrialized countries. The main reason behind this is probably related to the exploration of oil and gas in the Nordic sea.

Oil extraction on the Norwegian continental shelf started in beginning of the 1970s. After a period of vast investment on the offshore of Norway during the 1970s, production gradually increased and reached it's all time high in beginning of 2000. The total amount of produced natural gas and oil have declined since early 2000. In 2017, production of oil and natural gas made up for approximately 15 percent of total GDP.

The Norwegian government worked actively from the beginning to build and strengthen Norwegian knowledge and competence on oil. At this time, Norway already had a growing industrial sector and knowledge that made it possible to meet the demands to develop an oil-related industry. A central instrument for strengthening the development of a Norwegian oil environment was the creation of the state-owned company Equinor (prev. Statoil) in 1972. Equinor has played a leading role in Norwegian oil industry since then.

From the beginning, the government had a policy of limiting extraction to prevent "over-heating" of the economy. During the first years of extraction, a lot of the income from the oil production went to finance government debt that had risen through the years of searching for oil and building up the oil sector. The debt gradually decreased. In 1990 the Oil Fund, (official name: Government Pension Fund Global) was established, with the purpose to invest the surplus revenues of the Norwegian petroleum sector.

#### About The Fund:

- The Norwegian people own the fund.
- It's primary purpose is to finance the welfare state
- We shall limit the use of the Funds reserve to save for future generations.

The Fiscal rule was established in year 2000. "*Never use more than the long run projected interest return from the Fund*" (estimated to 3% of fund value annually)

#### Production and trade

Norway is richly endowed with natural resources, from its long coastline and many mountains. Fish has always been an important source of income and food. Production of paper and timber-related manufacturing was an important industry before the oil era. Metals and minerals, such as aluminium, are important export goods. The main production sector in Norway is the service sector. Various service industries make up for approximately half of total production in Mainland Norway.

As a small country rich on natural resources, trade has been a key factor behind the economic development.

#### Export from Norway - share of total value of export (2017)

- 1/3 Oil and natural gas
- 1/3 Other goods (fish and fish products, metals and manufactured goods such as electronic equipment and machinery related to offshore activity)
- 1/3 Services (tourism, transport, financial services and other consultant services)

Europe, USA and China most important trading partners

#### Private economy of households

Norwegian households have undergone a vast increase in income and prosperity over the last 75 years. Measured in 2017 kroner, the average inhabitant in the 1945 peace year had an income of 96,000 kroner. Last year it was 550,000, or almost six times as high. Consumption per capita is about fourfold over this period.

The increased prosperity is reflected in the consumption pattern. About 75 years ago, almost half of the consumption expenditure went to food. Today, the average inhabitant uses 15 percent of his income on food. At the same time, expenses for leisure activities have doubled, which is partly due to the fact that wealth growth has also been taken out for more leisure time. In 1945 Norwegians had three week vacation each year. The normal working week was 48 hours, divided into six working days. Now the normal working week is 37.5 hours and there is a have a five-week holiday.

OECDs "How's life index" measures the general safety and well-being of the individuals in different countries. In general, Norway performs well across the different indicators. For example, the average level of life satisfaction in Norway is the highest in the OECD. The population also report high level of feeling personal safety.

Inequality of income is relatively low in Norway, in international comparison. Income in Norway has remained relatively evenly distributed through the years of economic expansion after WW2, meaning that the whole population has benefitted from the growth. Median income has broadly kept pace with Mainland GDP per capita. However, income inequality has increased somewhat in the later years.

Norway has an active policy aimed at influencing the distribution of income. Such as social security transfers and a distributive tax policy.

Labor market participation rate, measured by the share of people in the age of 15 to 74 that has a job, is relatively high in Norway, as well as in the other Nordic countries. This is to a large degree due to a high share of women in the work force. Since the beginning of the 1970s, the labor participation rate has risen from 44% to 76% for women. A high proportion of mothers with small children are employed. The increase in female employment in Norway took place in the 1970s, at a time when there was a rise in demand for labor, and alongside a remarkable boost in educational attainment among women. The high share of women in the labor market is has been supported by organized public schemes such as subsidized daycare for children and paid parental leave.

Norway is a nation of home owners: 85 percent of every grown-up person in Norway own the house they live in. House price inflation has been very high over the last two decades. As the prices on housing have increased, so has household debt. Household debt has risen substantially over the past 15–20 years. In 2017, household debt was more than 2 times household income after tax, on average. According to the Norwegian central bank, most households have ample capacity to service debt at somewhat higher interest rate than today, but the high level of household debt is still considered a source of vulnerability in the Norwegian financial system.

### Public sector

Norway has the second highest level of public expenditures per person in the world. The size of the public sector can also be measured by the number of employees in the public sector compared to those in working in the private sector. One of three employees in Norway work in the public sector. This is the highest government employment level of all countries. The high level of public expenditure has to do with a lot of services being financed by the government. More than 40 per cent of the expenditures are related to social protection, such as subsidized daycare for children and social welfare payments such as disability pensions and parental leave payments. 17 percent of government expenditures are related to health purposes such as hospitals, while education makes up for 11 per cent. (2016)

### Future challenges in the Norwegian economy

The oil- and gas sector will gradually contribute less to economic growth in Norway. Between 2003 and 2010 demand from the petroleum sector raised growth in the mainland economy by an average of 0,3 percentage points per year. Some growth is expected in the next couple of years, but on a longer perspective the petroleum sector's impact on the economy in the coming decades is expected to decline.

At the same time – the population is getting older. Today, the number over persons of 67 years of age or more equals just above 20 percent of the population of working age, 20-66 years. By 2060, this proportion will double, to approximately 40 per cent. In addition to rising pension expenditures, this also puts upward pressure on public expenditures on health and long-term care.

As a consequence, fiscal space in the next 10-15 years is likely to be more constrained. After 2030, the challenges will increase further as the share of persons aged 80 years or over increases while the share of public expenditures financed by the Government Pension Fund Global falls.

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### Further reading

On the current economic situation: [Norges Banks Monetary Policy Report 3/2018](#)

<https://www.norges-bank.no/en/Published/Publications/Monetary-Policy-Report-with-financial-stability-assessment/2018/318/>

On future challenges: Ministry of Finance: Long-term Perspectives on the Norwegian Economy 2017

<https://www.regjeringen.no/contentassets/aefd9d12738d43078cbc647448bbeca1/en-gb/pdfs/stm201620170029000engpdfs.pdf>

On the Oil Fund and Fiscal rule: <https://www.nbim.no/en/the-fund/>