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National Budget 2017:

A budget to promote employment, welfare, and security

“Norway will emerge stronger from the challenging restructuring the economy now experiences. The Budget for 2017 contains targeted measures to counteract unemployment in the regions and industries that are hardest hit by the drop in oil prices. The Budget for 2017 is a budget for more jobs, better welfare, and a safe life, says Minister of Finance Siv Jensen.

Growth in the Mainland economy has picked up gradually and it appears that a turning point was reached last winter. Growth in household demand for goods and services has increased, and both consumers and business leaders report a better outlook. Registered unemployment has declined in the majority of regions. Growth in Mainland GDP is projected to strengthen further in 2017.

The economic recovery is supported by the strong Norwegian policy framework. Norges Bank's key policy rate is at a record-low and the Norwegian krone has depreciated significantly over the past three years. Low interest rates stimulate domestic demand, and a the krone exchange rate facilitates growth in businesses exposed to international competition. Moderate wage growth also contributes to increased cost competitiveness.

Fiscal policy is used actively to support aggregate demand, employment, and necessary structural adjustments in the economy. The proposed Fiscal Budget for 2017 includes measures to support employment and activity in particularly affected regions. However, as growth is gradually picking up in the Norwegian economy, the proposed budget for 2017 is less expansionary than the two previous budgets.

– In the 2017 budget, we prioritize measures that promote growth and restructuring. We propose changes in the wealth tax that strengthen private ownership and shift investment from real estate to jobs. It will become more profitable to work, save and invest, says Minister of Finance Siv Jensen.

The Fiscal Budget for 2017 forecasts a structural non-oil deficit of NOK 225.6 billion, equivalent to 3.0 percent of the value of the Government Pension Fund Global. The fiscal

stimulus, measured as the change in the structural non-oil deficit as a share of the trend GDP for Mainland Norway, is estimated at 0.4 percent.

Fiscal Policy

The Norwegian policy framework insulates the fiscal budget from fluctuations in oil and gas revenues. The state's net cash flow from petroleum is transferred in full to the Government Pension Fund Global, in addition to the direct returns from the Fund itself. The use of petroleum revenues, i.e. the withdrawal from the Fund, fully covers the non-oil budget deficit. The fiscal guidelines stipulate a gradual and sustainable use of petroleum revenues over time in line with the expected real return on the Government Pension Fund Global. A decline in the price of oil therefore has no immediate impact on the fiscal stance, but translates into reduced fiscal space over time.

The main features of the fiscal policy for 2017 are:

- Spending of petroleum revenues, as measured by the structural non-oil deficit, is estimated at NOK 225.6 billion. This is equivalent to 7.9 percent of GDP for Mainland Norway, up from 7.5 per cent in 2016.
- The non-oil deficit is projected at NOK 259.5 billion. This is covered by a transfer from the Government Pension Fund Global.
- Net cash flow to the Fund from petroleum activities is estimated at NOK 138.3 billion. This is an increase by NOK 13.8 billion from 2016 to 2017.
- Spending of petroleum revenues corresponds to 3.0 percent of the estimated capital in the Government Pension Fund Global at the beginning of 2017, compared to 2.8 percent in 2016.
- The real, underlying growth in fiscal budget expenditure from 2016 to 2017 is 1.7 percent. In nominal terms expenditure is projected to grow by 4.1 percent.
- The consolidated surplus on the Fiscal Budget and the Government Pension Fund, including NOK 207.5 billion in interest and dividends, is estimated at NOK 86.3 billion.
- A general government financial balance of NOK 97.5 billion, equivalent to 3.0 per cent of GDP.
- The market value of the Government Pension Fund Global is estimated at NOK 7 420 billion at the end of 2016, and NOK 7 671 billion at the end of 2017.

Tax policy

The tax plan for 2017 proposed by the government is a big step towards fulfilling the consensus in the Parliament about a tax reform. The reform promotes investment and economic activity in Norway. The government also facilitates a green tax shift. Increased environmental taxes are offset by other tax cuts for both individuals and businesses. The Government has reduced overall taxes by about NOK 18 billion accrued from 2013 to 2016.

The tax proposals for 2017 entail new tax reductions totalling NOK 2.8 billion accrued and NOK 1.7 billion booked in 2017.

Monetary policy

The operational target of monetary policy is annual consumer price inflation of close to 2.5% over time. Norges Bank operates a flexible inflation targeting regime, so that weight is given to both variability in inflation and variability in output and employment. Norges Bank's key policy rate is currently 0.5 per cent.

The Government Pension Fund

The purpose of the Government Pension Fund is to facilitate government saving to finance rising public pension expenditures and support long term considerations in the spending of government petroleum revenues. The capital of the Fund is invested abroad in international equities, fixed-income securities and real estate, within guidelines set by the Ministry of Finance. The investment strategy aims to achieve high financial returns subject to a moderate level of risk.

Key figures for the Norwegian economy¹

	NOK billion ^{2 3}				
	2015	2015	2016	2017	2018
Privat consumption	1 341.3	2.1	1.4	2.3	2.6
Public consumption	727.3	2,1	2.6	1.7	-
Gross fixed investment	729.6	-3.8	0.0	1.6	1.8
Petroleum.....	187.2	-15.0	-14.0	-10.0	-6.8
Business sector. Mainland Norway	225.5	-1.6	1.8	4.4	4.8
Exports	1 165.5	3.7	-0.3	-0.4	0.9
Crude oil and natural gas	448.7	3.2	1.7	-4.1	-3.6
Traditional goods	371.6	5.8	-1.5	4.6	5.9
Imports	996.3	1.6	-0.5	3.0	3.4
Traditional goods.....	581.0	1.9	0.0	3.6	4.4
Gross domestic product	3 117.4	1.6	1.2	0.6	1.3
Mainland Norway	2 620.0	1.1	1.0	1.7	2.4
Employment growth		0.3	0.2	0.7	1.1
Unemployment rate (LFS).....		4.4	4.7	4.6	4.3
Wage growth		2.8	2.4	2.7	3.0
Consumer price inflation (CPI)		2.1	3.4	2.0	1.9
Underlying inflation (CPI-JAE)		2.7	3.0	2.1	2.0
Crude oil per barrel. NOK ³		430	371	425	447

¹ Percentage volume change from previous year.

² Preliminary national account figures.

³ Current prices.

Sources: Statistics Norway and Ministry of Finance.

Key figures for the Fiscal Budget and Government Pension Fund. NOK billion

	2015	2016	2017
<i>1. Fiscal Budget</i>			
Total revenues	1 227.4	1 157.1	1 179.9
Revenues from petroleum activities	247.2	152.5	163.8
Revenues excl. petroleum activities	980.2	1005.5	1 016.1
Total expenditures	1 194.5	1 253.8	1 301.1
Expenditures on petroleum activities	29.0	28.0	25.5
Expenditures excl. petroleum activities	1 165.5	1 225.8	1 275.6
Fiscal budget surplus before transfers to the Pension Fund Global	32.9	-95.7	-121.2
Net revenues from petroleum activities	218.3	124.5	138.3
= Non-oil budget surplus	-185.3	-220.2	-259.5
+ Transfers from the Pension Fund Global	186.1	220.2	259.5
= Fiscal Budget surplus	0.8	0.0	0.0
<i>2. Government Pension Fund</i>			
Net transfer to the Pension Fund Global	32.2	-95.7	-121.2
+ Interest and dividends on the Pension Fund	192.0	204.1	207.5
= Surplus in the Pension Fund	224.2	108.4	86.3
<i>3. Fiscal Budget and Government Pension Fund consolidated surplus</i>	<i>225.0</i>	<i>108.4</i>	<i>86.3</i>

Source: Ministry of Finance.

General government financial balance. NOK million

	2015	2016	2017
Central government financial balance	213 946	111 123	112 045
Fiscal Budget surplus and Surplus in Government Pension Fund	224 953	108 401	86 265
Non-oil budget surplus	-185 312	-220 248	-259 506
Net revenues from petroleum activities	218 256	124 549	138 271
Interest and dividends on the Pension Fund	192 008	204 100	207 500
Surplus in other central government and social security accounts	959	-318	-60
Definitional differences between Fiscal Budget and national accounts ¹	-11 966	-3 039	25 840
+ Local government financial balance	-13 106	-15 141	-14 539
= General government financial balance	200 840	95 982	97 505
In per cent of GDP	6.4	3.1	3,0

¹ Includes central government accrued, but not recorded taxes. Direct investments in state enterprises, including government petroleum activities, is defined as financial investments in the national accounts.

Sources: Statistics Norway and Ministry of Finance.