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September 12, 2022

**Statement by Ms. Medearis and Mr. Sturm on Norway
(Preliminary)
Executive Board Meeting
September 14, 2022**

We thank staff for the report and Mr. Pösö and Mr. Slettvag for their insightful Buff statement. We commend the authorities for their effective economic policies reflected in Norway's swift economic rebound in 2021. Norway continues to play a leading role in the global fight against climate change, and we welcome the authorities' new policy agenda furthering the green transition in Norway. We appreciate staff's views that Norway's strong fundamentals will help to shield it from spillovers from Russia's war against Ukraine, and we welcome the authorities' efforts to increase energy supplies to Europe. In this context, the forecast is uncertain and downside risks could materialize. **We broadly agree with staff's appraisal and recommendations and offer the following comments for emphasis.**

We concur with staff that fiscal policy should remain the main policy tool if downside risks do materialize. Norway enjoys substantial fiscal space in the near term and the authorities have scope to support lower-income households now. With a view toward the medium and long term, we encourage the authorities to continue work on strengthening the fiscal framework to address challenges arising from long-term demographic trends. We agree with staff on reforms to improve the quality and cost efficiency of public services and we also see scope for greater targeting of fiscal support measures toward lower-income households. We welcome the authorities' efforts to support inclusive growth, including provisions to reduce childcare costs, boost labor force participation, and provide allocations for public transportation.

We welcome continued improvements in the macroprudential framework and underscore the need for continued commitment to further macroprudential reforms, particularly in the housing sector. We commend Norges Bank for prudently beginning its tightening cycle while inflation remained below target. At the same time, we encourage continued close monitoring of the housing sector given households' high interest rate

sensitivity. *Could staff provide additional details on Norwegian banks' required interest rate stress tests for mortgage applications?* We encourage the authorities to implement staff's recommendations for targeted measures to address the macroprudential policy framework for housing, notably a gradual phasing out of mortgage interest deductibility. We welcome the recent improvement in commercial real estate (CRE) data collection and dissemination, and encourage continued expansion of the regulatory toolkit for mitigating CRE vulnerabilities.

We commend the authorities for their commitment and continued progress on the green transition in Norway. We welcome the authorities' ambitious climate agenda, including its leadership on carbon pricing and concrete pursuit of reorienting capital towards sustainable investment. We encourage continued transition to non-oil activity, while continuing to provide still-necessary oil and gas resources to the European and global market. We welcome the Government Pension Fund Global's (GPFG's) long-term investment objective to achieve net-zero emissions from its invested companies. To help improve Norway's longer-term macroeconomic outlook in the face of adverse demographic trends and the transition away from oil, we also encourage further strides to increase and diversify labor force participation, particularly through further integration of foreign-born residents and citizens. In this regard, we welcome the new Integration Act and will look forward to future staff analysis of results incorporating immigrants into the labor market.