

September 15, 2022

**The Acting Chair's Summing Up
Norway—2022 Article IV Consultation
Executive Board Meeting 22/78
September 14, 2022**

Executive Directors agreed with the thrust of the staff appraisal. They noted that Norway has rebounded strongly from the COVID-19 pandemic, benefitting from sound policies and solid economic fundamentals. While the outlook remains favorable, it is subject to uncertainties and risks, including from the spillovers from Russia's war in Ukraine and pandemic developments. Norway also faces significant long-term challenges related to the aging population, the transition away from oil, and climate change. In this context, Directors supported continued use of Norway's ample buffers to respond to shocks, but emphasized that over time policies should be reoriented towards addressing long-term structural challenges and promoting green and inclusive growth.

Directors noted that the fiscal stance remains appropriately accommodative but a return to a neutral fiscal stance should be targeted over the medium term. They called for better targeting energy subsidies toward lower income households. Directors encouraged the authorities to proactively address the expected strain on public finances driven by demographic trends and the transition away from oil, and a few Directors saw merit in staff's recommendation to adopt a medium-term expenditure framework guided by an operational rule. In parallel, reforms should aim at improving spending efficiency.

Directors noted that monetary policy should continue balancing overheating risks and financial stability considerations. They welcomed the Norges Bank's decision to quickly increase interest rates to respond to rising inflation pressures and encouraged continued flexibility in decision making and clear public communication.

Directors noted that the financial sector remains on sound footing. While acknowledging the improvements made to the macroprudential policy framework, they saw merit in considering additional measures, especially to address the high and interest sensitive housing related debt. Directors encouraged easing restrictions on the supply of new housing, altering regulations to boost construction efficiency, and gradually phasing out of mortgage interest deductibility. Expanding the regulatory toolkit for mitigating commercial real estate vulnerabilities should also be considered.

Directors noted that structural reforms will need to be wide-ranging, with a focus on raising non-oil productivity and boosting and diversifying labor force participation. They encouraged promoting upskilling, changing the sickness and disability benefit system, and

giving more opportunities to immigrants. While commending the authorities for the progress with digitalization, Directors noted that closing remaining gaps will help further improve productivity. They welcomed Norway's commitment to an ambitious climate agenda and the efforts in helping to finance transition to renewable energy in developing countries.

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