Nordic Council of Ministers

Nordic Economic Outlook 2018

Annual report on the economic development in the Nordic countries in terms of growth, business cycles and public finance

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TemaNord 2019:507

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ISBN 978-92-893-6007-4 (PRINT)
ISBN 978-92-893-6008-1 (PDF)
ISBN 978-92-893-6009-8 (EPUB)
http://dx.doi.org/10.6027/TN2019-507

TemaNord 2019:507
ISSN 0908-6692

Standard: PDF/UA-1
ISO 14289-1

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Summary

This report on the economic development in the Nordic countries has been prepared by the Nordic Group of Macro Analysts (Nordiska konjunkturgruppen). Growth in the Nordic countries remained above trend in 2017 and first part of 2018. All five countries expect continued growth going forward, but are at somewhat different stages in the cycle. With the exception of Norway, growth rates are expected to decline a little, towards their underlying potential.

The Nordic countries have benefited from benign global conditions and increased export demand. Global growth has cooled a little from its strong performance in the beginning of the year and is expected to fall gradually to its longer-term potential rate in the coming years. This will most likely imply that also external demand towards the Nordic economies will grow more moderately going forward. The increased trade tensions are a reason for concern. Even though adopted and announced measures so far is likely to have limited direct effects for the Nordic countries, increasing trade disruptions and weakening of the multinational rules-based trading system pose a risk for the Nordic countries, as they are all small open economies dependent on trade.

Global developments

The global economic expansion strengthened in 2017 and 2018. The upturn was broad based, underpinned by a pick-up in international trade and investment growth. Global growth is expected to continue, but has lost some of its momentum. Growth expectations have also become more uneven across regions and sectors. Based on a range of short-term indicators, growth in many advanced economies appears to have passed its peak.

Forecasts are uncertain and downside risks are substantial both at the short and in the medium term. Some of the downside risks recognized in our last report has already materialised. Trade tension is pulling down consumer and business confidence, and international forecasters suggest that these tensions are already dragging on growth. Further increase in trade barriers could reduce global growth substantially.

Greater protectionism would result in costlier, more difficult, and probably also smaller cross border trade and investment, which would have a negative impact on productivity growth. Financial markets are still vulnerable. Asset prices are at historically high levels despite recent dips and an unexpected correction is a risk to growth in some economies. Debt levels remain elevated in many countries, limiting fiscal space and making households and businesses sensitive to interest rate changes.

Monetary policy has started to normalise, particularly in the US. Monetary policy normalisation may widen interest rate spreads between key economies and strengthen the dollar against the other main currencies over the longer term. Some emerging markets with high levels of foreign denominated debt has run into capital outflow difficulties. The effects of Brexit are difficult to assess at this point, causing additional uncertainty to the growth forecasts. The situation in the Italian banking sector is causing concern, though the risk of contagion appears to be moderate at the current moment.

Labour markets has shown continued improvement across most of advanced economies, and unemployment in OECD countries is at its lowest level since the 1980s. Despite the strong labour market performance, wage and price growth has remained weak. Moderate growth in productivity may provide some explanation for the weak development. In Europe, there has also been an increase in part-time work, and unemployment levels may underestimate the slack in the labour market. In the US, labour market participation is still below its pre-crises levels, despite the unemployment level having fallen by 4%. In the US, wages have started to pick up. Labour markets are expected to continue to improve, and wage and price growth to rise moderately in the coming year.

Developments in the Nordic countries

Growth in the Nordic countries was above trend in 2017. All five countries expect continued growth going forward, but are at somewhat different stages in the business cycle. Growth in Denmark, and Iceland appear to have peaked and has started to ease towards its underlying potential, while the Finnish and Swedish economy is expected to peak this year. In Norway economic growth is expected to increase next year.

Several years of economic expansion has strengthened Nordic labour markets. Unemployment rates are low compared to historic levels, and employment has risen rapidly. Wage growth has been moderate, with the exception of Iceland. Inflow of foreign labour, which may have eased labour shortages in the region, appear to have dampened, and firms are reporting labour shortages.

The Danish economy is currently in an economic boom phase. Employment is rising rapidly and has reached a record high this year. Furthermore, unemployment is at the lowest level for more than nine years. Economic growth in 2018 and 2019 is to a large extent expected to be driven by growing domestic demand, i.e. increasing private consumption and private investments.

The current economic cycle for the Finnish economy is expected to peak this year, In the early part of 2018, the rate of employment growth has been faster than assumed based on economic activity, and the number of employed persons is currently greater than ever before. Business outlook for output is positive, though there are also some signs of constraints on growth.

The economic activity in Sweden has been strong in recent years, even though GDP growth has abated somewhat. Demand for labour remains high. Resource utilisation is estimated to be higher than normal in 2018 and 2019. Domestic demand has largely driven growth in recent years. In 2019, GDP growth is expected to attenuate somewhat, due to lower housing investments as well as slower growth in government consumption.

The Icelandic economy has grown by 28% in real terms during the current growth phase, which spans 7 years. Labour market conditions remain tight with growing wages, low unemployment and over 80% labour force participation. Leading indicators suggest that the economy has cooled in the latter half of 2018, and the economic outlook suggests a gradual adjustment to equilibrium growth from 2019. Growth will be driven by investment, exports and consumption.

In Norway, the downturn in the wake of the oil price decline in 2014 is over, and the mainland economy is in a cyclical upturn. Economic growth is currently above its long-term trend, and is expected to increase further next year. Business confidence is higher than it has been in a long time, employment is increasing rapidly and unemployment has declined.

Importance of trade

As open, advanced economies, Nordic countries are reliant on global trade, reflected not only in the orientation of exports but also in the high level of integration in global value chains. Distinctive features of the trade profile in the Nordic countries are that goods exports exceed service exports, except for Iceland, and that exports are concentrated in certain industries or products. In Norway, most exports involve oil, in Finland paper, and in Iceland tourism, while Sweden and Denmark show a more diversified export profile

Open markets, trade and cross-border investments play an important role in the variety of goods and services available to households and businesses and for productivity growth. Cross-border activities bring in new ideas and help domestic economies remain in touch with global innovations. Open markets and trade also enable economies of scale and increase competition, which encourages the use of new, more efficient technology. These factors play a more important role for smaller economies, like those of the Nordic countries, than for bigger ones.

Public finances

The Nordic countries have healthy public finances. Solid growth, strengthening labour markets and policy efforts have improved fiscal conditions. The Nordic countries have carried out structural reforms that improve incentives for work and investment and living conditions.

In Denmark, fiscal policy is planned to gradually consolidate the public finances towards structural balance. The government's proposed budget bill for 2019 includes, among other things, funds allocated to prioritised welfare areas such as health care, elderly care and children, as well as a package containing reductions in indirect taxes and a strengthening of businesses, which follows up on earlier government initiatives in these areas.

In Finland, good economic developments, strengthening labour market conditions and consolidation measures will balance general government finances in the next few years. The Government has supported sustainable economic and employment growth through structural reforms.

In Sweden, general government net lending has strengthened the last three years, and net lending is estimated to decrease somewhat in 2018. The cyclically adjusted balance is estimated at 0.4% of potential GDP 2018 and 0.8% of potential GDP 2019. The public debt ratio is just above 40% in 2017 and projected to be on a downward trend.

Iceland targets a 1.2% overall balance of the general government in 2019 and a minimum of 1% balance in 2020–2022. Due to a substantial interest burden, Iceland has been running a relatively large primary balance surplus, above 4% in 2016 and 2017. As debt has been reduced significantly, interest expenditure is falling and the primary balance surplus is moderately allowed to decline. It is expected to amount to 3.3% of GDP in 2018 and 2.7% of GDP in 2019.

In Norway, the Government proposed a budget with a neutral fiscal policy stance for 2019. Spending of oil revenue amounts to 2.7% of the Government Pension Fund Global. The general tax rate for businesses and workers has been gradually reduced from 28–23% over the past years. The budget proposal for 2019 includes a lowering of the rate to 22%.

Table 1: Central macroeconomic variables: GDP growth, percent

	2016	2017	2018	2019
Sweden	2.7	2.1	2.5	2.1
Iceland	7.3	4.0	3.8	2.5
Finland	2.5	2.8	3.0	1.7
Mainland Norway	1.1	2.0	2.3	2.7
Denmark[1]	2.4	2.3	1.8[2]	1.8

Note: [1] The Danish forecast for 2018 and 2019 is from Economic Survey, August 2018.
[2] Adjusted on a discretionary basis for a large one-off payment in the 1st quarter of 2017 for use of Danish-owned intellectual property rights.

Source: Statistics Denmark and the Ministry of Economics and the Interior.

Table 2: Central macroeconomic variables: Inflation, percent

	2016	2017	2018	2019
Sweden	1.0	1.8	2.0	1.9
Iceland	1.7	1.8	2.7	3.6
Finland				
Norway	3.6	1.9	1.5	1.7
Denmark	0.3	1.1	1.1	1.6

Source: Statistics Denmark and the Ministry of Economics and the Interior.

Table 3: Central macroeconomic variables: Unemployment (LFS), percent

	2016	2017	2018	2019
Sweden	6.9	6.7	6.4	6.4
Iceland	3.0	2.8	3.1	3.4
Finland	8.8	8.6	7.4	6.9
Norway	4.7	4.2	3.8	3.7
Denmark[1]	6.3	5.9	5.0	4.8

Note: [1] Adjusted on a discretionary basis for a large one-off payment in the 1st quarter of 2017 for use of Danish-owned intellectual property rights.

Source: Statistics Denmark and the Ministry of Economics and the Interior.

Table 4: Central macroeconomic variables: Current account balance, percent of GDP

	2016	2017	2018	2019
Sweden	4.3	3.3	3.1	3.8
Iceland	7.7	3.3	1.9	1.3
Finland	-0.3	0.7	0.5	0.7
Norway	4.0	5.7	8.3	7.3
Denmark	7.9	7.9	6.2	6.1

Source: Statistics Denmark and the Ministry of Economics and the Interior.

1. Denmark

1.1 Economic outlook

The Danish economy is currently in an economic boom phase. Employment is rising rapidly and has reached a record high this year. Furthermore, unemployment is at the lowest level for more than nine years.

Economic growth in 2018 and 2019 is to a large extent expected to be driven by growing domestic demand, i.e. increasing private consumption and private investments.[1] Households are generally optimistic but have not raised their consumption excessively. Increasing household consumption has been tightly aligned with rising incomes, which follow from increasing employment. Since the turnaround in the labour market in 2013, private consumption has increased gradually and to a large extent at the same pace as employment.

For 2018 and 2019 private consumption is also given a boost from several political agreements, which add to households' financial room. These include the phasing out of the PSO excise tax and the repayment of anticipatory pension contributions in 2018, which follows from the June 2017 agreement to extend the number of years in the labour market, and lower excise taxes due to the agreement on entrepreneurship and business initiatives, lower taxes on labour market income due to the 2018 tax agreement and lower electricity taxes, which was part of the June 2018 energy agreement. It is therefore possible for consumption to grow sustainably at a slightly faster pace than employment in 2018 and 2019.

Higher consumer demand is clearly evident in car purchases. Contributing to the higher level of car purchases is the lowering of the registration fee in each of the previous three years. The September 2017 agreement e.g. implies a greater emphasis on the safety and energy efficiency of cars in the determination of the registration tax.

[1] The Economic Outlook is from Economic Survey, August 2018.

Therefore, it has become cheaper to purchase a safer car which is also reflected in a shift in the composition of the car purchases in the direction of larger vehicles.

Stronger domestic demand growth is also evident in a higher level of investment activity. The housing investments of households and business investments have grown in recent years. Increasing housing investments should be seen in light of rising housing prices, which makes it more attractive to construct new homes. At the same time the low level of interest rates is lowering the cost of investments. New construction has increased in and around the capital, where the population is rising steadily.

The increasing level of capacity utilization is leading to an increased need for companies to invest in new production capacity. The need for increased investment is also related to the fact that the stock of capital decreased year by year during the crisis from 2009 to 2012. During those years the level of investments was very depressed and lower than the level of depreciation of the capital stock.

Since the beginning of 2017 total exports have also been fairly sluggish. Nonetheless, exports are expected to grow in the coming years. The competitiveness of Danish export firms is relatively strong. This is *inter alia* reflected by the fact that Danish industrial exports have gained market shares in recent years, including through a marked rise in the export of goods, which never cross the Danish borders.

The upswing is expected to increase employment by an additional 75,000 persons without resulting in an overheated labour market.

The growth in the labour force in recent years has benefitted from a combination of economic reforms and inflow of foreign workers. Reforms have e.g. contributed by keeping older workers in the labour force for longer, and through an effective integration of refugees and migrants. These reforms will continue to add to the labour force in the coming years and thereby creates the basis for continued sustainable growth.

Foreign labour has contributed by more than 40% of the increase in employment since the beginning of the upturn. A comparatively large share of the employment contribution has stemmed from eastern European EU countries and especially from Poland and Romania. However, with continued economic growth in Europe, the competition for foreign workers has intensified. Foreign workers continue to find employment in Denmark, but there has been a moderation in the pace of inflow from eastern European EU countries.

Continued strong employment growth and the ensuing increase in the labour demand entails a risk of more widespread labour shortages developing. The share of firms which report labour shortages is already high, and it may to an increasing extent lead to companies declining new orders. In the longer term it may also harm the competitiveness of Danish export companies and their ability to hold on to market shares.

External downside risks have also increased. Among other things there has been some moderation in growth in the EU during the first half of 2018. Whether this is due to temporary or longer lasting factors, remains uncertain. In the forecast it is assumed that growth in the EU will pick up again, but if the moderate growth takes hold it will imply slower-than-projected demand growth facing Danish companies in the coming years.

Furthermore, the risk of increasing barriers to trade at the global level has increased. Despite continuing negotiations, a Brexit-deal between the United Kingdom and the EU-countries remains some way away. The risk of an escalating trade conflict, which at a minimum involves the two largest economies in the world, USA and China, has also increased.

Initially, it appears that the new barriers to trade will largely not affect Denmark directly. However, global economic interconnectedness, including through participation in global value chains, means that Danish companies and the Danish economy is also at risk of being impacted by an escalating trade conflict.

1.2 Public finances

The public finances are generally assessed to be in good health, and markets' confidence in the Danish economy is high. But the economic upswing also invites a careful planning of fiscal policy such that it counteracts risks of overheating or potential imbalances.

The fiscal policy for 2019 is planned on the basis of a structural deficit of 0.1% of GDP. Relative to 2018, this implies that the fiscal policy is planned with increasing distance to the deficit limit of the budget law, which is in line with the economic outlook. In the current assessment, the fiscal and structural policy in total is estimated to have a dampening effect on capacity pressures (corresponding to 0.2% of GDP) in 2019.

The government's proposed budget bill for 2019 includes, among other things, funds allocated to prioritised welfare areas such as health care, elderly care and children, as well as a package containing reductions in indirect taxes and a strengthening of businesses, which follows up on earlier government initiatives in these areas.

In the current assessment, which is based i.a. on the budget agreements with the municipalities and regions and the proposed budget bill for 2019, the public consumption real growth is assumed to 0.4% in 2019. The budget proposal includes reserves that can be allocated – subject to parliamentary negotiations – to initiatives, which can contribute in strengthening the safety and security of citizens. Of the estimated real public consumption growth of 0.4% in 2019, 0.1% can thus reflect priorities in these areas (safety and security).

The estimated development in public expenditures and revenues imply that the expenditure ratio and tax ratio continue the decreasing tendency of recent years.

The fiscal policy is planned with a view to a gradual consolidation of the public finances towards structural balance. The structural deficits are estimated to 0.2% of GDP in 2018 and 0.1% of GDP in 2019. In comparison, the structural deficits amounted to approx. 1% of GDP during the recession following the international financial crisis, where the structural deficits among other things reflected a supportive fiscal policy to underpin economic activity. During the boom of the 2000s, the structural budget balance showed substantial surpluses, which brought down public debt and increased the fiscal room for manoeuvre, when the global crisis set in.

Relative to the supportive policy stance of 2014, the impact of subsequently implemented fiscal and structural policies is estimated to dampen capacity pressures, measured by the output gap, by approx. 1.25% of GDP in 2018 and 2019. This is primarily due to implemented reforms that have increased labour supply, including reforms of the retirement age. A number of initiatives in recent years have further contributed to higher labour supply, including a ceiling on social assistance income and the agreement on lower income taxation and a higher deduction for pension contributions (February 2018).

The economic upturn contributes in itself to an improvement of the public finances, when more people gets a job, incomes and consumption increase, and less people receive public income transfers. In spite of these factors, the recorded surplus on the actual budget balance of 1.2% of GDP in 2017 changes to approx. balanced budgets in 2018 and a deficit of approx. 0.4% of GDP in 2019.

A large part of the budget worsening is due to temporary conditions such as fluctuations in the pension yield taxation revenues (PAL) and one-off payments such as reimbursements of early retirement contributions in 2018 and real estate taxes in 2019. Without these factors, it is estimated that the budget balance would show surpluses of 1.0% of GDP in 2018 and 0.9% of GDP in 2019.

In 2018 and 2019 the net public debt is estimated to a continued low level of approx. 1–2% of GDP, while the EMU-debt is estimated to approx. 35% of GDP. The public EMU debt in Denmark is thus substantially below the debt limit in the EU Stability and Growth Pact of 60% of GDP.

Table 5: Key figures for the Danish economy

	DKK billion	Percentage change from previous year unless stated otherwise				
	2017	2015	2016	2017	2018	2019
Private consumption	1,017	2.3	2.1	2.1	2.3	2.1
Public consumption[1]	536	1.7	0.1	0.7	0.4	0.4
Fixed business investments	285	8.6	8.1	5.6	8.5	2.2
Stock building (percent of GDP)	6	0.0	0.0	0.0	0.0	0.0
Total domestic demand	2,024	2,7	2.5	2.2	2.8	1.8
Exports	1,188	3.6	3.9	3.6	2.5[2]	2.8
Total demand	3,212	3.1	3.0	2.7	2.7[2]	2.2
Imports	1,033	4.6	4.2	3.6	4.4	3.0
GDP	2,178	2.3	2.4	2.3	1.8[2]	1.8
Employment (1,000 persons)		2,829	2,871	2,919	2,967	2,997
Gross unemployment (percent of labour force)		4.2	3.8	3.8	3.5	3.3
Consumer price index (percent)		0.5	0.3	1.1	1.1	1.6
Hourly compensation (percent)		1.9	2.3	2.2	2.5	2.8
Effective exchange rate (1980 = 100)		99.2	100.8	102.1	103.8	103.9
Terms of trade (goods)		1.7	2.7	-1.2	-0.3	0.2
Current account (percent of GDP)		8.2	7.9	7.9	6.2	6.1
3-month money market interest rate (percent)		-0.1	-0.1	-0.3	-0.3	-0.2

Note: 2015–2017 are updated figures based on the revised national accounts published on November 7th 2018, while the estimates for 2018 and 2019 are from Economic Survey, August 2018.

[1] Measured by the output method incl. depreciations. Out of the estimated public consumption growth of 0.4% in 2019, 0.1% can reflect priorities, which strengthen Danes' safety and security.
[2] Adjusted on a discretionary basis for a large one-off payment in the 1st quarter of 2017 for use of Danish-owned intellectual property rights.

Source: Statistics Denmark and the Ministry of Economics and the Interior.

2. Finland

2.1 Economic outlook

The year 2018 is shaping up to be the best year in the current economic cycle, as economic growth will accelerate slightly compared to last year. In the early part of 2018, the rate of employment growth has been faster than assumed based on economic activity. The number of employed persons is currently greater than ever before. Slowing economic growth will slow employment growth, too.

Finnish GDP will grow by 3.0% in 2018. Business outlook for output is positive; construction of major building investment projects is still continuing and sales expectations in service branches have improved. On the other hand, there are also signs of constraints on growth as the value of new orders contracted in January–June by 4.5% year on year. In addition, responses to surveys indicate that more enterprises are facing a shortage of skilled labour and also reduced production capacity.

The number of employed persons has risen to a high level. Continued strong economic growth will take the number of employed persons in 2018 up 2.6% year on year. Rapid employment growth will continue throughout the outlook period and the employment rate will rise to 73% in 2020.

Unemployment has fallen rapidly throughout the country and across all age groups since the start of the year. Driven by the rapid rise in employment, the number of unemployed persons will decrease clearly more this year than in 2017. The projected unemployment rate for the whole of 2018 is 7.4%. Favourable development will continue and unemployment will decrease steadily over the outlook period. The 2020 unemployment rate will decline to 6.6%.

In 2018, the growth in private consumption will accelerate because of the rise in employment and in the earnings level. This is why GDP growth will accelerate year on year. Private investment growth will also continue and support GDP growth as brisk growth seen in housing construction in particular. The supporting impact of domestic demand on economic growth will increase while at the same time the importance of net exports for economic growth will decrease, as import growth remains robust.

Consumer prices will rise broadly across the commodity groups in 2018 and inflation will accelerate to 1.1%. Inflation is driven up mainly by increases in service, food and energy prices. Tax increases will accelerate inflation by more than 0.3%.

In 2019, economic growth will to slow down to 1.7%. The single most significant factor slowing economic growth is the contraction of construction investment. Construction investment is anticipated to contract in the next few years because housing production has risen to an exceptionally high level. In addition, many commercial building projects are nearing completion. The number of building permits granted fell in January–May by more than 10% year on year.

In 2019, the biggest investment boom period will have been passed. Private investment growth will continue, albeit at a slower rate. There are several very extensive investment projects plans in Finland, particularly in the forest industry. Some of these projects are expected to get underway during the outlook period. Employment growth is anticipated to speed up investment in technology and training as well. Research and development investment is will grow at an annual rate of around 5%.

In 2019, private consumption growth is supported by higher earnings and a higher employment rate. The sum of wages and salaries will increase by 3.5% and maintain the high rate of increase in household disposable income. The growth in real household disposable income will slow as inflation picks up. This is why private consumption growth will also slow in 2019.

Strong world trade growth will provide good prospects for Finnish exports in 2019. Net exports will support growth throughout the outlook period even though imports of production inputs will increase. Forest industry investments are already reflected in exports. The relatively low share of imported inputs in the forest industry improves the growth impact of net exports. Imports will be boosted not only by the demand for production inputs but also by domestic investment and consumption demand.

The current account has reached a surplus driven by the trade balance, but the balance of services still remains in deficit. The current account will show a slight surplus throughout the outlook period, primarily due to favourable export development. However, the current account surplus will be reduced by a stronger increase in export prices than in import prices and a deficit in factor incomes and income transfers.

In 2020, Finnish GDP is expected to grow by 1.6%. Growth in private consumption will decelerate further, despite the sum of wages and salaries rising due to the accelerating growth in the earnings level. With inflation, picking up further, real income growth will slow, however. In 2020, exports will grow to reflect export demand, but this growth will underperform world trade growth.

The earnings level will rise by 1.8% in 2018. Wage drift is anticipated to remain below average due to company-level agreements and company-specific items. The increase in the earnings level will accelerate to 2.6% in 2019 due to timing factors relating to collectively agreed pay rises. In 2020, the rise of the rate of increase to 3.0% will be accelerated further by good economic growth and the re-introduction of holiday bonuses in the public sector.

The risks seen in the economic outlook are more strongly skewed to the downside than earlier. A key risk is trade war escalation. Trade barriers between key economies have a broader impact than appears to be the case at first glance. Tariffs imposed by an individual state may also have an adverse impact on the country's own industry. The ramping up of the trade war would slow world trade growth and, consequently, global economic growth. The growth prospects of the global economy would also deteriorate if China's indebtedness escalated in the conditions of contracting economic growth.

The better-than-expected development of emerging economies is a positive risk. The deeper integration of India in particular into international trade would have a positive effect on the global economy. Household indebtedness in relation to disposable income will continue to grow. This trend is supported by low interest rates, positive development of the labour market and strong growth in housing construction. The problems of indebtedness will be heightened, however, when interest rates rise in due course and households have to make cuts in their other consumption.

2.2 Public finances

Good economic and employment development and the consolidation measures taken in accordance with the Government Programme will balance general government finances in the next few years. The general government budgetary position will return to surplus at the turn of the decade and the debt to GDP ratio will fall. Cyclical strengthening of general government finances will not, however, safeguard sustainable financing for general government.

The targets set by the Government for general government debt and budgetary position will be largely reached. The general government debt to GDP ratio will fall below 60% in the current year and continue to fall until the early 2020s. Likewise, the budgetary position targets set for the sectors of general government, that is, central government, local government, and social security funds, are in practice reached. Central and local government will remain slightly in deficit. Therefore, in terms of euros, public debt will continue to grow in the early 2020s.

The good economic cycle has made it easier to reach the targets. The Finnish economy is now already in its third consecutive year of upswing. In 2016 and 2017, employment was still picking up at a relatively sluggish rate, but the current year has seen very fast growth in employment. Economic and, in particular, employment growth have increased tax revenue and reduced unemployment expenditure and therefore strengthened general government finances.

The Government has supported sustainable economic and employment growth through structural reforms. Efforts have been made to increase demand for labour through the Competitiveness Pact that entered into force in 2017 and the conclusion of which was facilitated by the Government through, for example, tax solutions. The Pact reduced employment costs and improved the competiveness of Finnish enterprises. On the other hand, the supply of labour has been bolstered through measures including removing incentive traps, supporting labour mobility and reforming the unemployment security system and public employment services. At the same time, the Government has retained the policy outlined in the Government Programme according to which employees' taxation will not be tightened.

Table 6: Key figures for the Finnish economy

	EUR billion	Percentage change unless stated otherwise					
	2017	2015	2016	2017	2018	2019	2020
GDP at market prices	224	0.1	2.5	2.8	3.0	1.7	1.6
Imports	85	3.2	5.6	3.5	3.5	3.0	2.5
Total supply	309	1.0	3.3	3.0	3.2	2.0	1.8
Exports	86	0.9	3.9	7.5	4.9	3.9	3.2
Consumption	173	1.3	1.9	0.8	1.6	1.3	1.1
– private	122	1.7	2.0	1.3	2.1	1.6	1.4
– public	51	0.2	1.8	-0.5	0.6	0.5	0.6
Investment	50	0.7	8.5	4.0	4.1	1.5	1.9
– private	40	2.2	8.7	4.6	4.6	2.8	2.4
– public	9	-5.2	7.9	1.8	1.9	-4.4	-0.1
EUR billion							
GDP		210	216	224	234	242	251
Current account		-1.5	-0.7	1.6	1.2	1.6	1.6

Source: Statistics Finland and the Finnish Ministry of Finance.

Table 7: Key figures for the Finnish economy: Percentage change

	2015	2016	2017	2018	2019	2020
Services, change in volume	0.4	1.7	1.9	2.6	1.8	1.5
Industry, change in volume	-1.7	2.3	7.1	6.1	2.6	2.3
Labour productivity, change	0.6	2.0	1.8	0.4	0.7	1.0
Employed labour force, change	-0.4	0.5	1.0	2.6	0.9	0.6
Employment rate	68.1	68.7	69.6	71.7	72.4	73.0
Unemployment rate	9.4	8.8	8.6	7.4	6.9	6.6
Consumer price index	-0.2	0.4	0.7	1.1	1.4	1.6
Index of wage and salary earnings	1.4	0.9	0.3	1.8	2.6	3.0
Short-term interest rates (3-month Euribor)	0.0	-0.3	-0.3	-0.3	0.0	0.2
Long-term interest rates (10-year govt. bonds)	0.7	0.4	0.6	0.8	1.2	1.7

Source: Statistics Finland and the Finnish Ministry of Finance.

Table 8: Key figures for the Finnish economy: Percentage of GDP

	2015	2016	2017	2018	2019	2020
Tax ratio	43.9	44.0	43.3	42.2	42.1	42.0
General government net lending	-2.8	-1.7	-0.7	-0.7	-0.1	0.2
Central government net lending	-3.0	-2.7	-1.8	-1.5	-0.7	-0.7
General government gross debt	63.5	63.0	61.3	59.9	59.1	57.9
Central government debt	47.6	47.4	47.3	46.0	45.3	44.3
General government expenditure	57.1	55.9	54.0	52.6	51.9	51.4
Current account	-0.7	-0.3	0.7	0.5	0.7	0.6

Source: Statistics Finland and the Finnish Ministry of Finance.

3. Sweden

3.1 Economic outlook

The economic activity in Sweden has been strong in recent years, even though GDP growth has slowed down somewhat. Demand for labour remains high. GDP is expected to grow by 2.5% in 2018. Resource utilisation is estimated to be higher than normal in 2018 and 2019. Domestic demand has largely driven growth in recent years. In 2019, GDP growth is expected to attenuate somewhat, due to lower housing investments as well as slower growth in government consumption. Household consumption grew strongly in the first half of 2018, particularly retail- and service sales. Consumption is expected to grow in line with the average rate since 2000. Growth in real disposable income will decrease somewhat due to slower growth in employment. However, consumption growth is not affected as households are expected smooth consumption and reduce their historically high saving. Public consumption was unchanged 2017 compared with 2016. The weak development was, amongst others, a consequence of a sharp decline of migration related expenditures, primarily within the state. By 2018, public consumption is expected to yet again increase at a rate corresponding to the average rate since 2000. Public consumption is assumed to dampen 2019 due to weaker development of tax incomes. Gross fixed capital formation has risen sharply since 2014, especially in housing. The number of housing starts are significantly higher than the average since 1975. Over the last three years, housing investments has stood for almost half of total investments contribution to GDP growth. In the coming years, housing investments are expected to decrease, although from a high level. The positive income development over the past few years, the strong development in the labour market and the continued low interest rates are factors that indicate a continued strong demand on housing 2019. The latest year's improved world economic development has benefited demand on Swedish exports. At the same time, a strong development on domestic demand has contributed to high import growth which has dampened the net export contribution. The first half of 2018 exports grew at a moderate pace. Several indicators, such as export orders in the industry according to the Economic Tendency Survey from

NIER and Purchasing Manager Index, suggest improved exports ahead. This, together with the relatively weak Swedish krona, is contributing to a somewhat faster increase in exports 2018 and 2019.

The labour force participation rate as well as the employment rate have in recent years increased to high levels. The unemployment has been decreasing. Leading indicators indicate that demand for labour remains high. Unemployment is expected to reach 6.4% in both 2018 and 2019. Inflation amounted to 2% in the period January to October 2018, partly because of rapidly rising energy prices. The underlying inflationary pressures are still assessed to be moderate. In the wake of the stronger economic activity, inflationary pressures are expected to continue rising. The Riksbank is pursuing an expansionary monetary policy aimed at stimulating demand and inflation. The policy rate (repo rate) has been -0.5% since February 2016. Nonetheless, the Riksbank ended the programme of government bond purchases in December 2017 but moved forward reinvestments to 2018 of bonds that will mature in 2019. At the same time, the repo rate is expected to rise at a slow pace in the future. Expectations that the Riksbank will hold the repo rate on a low level has contributed to keeping Swedish bond yields historically very low. During 2018 government bond yields decreased in Sweden and in Germany as confidence indicators and inflation developed somewhat weaker than expected. In the United States government bond yields have increased as the economy has been strong and the Federal Reserve has continued increasing the policy rate. The gradual global recovery and continued robust growth in the Swedish economy are however expected to promote increases in government bond yields.

3.2 Public finances

The general government net lending has strengthened the last three years and reached a surplus of 1.6% of GDP in 2017 (see Table 10). The net lending is estimated to decrease somewhat in 2018 to 1% of GDP. Given the specific principles applied in the budget bill for 2019 since it is prepared by a caretaker government, the net lending will gradually be strengthened and amount to 2.6% of GDP in 2021. The cyclically adjusted balance is estimated at 0.4% of potential GDP 2018 and 0.8% of potential GDP 2019. The public debt ratio is just above 40% in 2017 and projected to be on a downward trend.

Table 9: Key figures for the Swedish economy

	Percentage change from previous year unless stated otherwise				
	2017	2018	2019	2020	2021
GDP	2.1	2.5	2.1	1.6	1.7
Private consumption	2.2	2.3	2.4	2.7	2.5
Public consumption	0.0	1.0	0.1	-2.0	-1.7
Fixed capital formation	6.1	3.6	1.9	1.9	1.7
Stock building (contribution to growth)	0.1	0.2	-0.1	0.0	0.0
Exports	3.2	3.3	4.1	3.8	3.4
Imports	4.8	3.5	2.9	3.1	2.6
Net exports (contribution to growth)	-0.5	0.0	0.7	0.5	0.5
Productivity in private sector	0.8	1.0	1.4	0.9	1.5
Hours worked	2.1	1.9	0.9	0.4	0.2
Employment	2.3	1.7	0.9	0.5	0.4
Unemployment (per cent of labour force)	6.7	6.4	6.4	6.4	6.5
GDP gap	0.8	1.4	1.3	0.5	0.0
Wages	2.3	2.6	3.0	3.2	3.3
CPI	1.8	2.0	1.9	2.3	2.6

Table 10: Estimates from the Budget Bill for 2019

	2017	2018	2019	2020	2021
Fiscal position, per cent of GDP	1.6	1.0	1.2	2.0	2.6
Structural balance, per cent of potential GDP	0.9	0.4	0.8	1.8	2.6
Consolidated gross debt	*40.8*	*38.2*	*34.6*	*31.6*	*28.5*

4. Iceland

4.1 Economic outlook

4.1.1 *Economic environment and outlook*

The Icelandic economy has grown by 28% in real terms during the current growth phase, which spans 7 years, after contracting by 10% in the aftermath of the global financial crisis. It grew by 4.0% last year after a staggering 7.4% growth in 2016. The growth in 2018 is expected to be around 4%, somewhat stronger than anticipated earlier in the year. The national accounts data for the first half of 2018 were particularly strong, with more robust contribution of investment and external trade than had been anticipated. Several leading indicators, most notably payment card turnover, tourist arrivals and consumer confidence, suggest that the economy has cooled rapidly in the latter half of 2018. The economic outlook suggests a gradual adjustment to equilibrium growth near 2.5% from 2019. Growth will be driven by investment, exports and consumption.

Exports have risen in accordance with projections despite slower growth in tourism, as exports of fisheries have surprised on the upside. Quotas for them main demersal species have been increased as stocks are either historically strong or have improved substantially.

The real exchange rate (RER) outlook is uncertain. The exchange rate has depreciated by around 10% since late August as risks to the economic outlook have surfaced, the terms of trade reversed, and the economy started to slow down. Before the depreciation, the RER was strong in a historical comparison but largely in line with an appreciated equilibrium RER following the strong expansion of the tourism sector and very favourable terms of trade. This development had made Iceland one of the most expensive countries in the world. The external balance of the economy is remains nonetheless solid after a long economic upswing. The current account remains in surplus, as a large surplus on the balance of trade in services outweighs the deficit on the balance of trade in goods, and the net international investment position has changed radically and currently stands at 9% of GDP.

Alongside improved macroeconomic conditions, the Icelandic economy has been in a deleveraging phase since the global financial crisis. Household credit growth has been moderate for several years despite a significant purchasing power growth and rapidly rising house prices. The house price increases have decreased after an average annual increase of 40% in 2015–2017 and households seem to have financed a substantial part of the increase by equity rather than debt. As a result, and given the low levels of debt, households have scope for further debt financed consumption. Credit growth might, therefore, pick up despite binding loan-to-value ratios and stronger rules on mortgage lending.

Labour market conditions remain tight with growing wages, low unemployment and over 80% labour force participation. The rate of underemployment, which seems to have been a drag on wage growth in many countries, is also very low. With an already high resource utilisation, demand for workers has largely been met by foreign labour. As a result, the population growth in 2017 was the fastest on record. Foreign labour was 11.7% of the total population and 14% of the labour force. Although importation of foreign labour remains strong in 2018, it appears to have already peaked as e.g. the number of posted workers is down by 20% since last year, suggesting reduced labour market tightness.

4.1.2 *Risks*

Wages have risen rapidly over the last several years and the wage share of gross factor income is around 63%, which is high in a historical context. Analysts widely assumed that inflation would spike after substantial wage increases following collective bargaining agreements in 2015. However, inflation has below the Central Bank's 2.5% target. An appreciation of the exchange rate from early 2016 until mid-2017 monte, favourable terms of trade and low imported inflation are among factors that have contributed to lower-than-expected inflation. The depreciation of the exchange rate in later summer and increased pressures from rising oil prices and wage costs have pushed inflation up and it is expected to peak around 3.5% in early 2019. The lagged effects of the depreciation and the upcoming round of collective bargaining that may lead to larger wage increases than currently forecast may lead to further inflationary pressures in the absence of further favourable external shocks Inflation expectations have therefore been on the rise. To counter these risks, the Monetary Policy Committee increased interest rates by 0.25% in early November to 4.5%.

According to the IMF, Iceland, is among the countries that have the closest economic ties with the UK alongside the other Nordic countries. The UK is one of Iceland's main trading partner and is a key market for the fishing sector. Furthermore, 14% of foreign tourists in Iceland come from the UK. The UK tourists' share in Iceland, which is second to only the US, has fallen sharply from 20% since before the Brexit referendum. Iceland thus has clear interests in avoiding a hard or disorderly UK withdrawal from the European Union.

After seven years of double-digit growth in which the compound annual growth rate of tourist arrivals amounted to 25%, the rapid growth phase of tourism appears over. With the number of foreign tourists in Iceland at 6.5-fold the population in 2017, a slowdown in growth is welcome even though it might result in a concentration of firms in the sector. On the demand side, there are no apparent risks suggesting a sudden reversal in tourism, as e.g. search results indicate that demand for Icelandic tourism remains high. Furthermore, research seem to indicate that destinations that suddenly become very popular usually remain popular. However, risks are appearing on the supply side of the sector as fierce competition among airlines amidst rising oil prices can adversely affect the frequency of flights to and from Iceland. In fact, several airlines have already discontinued flights from certain destinations and the bankruptcy of AirBerlin appears to have had an impact on the number of tourists from Germany. The tourism sector is facing further uncertainties on the supply side due to strong competition in the trans-Atlantic market and rising costs that have pushed one of the two large airlines into financial difficulties. These challenges may lead to lower growth or contraction in the tourism sector in 2019 after years of strong growth. Lower oil prices and a depreciation of the Icelandic króna from late summer may, on the other hand, support the tourism in the medium-term.

4.1.3 *Conclusion*

Overall, while the economic outlook remains very favourable, there are multiple signs that the economy is cooling down and signs of overheating pressures have declined. However, downside risks to the baseline scenario have increased. The economy appears set for a soft landing after a relatively long period of growth. However, were downside risks to materialise, the economic upswing has been used to build buffers and resilience which can be used to alleviate the impact of a potential downturn, whenever it might materialise.

4.2 Economic policy

4.2.1 *Fiscal policy*

A government of three parties, spanning the political spectrum from left to right, took office in late November 2017. In accordance with the Act on Public Finances, a fiscal policy statement for 2018–2022 was submitted in December. The statement targets a 1.2% overall balance of the general government in 2019 and a minimum of 1% balance in 2020–2022. Due to a substantial interest burden, Iceland has been running a relatively large primary balance surplus, above 4% in 2016 and 2017. Furthermore, general government Maastricht debt has been lowered substantially and currently stands close to 40% of GDP.[2] A milestone was reached in October when the last part of debt directly related to the financial crisis matured. As debt has been reduced significantly, interest expenditure is falling and the primary balance surplus is moderately allowed to decline. It is expected to amount to 3.3% of GDP in 2018 and 2.7% of GDP in 2019.

The Budget Proposal for 2019 was submitted to Parliament in September. It is in line with the previously approved 5-year fiscal policy statement and the rolling 5-year fiscal plan, which is submitted in March every year. Among the most prominent tax changes in the Budget Proposal are a lowering of the social security contribution by 0.25% and an increase in the personal tax credit by an additional 1%. Furthermore, child benefits are increased substantially in 2019, by 17.5%, with the increase steered towards lower income families.

4.2.2 *Prudential policy and capital controls*

Capital controls on individuals, businesses and pension funds have largely been abolished. A capital flow management measure (CFM) was introduced in June 2016 to reduce the risk that could accompany excessive capital inflows by directly affecting the incentives for carry trade. Under the CFM, 20% of new capital into bonds and high-yielding deposits is deposited at the Central Bank for a year at zero interest rates.

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[2] General government debt as defined by the Act on Public Finance, i.e. gross debt excluding pension liabilities and accounts payable/receivable and deducting currency and bank deposits, is expected to be lower than the 30% of GDP limit specified in the Act in 2020.

This rate was lowered from 40% in early November due to a lower interest rate differential relative to other advanced economies. The CFM has allowed the Central Bank of Iceland to pursue an independent monetary policy with substantially higher interest rates than most countries reflecting differences in the business cycle position, without fears of excessive carry trade inflows affecting the yield curve and disrupting the transmission of monetary policy. Removal of the remaining capital account restrictions is being prepared. The authorities also plan to add the CFM into the permanent prudential policy kit to supplement other macroprudential and macroeconomic policies.

As a very small open economy with limited economic diversification, the importance of using economic upswings to build buffers is undisputed. The objective of fiscal policy over the past years has been to build such buffers and in the same way ample emphasis has been put on building financial resilience. In addition to base capital requirements of 8%, Iceland has adopted multiple capital buffers, some of which apply to all banks, some only to systemically important financial institutions (SIFIs) and some based on the state of the economic cycle. The additional capital buffers currently in effect are the countercyclical capital buffer, capital conservation buffer, capital buffer for SIFIs and systemic risk buffer. Combined, these capital buffers currently amount to 8.75%.

In addition to capital buffers, Iceland has adopted a wide range of prudential policy tools. Liquidity regulations have been adjusted, not only as required to meet Basle standards, as additional regulations to limit liquidity risk, particularly related to foreign currency exposure, has been implemented. Examples include a liquidity coverage ratio (LCR) that ensures high quality liquid assets to meet banks' 30-day liquidity needs and a net stable funding ratio (NSFR) of one year for funding in foreign currency with the aim of ensuring a minimum level of stable one-year funding in foreign currencies and limiting maturity mismatches in foreign currency. Furthermore, the financial supervisor has been granted powers to set loan-to-value (LTV), debt-to-income (DTI) and debt service-to-income (DSTI) ratios. Maximum DTI and DSTI ratios have not yet been specified but the Icelandic Financial Supervisory Authority (FME) has set the LTV ratio at 85% for mortgage loans overall, albeit at 90% for first time homebuyers.

A structural reform is underway in the framework for monetary policy, macroprudential policy and financial market supervision with the merging of the Financial Supervisory Authorities and the Central Bank of Iceland. Inflation targeting is to remain the principal objective of monetary policy. A project team is expected to submit draft bill of legislation to the relevant Ministerial Committee by end of February 2019.

4.2.3 *Banking system*

The banking system is dominated by three commercial banks. Together their assets amount to 130% of GDP and their equity CET1 capital ratio is approximately 24%. In February 2018, the government sold its 13% stake in Arion Bank and in June Arion Bank was sold in an IPO by foreign investors and Kaupthing, the failed bank's estate. Consequently, Arion Bank went public, being the first major Icelandic bank to do so since the financial crisis. Despite the sale, the government still owns a large share of the banking system with its 98% share in Landsbankinn and 100% share in Islandsbanki. However, according to its ownership strategy for financial services, the government aims at selling its share in Islandsbanki along with a 58–64% share in Landsbankinn in due course.

Table 11: Key figures for the Icelandic economy (percent)

	2016	2017	2018	2019
Private consumption growth	7.2	7.9	4.9	3.8
Public consumption growth	1.9	3.1	3.3	1.9
Gross fix capital formation	21.7	9.5	4.5	2.8
Exports growth	10.9	5.5	3.1	2.4
Imports growth	14.5	12.4	4.7	3.9
GDP growth	7.3	4.0	3.8	2.5
Consumer price inflation (annual rate)	1.7	1.8	2.7	3.6
Unemployment rate (annual average)	3.0	2.8	3.1	3.4
Current account balance (% of GDP)	7.7	3.3	1.9	1.3
General government net lending balance (% of GDP)	1.2	1.4	1.4	1.2
General government primary balance (% of GDP)	4.2	4.4	3.9	3.4
General government gross Maastricht debt (% of GDP)	51.6	41.9	38.7	35.7

Source: Statistics Iceland, October 2018, Ministry of Finance and Economic Affairs.

5. Norway

5.1 Economic Outlook

The Norwegian economy is performing well. Business confidence is high, employment is increasing rapidly, and unemployment has declined.

The downturn after the oil price decline in 2014 is over, and the mainland economy is in a cyclical upturn. Economic growth is above its long-term trend, and is forecast to increase further. Higher oil and gas prices boost activity on the Norwegian continental shelf, and petroleum investments are set to increase for the first time in four years. Increased household purchasing power is lifting household consumption, while better competitiveness and favorable conditions abroad are facilitating export and investment growth.

Economic policy has contributed to the upturn. When the oil price started to decline, an expansionary fiscal policy stance was adopted to boost demand for goods and services. Targeted measures prevented unemployment from sticking to a high level. In March 2016, Norges Bank lowered the key policy rate to a record-low 0.5%. Norwegian krone depreciation and moderate wage settlements in the wake of the oil price decline in 2014 have made Norwegian businesses more competitive. The cost level in Norway has decreased and come closer to the cost level abroad.

Current economic developments call for a gradually tighter economic policy. Norges Bank increased the key policy rate by 0.25% in September and indicated further rate hikes ahead. Tighter monetary policy will facilitate a more balanced development in the Norwegian economy, with more stable development in the property market, after many years of very low interest rates. As economic growth has rebounded, the Government has in its latest budget proposals focused on normalizing fiscal policy. Petroleum revenue spending growth has been scaled back to facilitate creation of new private sector jobs and avoid excessive Norwegian krone appreciation and pressure on businesses exposed to international competition., cf. paragraph 6.2 for more details.

The drop in petroleum investments seems to be over for now, and investments are expected to pick up over the next few years. Cost reductions and efficiency improvements have made projects planned for the Norwegian continental shelf more robust to lower oil and gas prices.

Several factors indicate higher consumption ahead. Employment is growing rapidly and unemployment is low. Consumer confidence indicators show that Norwegian households are optimistic. Annual wage growth is forecast to 2.8% this year, in line with the outcome of wage settlements, and to increase further in 2019. Household purchasing power is expected to increase markedly next year, after being pulled down by high consumer price inflation in 2018 following a dry and warm summer that resulted in high electricity prices. According to the forward market, electricity prices will fall next year and we expect consumer price inflation to decline.

After a steep increase since the beginning of this decade, housing investments have declined somewhat in the last few quarters, accompanied by lower house price inflation and population growth. Housing investments are still high, and are expected to decline further 2018 and 2019.

House prices rose rapidly at the beginning of the year, but have changed little lately. For Norway as a whole, house prices have returned to their peak level from last year. Household credit growth has decelerated somewhat, but continues to significantly outpace income growth. High and expanding indebtedness has increased vulnerability in the household sector. This summer, the Government renewed the Housing Mortgage Regulations to promote more sustainable development in household debt.

Unemployment has come down from its peak level in early 2016. Registered unemployment is now well below the average for the last 20 years, and has declined in all parts of the country.

Employment is growing rapidly. Over the two last years, employment has increased by about 80,000 people. Further, the employment rate has started to increase again, after a downward trend for several years.

Capacity utilization in the mainland economy is close to normal, and the output gap is forecast to close shortly. The share of businesses reporting they are operating at maximum capacity has increased over the past year and is now just below its historical average.

In the National Budget 2019, released on October 8, mainland Norway GDP growth is forecast to 2.3% this year and 2.7% next year. This is well above trend growth in the Norwegian economy.

The forecasts are uncertain. Domestically, a high debt burden may result in many households curtailing consumption in the event of an interest rate increase or if house prices were to fall for a prolonged period. This could dampen growth. On the other hand, the Norwegian economy is currently facing several favorable developments, including a higher oil price, resurgence in petroleum investments, strong international growth, competitive Norwegian businesses and strong employment growth.

Table 12: Key figures for the Norwegian economy

	2017	2017	2018	2019	2020
	NOK Billion[1]	Percentage change from previous year unless stated otherwise			
Private consumption	1,471.8	2.2	2.6	2.9	2.9
Public consumption	797.4	2.5	1.6	1.5	-
Gross fixed investment	824.6	3.6	1.1	3.0	3.2
– Petroleum extraction and pipeline transp.	150.9	-3.8	4.8	8.3	6.9
– Business sector Mainland Norway	295.8	9.3	6.0	5.3	3.3
– Housing	198.6	7.0	-10.1	-4.3	1.7
– Public sector	175.1	3.6	3.6	1.2	-
Demand from Mainland Norway[2]	2,938.6	3.3	1.9	2.3	2.3
Exports	1,196.9	-0.2	1.7	2.2	5.5
– Crude oil and natural gas	459.5	1.5	-4.9	-1.3	8.4
– Goods except oil and gas	381.3	1.7	4.6	5.6	5.4
– Services except oil, gas and shipping	231.6	-5.8	6.2	4.1	5.2
Imports	1,092.7	1.6	4.7	3.0	3.1
Gross domestic product	3,304.4	2.0	1.7	2.3	3.3
– Mainland Norway	2,798.1	2.0	2.3	2.7	2.8
Other key figures					
Employment, 1,000 persons		1.1	1.6	1.3	0.9
Unemployment rate, LFS (level)		4.2	3.8	3.7	3.7
Unemployment rate, registered (level)[2]		2.7	2.3	2.2	2.2
Annual wage		2.3	2.8	3 ¼	-
Consumer price index (CPI)		1.8	2.5	1.5	1.7
Underlying inflation (CPI-ATE)		1.4	1.3	1.8	2.1
Crude oil price, NOK per barrel (level)		445	578	583	562
Three-month money market rates, %[4]		0.9	1.1	1.4	1.8
Import-weighted exchange rate (yearly change)[5]		-0.8	-0.2	-0.7	0.0

Note: [1] Preliminary national accounts in current prices.
[2] Excluding inventory changes.
[3] Measured as per sent of the LFS labour force.
[4] Technically calculated using forward prices in August.
[5] Positive number indicates a depreciation of the krone.

Source: Statistics Norway, Norges Bank, Norwegian Labour and Welfare Administration, Reuters and Ministry of Finance.

5.2 Public finances

The Norwegian fiscal policy framework insulates the budget from fluctuations in oil and gas revenues.[3] The state's net cash flow from petroleum activities is transferred in full to the Government Pension Fund Global, and the returns are reinvested in the Fund. The use of petroleum revenues, i.e. withdrawals from the Fund, fully covers the non-oil budget deficit. In formulating fiscal policy, petroleum revenue spending is measured by the structural, non-oil budget deficit. The fiscal guidelines stipulate a gradual and sustainable use of petroleum revenues over time in line with the expected real rate of return of the Government Pension Fund Global, estimated at 3%.

In any given year, the use of petroleum revenues can deviate from the 3% path to help stabilise economic activity and thereby support high capacity utilisation and low unemployment. In the event of large fluctuations in the Fund's value, implications for the use of petroleum revenues will be phased in over several years.

With the economy currently in a cyclical upturn, the Government proposed a budget with a neutral fiscal policy stance for 2019. The structural non-oil deficit in 2019 is equivalent to 2.7% of the Government Pension Fund Global. The general tax rate for businesses and workers has been gradually reduced from 28–23% over the past years. The budget proposal for 2019 includes a lowering of the rate to 22%.

We are facing a new fiscal policy phase. Petroleum revenue spending has been expanded considerably since the fiscal rule was introduced in 2001. This trend has now been bucked. Both petroleum revenues and real returns on the Fund are forecast to be lower in coming years than in recent years. It is anticipated that the Fund will only grow moderately in coming years, when measured relative to value added in the mainland economy. Consequently, the scope for further expansion of petroleum revenue spending is severely limited. Just over a decade from now, Fund returns will most likely be on a downward path when measured as a portion of value added in the mainland

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[3] See https://www.statsbudsjettet.no/upload/Statsbudsjett_2019/dokumenter/pdf/national_budget_2019.pdf for more information about the fiscal framework (appendix 1), the National budget 2019 and associated analyses.

economy, because growth in the Fund capital will then no longer be able to keep up with growth in the mainland economy.[3]

Table 13: Key figures for the central government

	2017	2018	2019	2020
Non-oil deficit, NOK billion	222.8	234.7	232.5	-
Structural non-oil fiscal deficit, NOK billion	214.6	220.7	231.2	-
Percent of capital in the Government Pension Fund Global[1]	2.9	2.6	2.7	-
Percent of trend GDP mainland Norway	7.5	7.4	7.5	-
Fiscal impulse[2]	0.2	-0.1	0.0	-
Real underlying expenditure growth, percent	1.9	1.2	1.3	-

Note: [1] At the beginning of the year.
[2] Measured by the change in the structural, non-oil deficit as a share of trend-GDP mainland Norway. The numbers are rounded with one decimal. The structural deficit in percent of trend-GDP is some 7.4%. in 2018 and close to 7.5%. in 2019 so that the fiscal impulse is estimated at 0.0%.

Source: Ministry of Finance.

Sammanfattning

Tillväxten i de nordiska länderna var fortsatt hög 2017 och första delen av 2018. Samtliga fem länder räknar med fortsatt tillväxt framöver, men befinner sig i något olika faser av konjunkturcykeln. Med undantag för Norge väntas tillväxten minska något jämfört med underliggande potential.

De nordiska länderna har gynnats av positiva globala förhållanden och ökad exportefterfrågan. Den globala tillväxten har svalnat från sin starka utveckling i början av året och förväntas gradvis falla till sin långsiktiga potentiella nivå de närmaste åren. Detta medför sannolikt att även den externa efterfrågan gentemot de nordiska ekonomierna kommer att växa mer måttligt framåt. De ökade handelsspänningarna är en anledning till oro. Trots att antagna och meddelade åtgärder hittills sannolikt kommer att få begränsade direkta effekter för de nordiska länderna, utgör ökade handelshinder och försvagningen av det multinationella reglerbaserade frihandelssystemet en risk för de nordiska länderna, eftersom alla små öppna ekonomier är beroende av handel.

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Nordic Economic Outlook 2018

The Nordic Economic Outlook is an annual report on the economic development in the Nordic countries in terms of growth, business cycles and public finance.

The report is produced by the Nordic Council of Ministers and the content is prepared jointly by the Nordic Group of Macro Analysts (Nordiska konjunkturgruppen) with participants by experts from the Finance Ministries in the five Nordic countries. The group has operated under the Nordic Council of Ministers since 2004 and exchanges information on macroeconomic and structural developments on a continuous basis.

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