



Norwegian Ministry  
of Finance

Chapter 1

Meld. St. 31 (2023–2024) Report to the Storting (white paper)

# Long-term Perspectives on the Norwegian Economy 2024



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## Chapter 1

*Recommendations of the Ministry of Finance of 9 August 2024,  
approved by the Council of State on the same day.  
(Government Store)*

# 1 Norway towards 2060

The welfare model is a collective project that we must safeguard and further develop

Norway is a good country to live in. People have opportunities to develop themselves, contribute, and create value. Trust in society is high, and people live long lives. Our welfare state ensures that knowledge, healthcare, and assistance in various life situations are accessible to all. Prosperity is more evenly distributed than in most other countries. Public welfare programs are supported by solid state finances.

Ensuring safety for people in Norway is the government's most fundamental task. A new security policy situation requires us to allocate more of society's resources to defence and preparedness in the years ahead.

New opportunities and challenges await us. The Long-term Perspectives report discusses long-term challenges in the Norwegian economy. The main challenges highlighted are:

- Labour force competition: The caregiving tasks increase, but we do not have more individuals in working age to perform them.
- Need for adaptation: Increased global tensions, climate and environmental changes, and declining petroleum activity lead to changes and reinforce the need to use resources wisely and appropriately.
- Distribution: Small differences and stable access to welfare services must be preserved in the face of transitions, and as many people are living longer.

The purpose of this report is to highlight how the Norwegian welfare model, as a collective project, can be safeguarded and further developed in the face of these challenges. Just as one should leave the farm in better condition than when it was inherited, we should also take care of and develop society for the benefit of future generations. This requires wise choices.

The government's overarching goal is to develop a safer and fairer Norway with opportunities throughout the country. This entails an economic policy that allows the population to lead good lives. The government aims to promote policies that strengthen society, growth, and development nationwide. It should be attractive to have children in Norway and we should have vibrant local communities. We aim to help all who can to use their work capacity and participate in the workforce to do so. At the same time, we must pursue policies that enable more people to work by enhancing their skills and work capacity. The Norwegian work line is crucial for individuals' social and economic opportunities and for ensuring that those in need are supported by society. Preserving peace and security for citizens will require increased resources for safety and defence.

Access to good and stable welfare services for all is fundamental to maintaining the Norwegian model of prosperity and low inequality. In the years ahead, it will be increasingly important to get more people into employment and create conditions for effective and sustainable resource utilisation. Further economic growth must be achieved within a

framework that manages natural resources well and reduces greenhouse gas emissions, pollution, and loss of nature.

This report aims to provide insight and serve as a basis for policy formulation. Projections for the Norwegian economy in the coming years and up to 2060 assume that current welfare programmes and tax systems remain unchanged. Some assumptions are made about key population and economic trends. A reference scenario for economic development serves as the starting point for discussing potential trajectories. The analyses focus particularly on the next 8-10 years but also attempt to look all the way to 2060.

Developments will be influenced by various policy choices. For instance, decisions made today can impact labour supply and public resource allocation for many years to come. The report sheds light on how we can make choices that lead to better outcomes than those projected in the reference scenario.

As a starting point for discussing what is needed to maintain the welfare model, the analyses are based on certain assumptions that themselves require political choices. For example, it is assumed that the healthcare sector will be able to attract the workers needed to maintain the welfare model and that the world and Norway succeed in meeting the temperature goal set in the Paris Agreement. The demand for healthcare services and scarcity of labour will lead to changes in the job market. Substantially reducing carbon emissions will require sufficient access to renewable energy, land, materials, and resources, as well as the development and adoption of new technologies and processes both domestically and internationally. Due to limited resource availability, efficient utilisation is essential.

By examining and highlighting key development trends, it will become easier to make informed decisions today and in years to come. The discussion in the report forms the basis for considering what is necessary to protect and further develop the welfare model. Section 1.1 summarises the main challenges in the report, which are elaborated upon in the subsequent chapters (only available in Norwegian). The government's strategy in addressing these challenges is outlined in section 1.2

## **1.1 Main challenges for the Norwegian economy ahead**

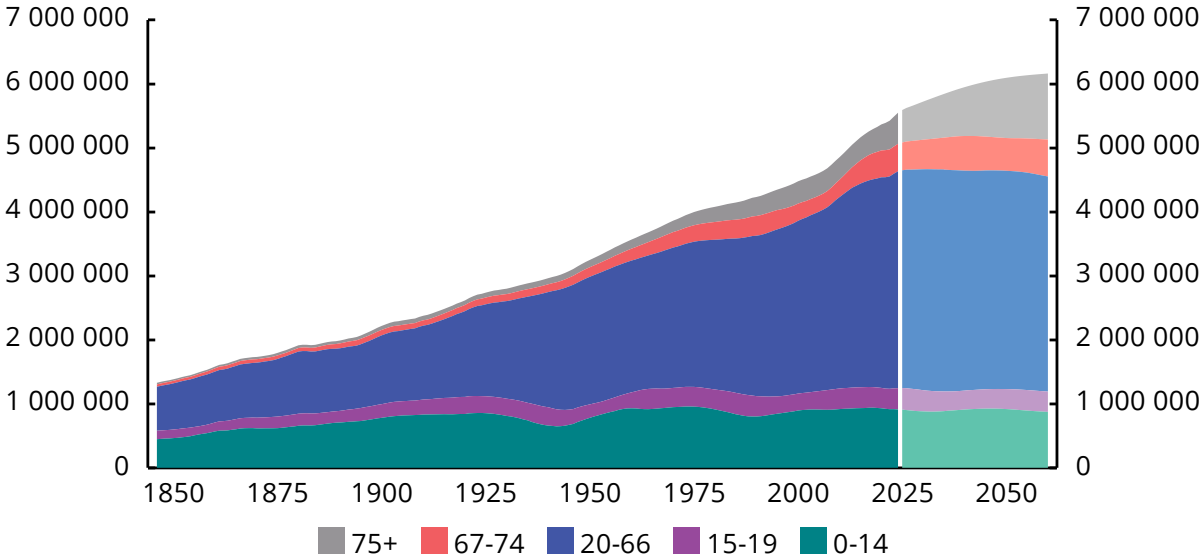
### **1.1.1 Competition for labour**

Population changes ahead will pose new challenges for the development of the Norwegian economy:

#### *Changing composition of the population presents new challenges*

Going forward, population growth in Norway is expected to consist primarily of older age groups. This trend is partly due to the large birth cohorts in the decades following World War II, as well as the significant increase in life expectancy. Over the next 40 years, there are

estimated to be 700,000 more individuals aged 67 and older, as indicated by the gray column in Figure 1.2.



**Figure 1.1 Population distribution by age groups.<sup>1</sup> 1846–2060**

<sup>1</sup> The population projections are based on Statistics Norway’s main alternative from 2022. They have been adjusted to account for the expectation of more Ukrainian displaced persons than originally assumed in the 2022 main alternative.

Sources: Statistics Norway and the Ministry of Finance.

There will be increased competition for labour. The growth in individuals aged 20-66 is expected to slow after a long period of growth. Over the last 100 years, the number of people aged 20–66 has more than doubled, reaching 3.3 million. In the coming decades, the number is projected to remain approximately the same as today, as indicated by the blue column in Figure 1.2.

The population composition will also be impacted by the current low fertility. There is declining fertility throughout the Nordic countries and other Western nations. Norway’s fertility rate was 1.4 children per woman in 2023. The projections in the report assume that fertility will increase to 1.5 children per woman by 2025 and eventually stabilise around 1.7.<sup>1</sup> This is roughly the same level as the average since 2010, but it is still expected to reduce the number of children and young people under 19 years old in Norway by 2060, as indicated by the green column in Figure 1.2

<sup>1</sup> The projections are based on the main alternative in Statistics Norway’s (SSB) national population projections for 2022, which assume that fertility will increase again from 2025, before the overall fertility rate reaches a long-term fertility rate of approximately 1.7 by the mid-2030s. SSB uses observed data from population statistics to calculate the baseline fertility for different subgroups of women based on age, country group, and length of residence. The data is described in detail in Thomas, M. J. & Tømmerås, A. M. (2022) Norway’s 2022 national population projections. Report 2022/28. Statistics Norway.

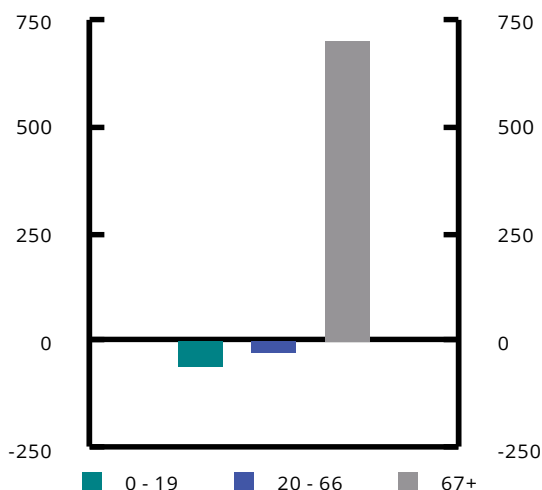


Figure 1.2 Population change by age groups. 1 000 individuals. 2023–2060

Sources: Statistics Norway and the Ministry of Finance.

Changes in both the age composition and the size of the population can impact the economy.

Over time, it is advisable to maintain a balance between the proportion of children, youth, adults and the elderly. This helps provide balance in society. It can also balance the relative weight that should be placed on future needs (important for children and youth) and the present (typically important for the elderly). The fluctuations in birth cohorts during World War II, visible in Figure 1.1, contribute to the imbalance we currently observe in the population composition, as shown in Figure 1.2. Today's low birth rates can lead to new imbalances among age groups.

Children, youth, the elderly, and others outside the labour market are supported by those who are employed. Variations in age composition are thus reflected in what is known as the dependency burden. Although increased birth rates will eventually contribute to a better age balance in the population, it will not alleviate the dependency burden for a long time. High fertility rates will increase the proportion of children and youth in the coming decades and lead to a faster increase in the proportion of the population not in the workforce, as indicated by the gray line in Figure 1.3. More children will intensify the need for caregivers and thus the competition for labour in the future. However, if low birth rates persist, it could result in the population of Norway declining by 400,000 by 2100.

Significant changes in population size pose challenges. Immigration can reduce the dependency burden, but it depends on the age composition and labour force participation of incoming immigrants. At the same time, immigrants should also have access to public services, infrastructure, and housing, and they will contribute to increased demand for goods and services. Increased immigration will therefore also increase the demand for labour and partially alleviate the dependency burden in the population.

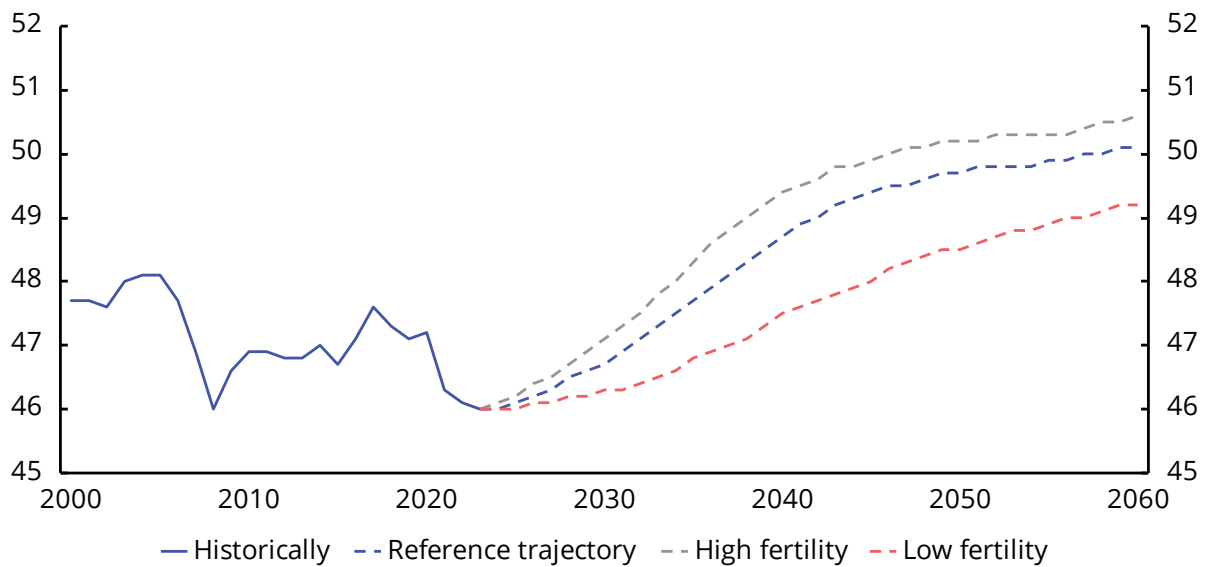


Figure 1.3 Dependency burden in the population. Proportion of the population who are not economically active<sup>1</sup> under alternative assumptions. Per cent

<sup>1</sup> Non-economically active individuals in the figure include persons aged 0–14 and 75+, as well as persons aged 15–74 who are not economically active.

Sources: Statistics Norway and the Ministry of Finance.

### *Increased life expectancy, healthier ageing, and more elderly people in the workforce*

In the report, it is assumed that life expectancy will continue to increase. By 2060, life expectancy for a newborn is expected to have increased by six to seven years. For a 61 year-old, life expectancy is anticipated to increase by approximately five years, with three of those years assumed to be in good health. However, the projections still suggest that the growing number of elderly individuals in the population will increase the need for nursing and care services.

The assumption is that the proportion of older individuals who are economically active will continue to rise due to improved health and strong incentives from the pension reform to remain in the labour force for longer. The calculations assume that, on average, older individuals will work two years longer. While this will positively impact overall labour force participation, it will not fully counterbalance the scenario depicted in the reference trajectory, where the dependency burden will increase.

Future developments in the labour market will be influenced by economic policy decisions.

### *Different policy choices can contribute to increasing the labour supply*

Improved incentives and conditions for participating in the labour market can increase labour force participation among those who do not currently participate in the labour market and increase hours worked by those who are already employed. Figure 1.4 illustrates the potential

increase in the number of work hours (full-time equivalents) resulting from different policy choices compared to the reference scenario.<sup>2</sup>

The calculations do not provide estimates of the specific effects of concrete measures but serve as examples to illustrate the potential for increased labour supply across different groups. It is assumed that there are measures that can contribute to realising this potential over time, although closer assessments and investigations will be necessary in most areas to identify all the specific measures that can contribute. The potential shown in the figure does not indicate which measures would be the fastest and easiest to implement.

The calculations may indicate that implementing measures to reduce the amount of people who exit the labour force and move on to disability benefits has the greatest potential for increasing employment. This must be seen in connection with the large number of recipients of health-related benefits. This entails that even small changes in the share of individuals that move from health-related benefits to work will have large effects after some years.

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<sup>2</sup> The policy choices are calculation examples that are further elaborated upon in Chapter 3 (only available in Norwegian). The impact of reducing sick leave to the levels of Sweden is a simple example used as a basis for comparison.

*Increased labour force participation among older individuals* assumes that older people remain in the labour force for three more years rather than two.

*Increased employment among immigrants* assumes that the labour force participation among immigrants in group 3 increases from 75 per cent to 85 per cent of the rest of the population.

*Reduced transition to disability benefits* assumes changes in several areas: New recipients of work assessment allowance (AAP) under 35 years old decrease by 20 per cent. Long-term sick leave (more than three months) decreases by 20 per cent, while the number transitioning from sick pay to AAP or disability benefits decreases by 20 per cent. The proportion transitioning from AAP to work increases by 5 percentage points, with a corresponding decrease in the transition to disability benefits. Due to health challenges, working hours are assumed to be 75 per cent of other employees for the entire group.

*More disabled individuals in employment* assumes that the proportion of new disabled individuals in employment increases by 10 percentage points, working 30 per cent of full time. The impact of this choice will be somewhat reduced if implemented simultaneously with the choice that reduces the number of new disability benefit recipients.

*Reduced dropout from vocational education* assumes that the completion rate within six years increases by 10 percentage points, with a corresponding 15 percentage point increase in sustainable employment among these individuals. The average working hours are assumed to be 75 per cent of other employees.

*Earlier completion of higher education* assumes completion half a year earlier and that over 90 per cent of students find employment after graduation. It is taken into account that many students work both before and during their studies.

*Reduced involuntary part-time work* assumes that everyone working involuntary part-time between the ages of 25 and 54 transitions to full-time employment, while those working involuntary part-time in other age groups achieve a higher employment percentage.



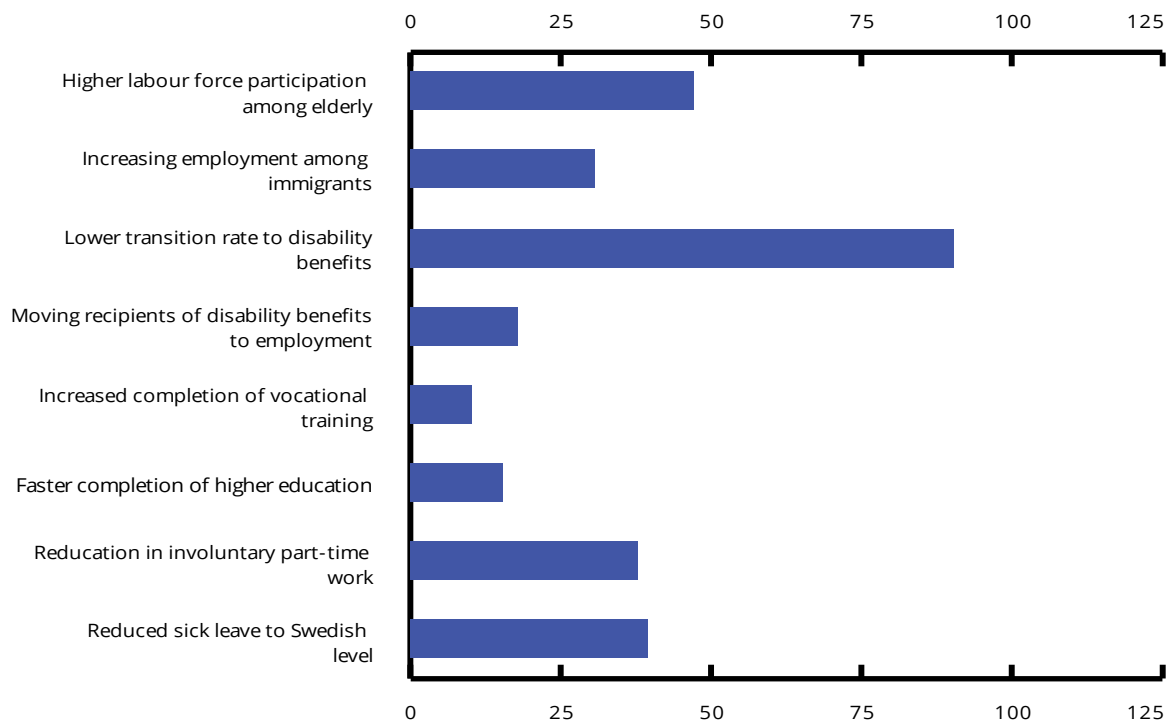


Figure 1.4 Illustration of potential increase in full-time equivalent positions resulting from various policy choices. The impact is based on full implementation.<sup>1</sup> 1 000 full-time equivalents

<sup>1</sup>Calculations assume that the effects will be phased in over time. In the policy choices regarding reduced transition to disability benefits and more disabled individuals in employment, it is assumed that the effects will be phased in over a 15-20 year period. Increased labour force participation among immigrants and reduced involuntary part-time work are phased in over 10 years. Reduced dropout from vocational education is phased in over 40 years. The figure illustrates the impact based on the current population composition. It does not account for changes in the population during the implementation period that could affect the outcome, such as an increase in immigrants of working age.

Source: Ministry of Finance.

### 1.1.2 Need for adaptation

The Norwegian economy also faces several other challenges ahead that lead to changes and reinforce the need to use resources efficiently:

#### *Increased tension in the world requires more preparedness and security*

Russia's attack on Ukraine changed Norway's security landscape. The end of the Cold War around 1990 marked a long period of disarmament, during which Norway and other countries reduced their efforts in defence and security. The benefit was the ability to allocate resources to areas with greater needs. However, over the past few years, the security situation has changed once again. Russia's brutal war of aggression against Ukraine threatens not only the Ukrainian people but also our own security and the values we hold dear. More of society's resources must be allocated to defence, security, and safety.

The calculations in this report assume an increase in Norwegian defence spending in line with the government’s proposed new long-term plan for the defence sector.

Despite tensions in the world, strong forces continue to drive high levels of trade between countries. This report assumes that trade and cross-border investments will grow roughly in line with the global economy, as seen over the past fifteen years, see Figure 1.5.

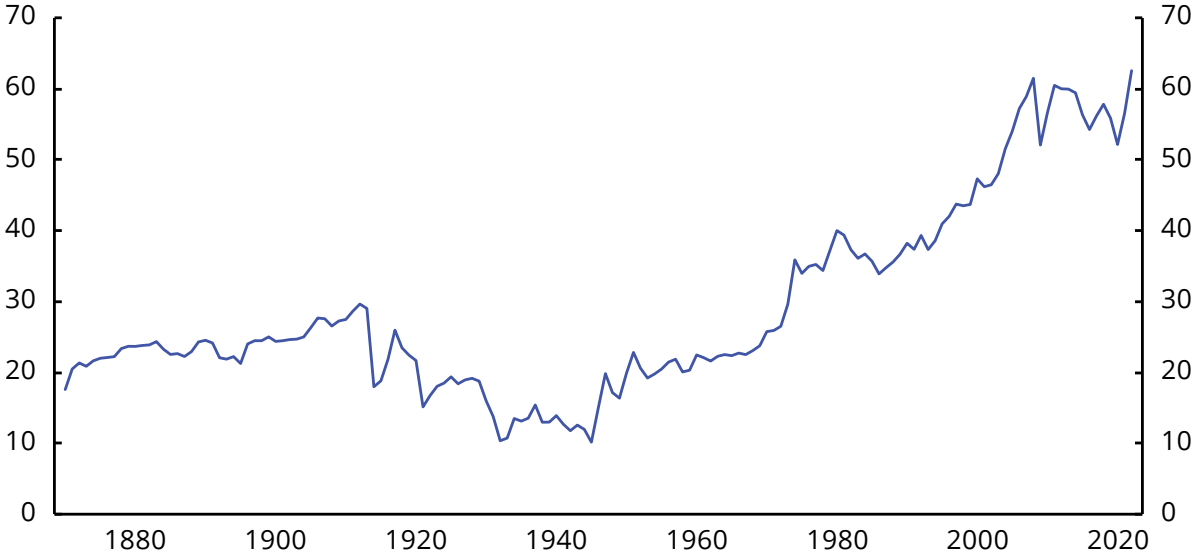


Figure 1.5 World trade in goods and services 1870–2022. Sum of exports and imports relative to GDP. Per cent

Sources: Klasing and Milonis (2014), Penn World Table and the World Bank.

*Limiting emissions of greenhouse gases and loss of biodiversity*

Emissions of CO2 and other greenhouse gases, along with significant alterations to nature, have led to a changing climate and loss of biodiversity. If the world fails to reverse this trend, the consequences will be substantial and irreversible in the future. Urgent action is therefore necessary. International agreements provide the framework for limiting climate change, reducing pollution, and halting biodiversity loss.

Norway and all other countries that have joined the Paris Agreement are committed to contributing to the world achieving the agreement’s long-term temperature goals. Despite widespread support for the agreement and increased efforts from countries, global greenhouse gas emissions continue to rise, albeit at a diminishing rate. Both the International Energy Agency (IEA) and the UN Environment Programme estimate global emissions may already have peaked and are now falling. The projected temperature increase by the end of this century has also been adjusted downward since the Paris Agreement was adopted.

Nevertheless, the IEA estimates that if the world continues on its current trajectory, global emissions will only marginally decline (as indicated by the purple dashed line in Figure 1.6), and the world will not achieve the temperature target set in the Paris Agreement. This will have consequences. The Intergovernmental Panel on Climate Change (IPCC) finds that the effects of warming occur at lower temperatures than previously calculated.

The analyses in this report are based on the assumption that the world succeeds in limiting warming in line with the Paris Agreement’s temperature goal. If countries fulfill their emission reduction commitments reported under the agreement for 2030 and the longer-term ambitions for 2050 and beyond, the IEA estimates that emissions will decline rapidly, potentially limiting the global temperature increase to 1.7°C by 2100, as shown by the blue dashed line in Figure 1.6. Achieving this will require new and powerful climate action and a comprehensive transformation of the global energy system. To limit warming to 1.5°C, the IEA emphasises the need for yet further action.

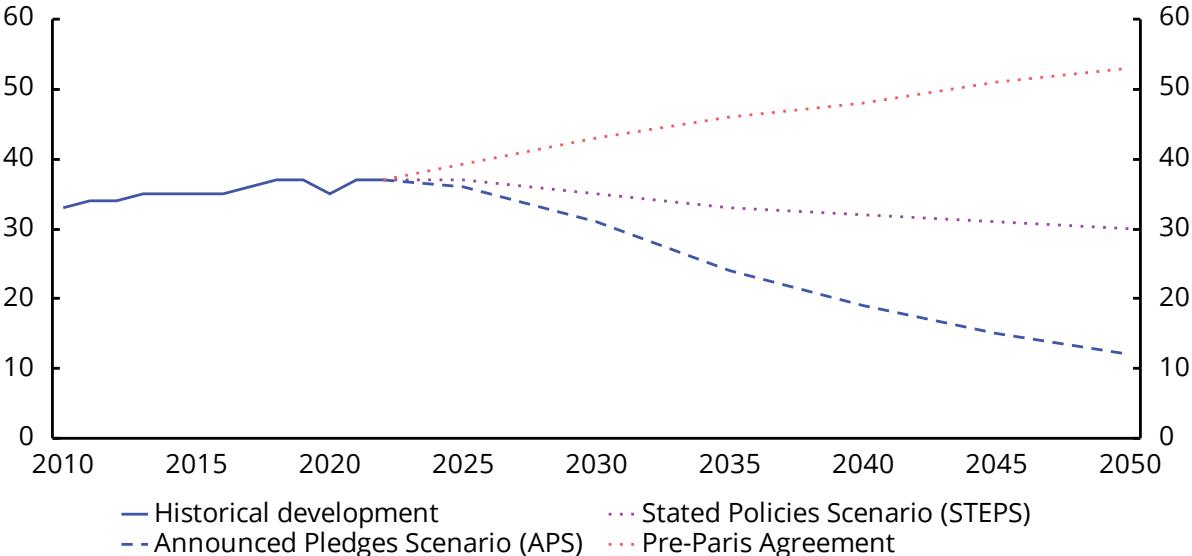


Figure 1.6 Global industry and energy related emissions of CO<sub>2</sub>.<sup>1</sup> Bn. tonnes CO<sub>2</sub>

<sup>1</sup> The scenarios show the development of global CO<sub>2</sub> emissions based on announced policies and if announced ambitions are also included (respectively, the Stated Policy Scenario – STEPS and the Announced Pledges Scenario – APS from the International Energy Agency – IEA), as well as development without the Paris Agreement.

Source: IEA World Energy Outlook 2023.

Swift and substantial reductions in global greenhouse gas emissions will accelerate the transition of the world economy and drive the development of new emission-free technologies that can be adopted in Norway. This would facilitate emissions reductions in Norway. To further decrease emissions, there will be a need for both new technological solutions and strengthened climate policies.

***Conflicting goals resulting from increased demand for electricity***

Norway currently has a significant surplus of electricity during years with normal weather conditions. In the years ahead, the need for transitioning existing businesses and establishing new ones will require greater access to power and the power grid. The trend is moving towards increased use of electric power for yet more purposes. Electrification and industrial development may lead to rapid establishment of new, substantial electricity consumption in different parts of the country.

The Norwegian Water Resources and Energy Directorate (NVE) bases its long-term analyses on the assumption that electricity consumption will increase more than production, resulting in a balance close to zero by 2030. This points towards an increased need for importing power and periods of higher electricity prices, for instance in years with less rainfall and wind than usual. The European energy sector is undergoing a large-scale transition, replacing fossil fuel-based power production with renewable energy. The growing share of intermittent power in Norway and our neighboring countries may pose new challenges in the power system.

Looking ahead to 2040, NVE assumes that production can increase and the power balance will improve.

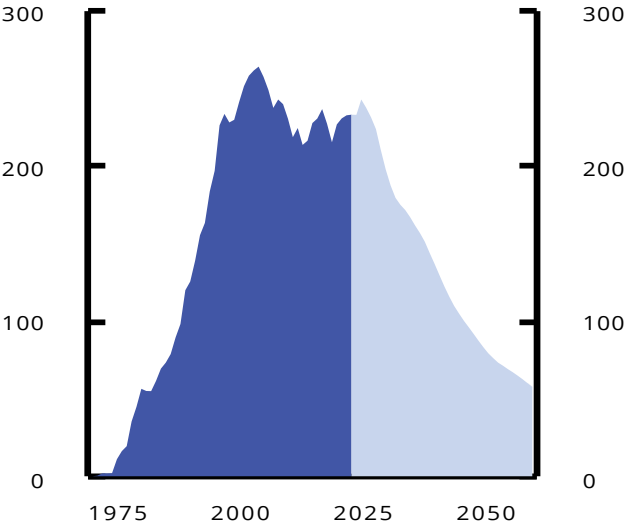
However, while the demands on power supply grow, it takes time to establish new production and infrastructure. When access to power and land becomes scarce, conflicts between climate, nature, and industrial and commercial development may arise. In such cases, effective processes with local involvement and consideration of key societal interests are needed.

*Decreasing petroleum activity*

Ever since hydropower was developed at the beginning of the previous century, political management of natural resources has provided revenues to the public. The revenue from the petroleum sector and the economic rent on the extraction of this resource have laid the foundation for the solid fiscal standing in Norway.

In 2022 Russia closed mainly all gas supply to Europe. That made Norway the largest supplier of gass to Europe.

Although the petroleum production is expected to be relatively stable in the first few years, it is expected to fall in line with a gradual down decline in remaining extractionable resources, see figure 1.7. The expected development in production demands continued searching and investements, without it the fall would be faster. The uncertainty in production levels increases significantly towards 2040.



## Figure 1.7 Production and estimated future production of petroleum on the Norwegian continental shelf. Mill. Scm3 oil equivalents

Sources: Ministry of Energy and Norwegian Offshore Directorate.

The projections for the development in the production in this report are based on the Norwegian Offshore Directorate's projection for the remaining resource base on the Norwegian continental shelf. The profitability of Norwegian petroleum production, and so the future production level, depends among other things upon the price of oil and gas. That is determined by supply and demand conditions in the global market. How quickly petroleum production will decrease, depends among other things on energy policy and the world's handling of the climate challenges.

The expected decline in petroleum activity implies adaptation in the Norwegian economy and the labour market. In the years following a marked drop in the oil price in 2014, the employment in petroleum directed industries fell markedly without creating instability in the economy. Looking ahead, demand from the petroleum sector to the Mainland economy is expected to decrease gradually from around 8–9 pct. of GDP for Mainland Norway today to about 6 pct. in 2030.

### *Changes in the labour market gives rise to a need for more efficient use of resources*

The expected decline in petroleum related industries and increased demand for healthcare services towards 2060 gives rise to a need for large adjustments in the labour market the next decades.

The increased demand for healthcare services is expected to arrive gradually over a period of 30–40 years, in line with the ageing of the population. As a starting point for discussing the development, the reference trajectory assumes that the increased demand for healthcare services is met with increased staffing. Furthermore, it is assumed that productivity growth in the public service sector leads to a higher standard of services rather than fewer employees.

The development in the healthcare sector will impact the employment development in miscellaneous society and business life. The projections in the reference scenario indicates a need for increased employment in the healthcare sector of roughly 180 000 people towards 2060, provided current work effort per user, see blue columns in figure 1.8. This is significantly more than the assumed increase in overall employment in the economy of about 75 000 people. Provided some employment gains in other public administration, and a considerable reduction in the employment in petroleum directed industries, there will according to the projections still be a lack of labour in 2060.

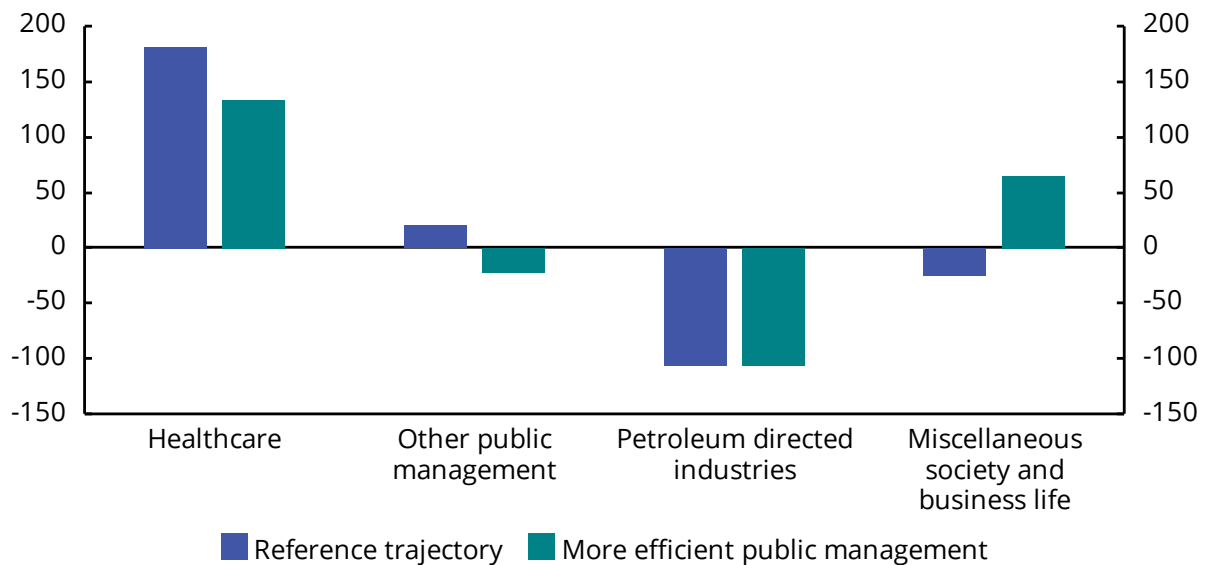


Figure 1.8. Change in employment towards 2060. Reference trajectory and projections with more efficient use of resources in public management. <sup>1, 2</sup> 1 000 persons

<sup>1</sup> The projections of employment growth by sector is based on a requirement analysis. The projections assumes that the healthcare sector manages to attract the labour needed to solve the tasks, and a moderate increase in the standard of services. The demand for public services, including healthcare, is based on the demographic development and is assumed to be met with increased employment. The employment growth in petroleum related industries is based on the projections for gradually reduced investment activity, and eventually also reduced production. The growth in aggregate employment is limited by the growth in the labour force, and the level of work related immigration (access to non-inhabitant wage receivers). Employment growth in miscellaneous industries is determined residually.

<sup>2</sup> More efficient public management assumes that the productivity growth in public management allows for maintaining det public service offer in the reference scenario with close to 10 pct. lower use of labour.

Source: Ministry of Finance.

The uncertainty is large. The changes in employment shown in the blue columns in figur 1.8, is no projection. The distribution between sectors can be different if, for example, more elderly stay healthier for longer, elderly live at home for longer, with new medicinal breakthroughs or by innovation in health technology leading to the service level per person being maintained without increased work effort. Norway is already among the nations with the largest resource effort per patient and user in healthcare. As described by the Health Personell Commission, it can be difficult for the healthcare sector to attract sufficient labour. It can thus be a more fruitful solution if the service need can be forestalled or covered more efficiently, for example through the help of new technology, better task distribution, better health or that elderly settle in appropriate homes.

It matters greatly for the demand for labour whether equal quality of care can be provided with fewer labour resources. The green columns in figure 1.8 gives a crude example of how higher productivity growth and lower growth in the resource usage in public management generally can reduce det future need for labour. More efficient use of resources in healthcare has particularly great significance.

The Norwegian economy has previously shown its ability to adapt, and every year there are large movements in the Norwegian economy. Roughly every tenth job is created in the past year. Many change jobs during a year, and new people are employed, while others exit working life.

### *Increased supply of labour is also efficient use of society's resources*

What a society can achieve of income over time, depends on the ability to smartly manage labour force, capital and natural resources. Productivity grows when one finds better ways to dispose resources. That allows the work effort of the individual to contribute to as much production as possible. Capital input and the management of natural resources must also be disposed efficiently by using the resources where they are most productive and avoiding waste.

Labour productivity shows how much production one hour of work effort produces, as measured in the national accounts. The productivity of labour can increase as a consequence of increased use of capital and other inputs, better quality of the inputs and the collaboration between them. Such improvements can, amongst others, be better use of technology, more adapted competence and changed organisation and localisation of the production.

Weak productivity growth internationally impacts Norwegian businesses, who have been good at adopting technological solutions from abroad. Adaptations to climate change and the transition to a low emission society can for a period mean that production equipment are not taken advantage off according to their lifespan and that there is a need to move and retrain labour. Adjusting investments and consumption to a more sustainable course will dampen the negative effects of climate change, while it can also contribute to lower productivity growth in a transitional period. This report assumes that the low growth in labour productivity in Norway and in Norway's most important trading partners the last 15 years persists.

There are multiple factors that can give an even lower productivity growth than assumed. Increased tension in the world heightens the risk that continued economic integration halts and eventually reverses. The consequences of climate change, the transition to a low emission society and measures to limit the effects of climate change can turn out to be more demanding than assumed. On the other hand, application of and innovation in information technology, such as continued digitalisation, artificial intelligence and robotification, can contribute to lifting productivity and the quality of services.

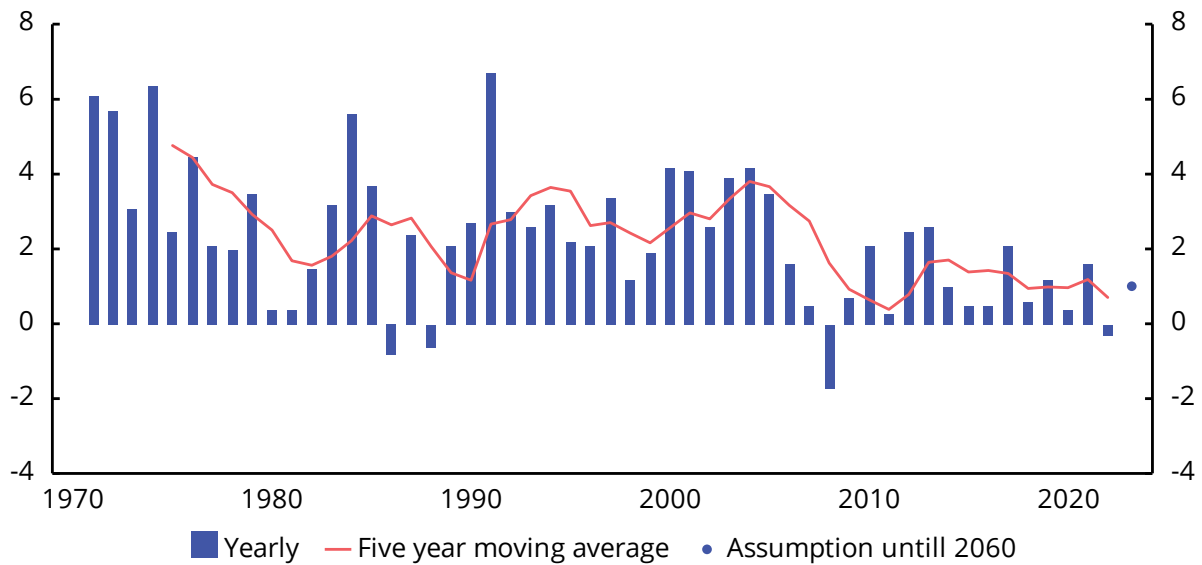


Figure 1.9. Change in labour productivity (production per hour of work effort). Business activity in Mainland Norway. Historical numbers for 1970 – 2022, assumption in the reference trajectory 2023 – 2060. Percentage

Sources: Statistics Norway and the Ministry of Finance.

The price development of input commodities and products will also help determine the profitability in business and the welfare development. Norway has had high income growth due to unexpectedly high prices on particularly oil and gas in periods. This can also turn out the opposite way. The price ratio between goods and services Norway imports and exports depends on developments internationally.

How efficiently the resources in society are used and organised can be affected through policy:

Labour market and competence policy affects the labour force and the reserve labour, and can increase productivity per person and welfare creation per inhabitant. Productivity measured as average welfare creation per work hour does not necessarily give a correct image of society's efficient use of resources. If all those who can are allowed to use their labor ability, welfare creation increases per person even though productivity measured as welfare creation per hourly work on average can be lower.

Value creation is affected through the design of benefit schemes for households, tax and fee policy and other framework conditions for private business life. At the introduction of the guidelines for the use of funds in the Norwegian Government Pension Fund Global in 2001, the fiscal rule, the consideration for the competition exposed sector and the avoidance of sudden and large adjustments in the economy was emphasised. Too high use of petroleum income can lead to an expansion of welfare schemes that cannot be sustained, and therefore in the longer term give large adaptational costs and high unemployment, so called Dutch disease. The fiscal rule has facilitated a gradual increase in the use of fund resources, in line with the growth of the fund.



The management of the petroleum wealth has transformed a temporary income flow from extraction of petroleum resources to a lasting source of income. In this way, the resource wealth is distributed over time such that also coming generations can benefit from it.

**1.1.3 Continued good distribution**

Small differences and a stable access to welfare services must be kept when facing the adaptations and that many live longer:

*Low income inequality and good distribution*

Norway is one of the countries in the world with the highest welfare level and at the same time smallest differences in living conditions. Low income inequality, a redistributive tax system and comprehensive jointly financed welfare schemes contribute to safety, flexibility and adaptability. High labour force participation and low unemployment contribute to reducing the economic differences. The Norwegian wage formation, with an organised work life and a high degree of coordination, has contributed to small wage differences.

Publicly financed services for all and right based transfers evens out the economic welfare of inhabitants, both between groups of inhabitants and between stages of life. Transfers over the lifespan varies by age, see figure 1.10.

While the actively working pays the community throughout, the youngest and oldest age groups receive transfers from the public, much like a contract between generations. From the mid-twenties the average inhabitant goes from receiving transfers to starting to pay the community, but from the mid-sixties this shifts again. The transfers per person rises with age due to an increased need for healthcare services, and receivment of pension from the national insurance.

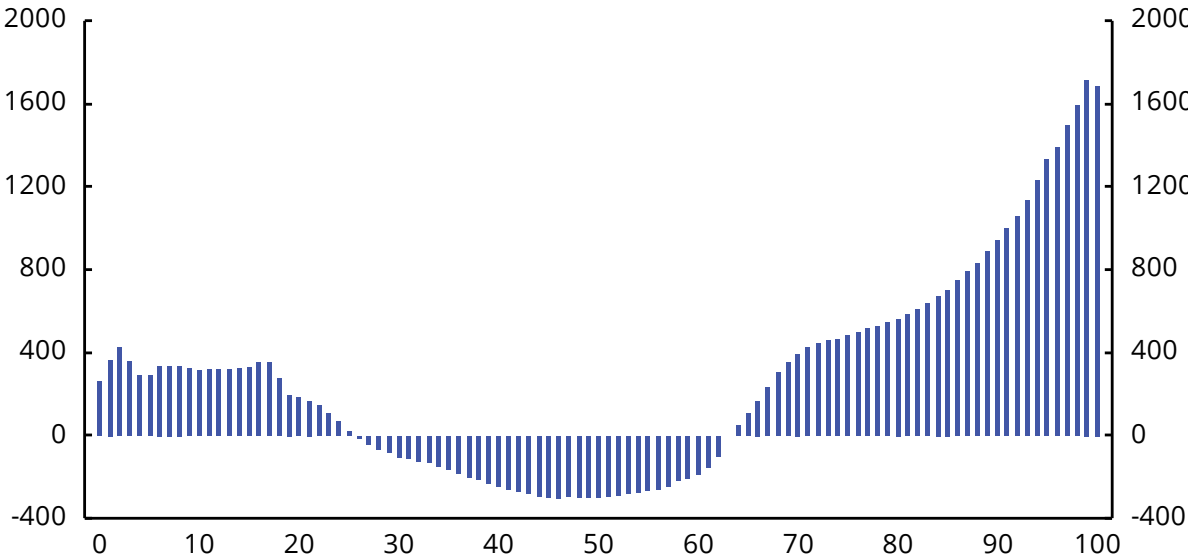


Figure 1.10 Redistribution over the life cycle. Net transfers from public sector by age of recipient.<sup>1</sup> 1 000 NOK. 2024 prices

<sup>1</sup> Based on data from 2017. Adjusted to 2024 prices using the expenditure deflator for the state budget.

Sources: Statistics Norway and the Ministry of Finance.

The more economically active, the better the balance between the share of those who are cared for by the community, and the share who contributes to the financing of the care.

### *The population shall have stable access to good public services*

Fiscal policy shall contribute to giving the population stable access to good public services over time. The scope of the welfare schemes must be adapted to the income basis of the public sector. The design of the schemes must be possible to uphold over time, considering both the development of the economy and welfare level, and also justice between generations.

The calculations in this report maps whether the development in public expenditures is compatible with the development in incomes, or if there arises an unconverted financing need – *need of financing* – in public finances. The development in public finances is considered in light of the development of the mainland economy.

Towards 2060, public expenditures are projected to increase by 5,7 percentage points measured as a share of Mainland Norway's GDP, se figure 1.11. Over half of the increase can be ascribed to expenditures that follow from demographic developments. In the first coming years, the increase in demographic expenditures are expected to be moderate. That is due to, among others, assuming that smaller birth cohorts the past few years dampen the use of resources in the education sector going forward. At the same time, increased military expenses will increase expenditures until 2036, before following the development in the mainland economy. Towards 2036, the increased military expenses are calculated to be as high as the increased expenditures of the national insurance and health, care and education services combined. Later in the 2030s the expenditures due to demographics are expected to grow. That is particularly due to a rise in expenses that follows from an older population, and which is only partially counteracted by the assumption of increased labour force participation amongst elders.

*Public income* is comprised mainly by tax income and the use of funds from the Norwegian Government Pension Fund Global. In the calculations, the adaptation that follows from increased demand for healthcare services contributes to tax income as a share of the mainland economy recedes somewhat towards 2060, while increased labour force participation amongst elders contributes to increased tax income. It is assumed that the use of fund resources follows the fiscal rule, such that the real value of the financial wealth is maintained for future generations. It is projected that significant petroleum income the first few years will contribute to an increase in the fund value and the use of fund resources in the short term. Looking further ahead, an expected decline in the flow of petroleum income will lead to the fund, and the fund outtake, growing less than the economy. Aggregated, the growth in income will decline as a share of the economy, as illustrated in figure 1.11.

Towards 2060 the projections in this report indicate that expenditures increase more than incomes, due to the changes in the population and diminishing petroleum income to the fund, se figure 1.11. In the longer run, a fiscal gap in public finances arises. Figure 1.11. illustrates how the fiscal gap is affected by which time horizon one looks at.

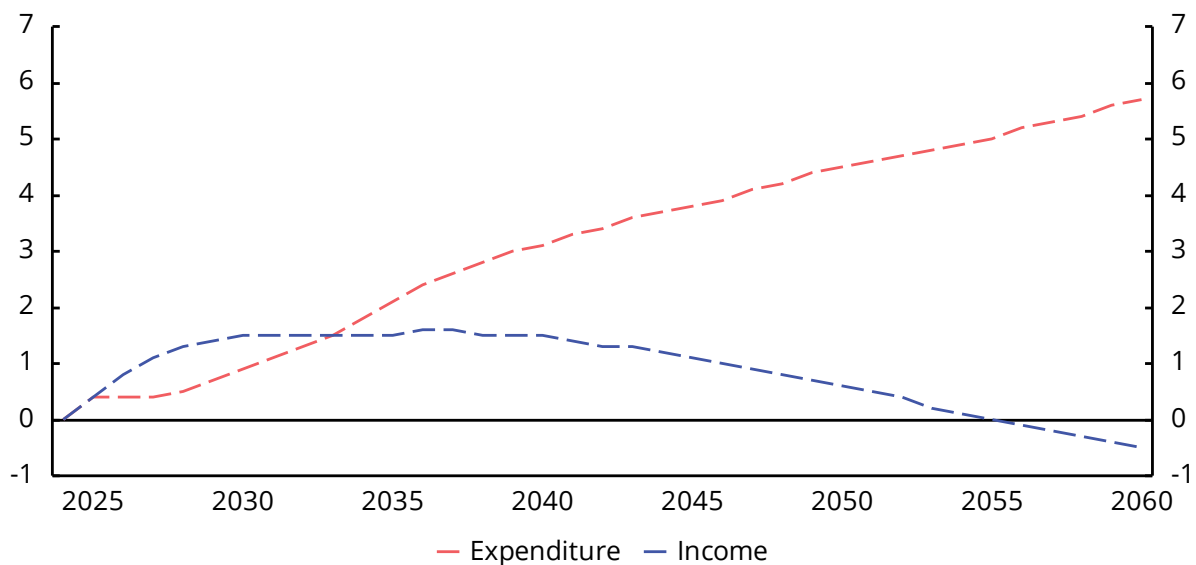


Figure 1.11 Fiscal gap. Public expenditure and income. Share of GDP for Mainland Norway. Per cent.

Sources: Ministry of Finance.

### *Public finances are in a transitional phase*

The projections of the reference scenario illustrate that public finances are currently in a transitional phase, where the income as a share of the economy is first expected to grow somewhat more the first few years before declining. The petroleum wealth on the continental shelf is gradually transformed to financial wealth in the Norwegian Government Pension Fund Global. The first few years, the cash flow is expected to become high, and higher than previously projected. That will contribute to a higher fund value and enable increased use of fund resources for a few years.

The state's cash flow from the petroleum sector is expected to decline going ahead, in line with declining petroleum activity, as discussed in previous Long-term Perspective reports. The fund will then grow more slowly, and thus also the use of fund resources. It is uncertain precisely when the development in incomes turns. It has long been known that the ageing of the population will bring with it increased public expenditures in the coming years, a picture this report confirms. The long term picture points, therefore, still towards the welfare state's expenditures growing more than the aggregated incomes.

The calculations in this report shows that if the trajectory is not adjusted, the welfare state's expenditures will over time grow by roughly 7 billion norwegian kroner more per year than the incomes, when today's welfare schemes and tax system are extended. This assumes that the standard of the public services will continue to grow somewhat going ahead, but significantly less than the past few decades. As a share of the mainland economy, the fiscal gap in public finances is projected to increase to 6,2 pct. in 2060.

Imbalances between expenditures and incomes can be covered through lower growth in public expenditures or higher growth in incomes, for example by increased labour supply or better use of resources in public management.

*Different policy choices can improve the development in public finances*

Increased labour supply and a more efficient public use of resources can contribute to reducing the fiscal gap, see illustration of possible effects of different policy choices in figure 1.12.

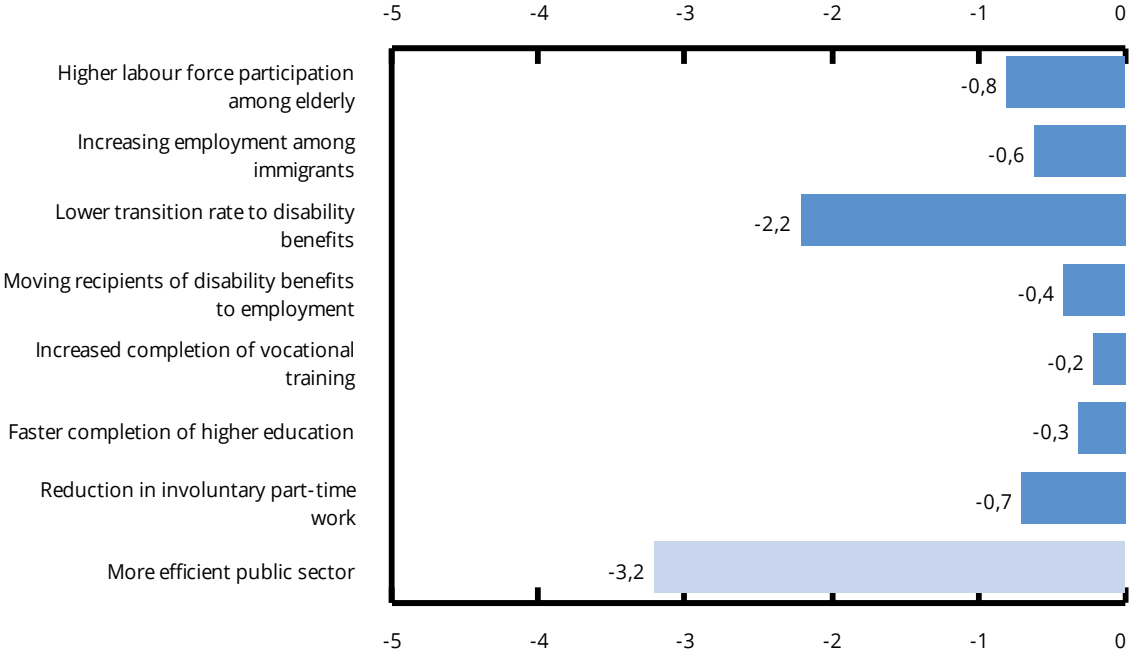


Figure 1.12 Illustration of potential reduction in fiscal space by 2060 under various policy choices<sup>1</sup>. Shares of GDP for Mainland Norway. Percentage points

<sup>1</sup>The calculations for the policy choices to increase labour supply are based on the same assumptions as those in Figure 1.4 and are further detailed in Chapter 3 (only available in Norwegian). The calculation for the policy choice to achieve a more efficient public sector relies on an annual reduction of 0.25 percent in public sector employment, utilisation of inputs and services, and gross real investments. This is elaborated upon in Chapter 7 (only available in Norwegian).

Source: Ministry of Finance

Increased labour force participation will contribute to increased tax incomes and can contribute to reduced use of benefit schemes such as unemployment benefits, work assessment allowance and disability benefits. To succeed with getting more people into the working life is important both for reducing inequality directly, and for strengthening the financing of the welfare state.

If public resources are used efficiently, equally good results can be achieved with less resources, or better results with the same resources. Private sector’s use of technology, new modes of production, and new ways of organising work can be transmitted to public sector and give increased productivity.

The analysis points to a need for lower growth in public expenditures or higher growth in incomes. A more efficient public use of resources and policy choices that contribute to increasing the supply of labour, will give space for growth in miscellaneous society and business life and improve the balance in public finances.

A well-functioning economy and welfare state throughout the country will require good and conscious choices now and in the years to come. This report discusses challenges that Norway will face in the future, although exact predictions are not possible. The discussion aims to provide insight and raise awareness, emphasising the need to plan for the future and create the best possible conditions for maintaining the prosperity in the long term.

## **1.2 The government's strategy**

This report highlights three main challenges facing Norway, which are crucial to address collectively leading up to 2060: competition for labour resources, the need for adjustment, and maintaining equitable distribution. The government's strategy to address these challenges includes:

- Increasing employment and ensuring people remain in work
- Solving problems in a smarter way
- Responsible economic policies that ensure a fair distribution of resources.

Together, these efforts aim to safeguard and further develop Norway's welfare model.

Norway's welfare programs provide citizens with secure living conditions, regardless of their social or economic background. People receive support from the community based on their needs during different life phases and situations. Welfare services are accessible to all, regardless of income or location, while also providing a safety net for those in need.

To sustain the welfare model, active participation in the community is essential. A strong work line, where work is incentivised, along with organised labour practices (including collaboration between social partners, high unionisation rates, collective agreements and tariff agreements), contributes to maximising employment. Additionally, education and skills policies help qualify and mobilise individuals who are currently outside the workforce.

The overarching goal of the government is to create a safer and more equitable Norway with opportunities across the entire country. The government's policies aim to instill confidence in the future, reduce social and geographical disparities, and preserve the unique aspects that define Norway—such as low inequality, high trust, strong communities and vibrant democracy. By building on the best aspects of our nation, we can engage people in significant societal endeavors. When society supports its members, they, in turn, support society.

This report contributes to an informed debate about future economic challenges and ensures that policies are evidence-based and oriented toward long-term perspectives.

### **1.2.1 Increasing employment and ensuring people remain in work**

People are society's most important and valuable resource. The projections in this report suggest that there is a need to mobilise more skilled labour to address the most critical tasks in society and take care of those who require assistance. Demand for medical and care services, the government's ambitions for strengthened preparedness and defence capability, a highly productive business sector and climate and energy transition will place high demands on the workforce in future.

The government's approach to labour and welfare policies is based on the work line. Everyone who is able should have the opportunity to use their work capacity and participate in the workforce. We must strike a good balance between supporting those outside the workforce and ensuring that those that are able to work participate in the labour market. The government plans to present a labour market report to parliament in the autumn of 2024.

#### *Increasing employment*

The Norwegian government places significant emphasis on maintaining an economic policy that ensures continued high employment. Their ambition is for Norway to be among the countries with the highest employment rates in Europe. Consequently, the government has set a goal to increase the proportion of employed individuals in the age group of 20–64 years from 80½ per cent in 2023 to 82 per cent in 2030, with a further increase to 83 percent by 2035.

Achieving higher employment may require structural measures and coordinating various policy areas.

The government aims to encourage more people to participate in the workforce. In collaboration with the social partners the government aims to reduce sick leave and prevent people from dropping out of the labour market. Addressing the rise in the number of young disabled individuals over the past 20 years is crucial and efforts should be made to help young recipients of benefits into jobs or education. At the same time better support should be provided for disabled individuals who are able to participate in the workforce based on their health conditions and needs.

Additionally, the government intends to safeguard the incentives within the pension reform and create opportunities for older individuals to utilise their experience and skills, thereby remaining in the workforce for longer. Increased labour force participation among immigrants is essential and new immigrants should quickly integrate into employment. Furthermore, efforts will be made to enable more part-time workers to transition to full-time employment. This is particularly important given increased demand for labour in the healthcare and caregiving sector.

#### *Improving education and training to facilitate adjustment*

Education, training and skills policy aims to qualify and mobilise those who are outside the labour market. This strengthens the labour supply and reduces the need for other welfare services.

The government aims to improve students' ability to learn in school and to ensure that more students complete their ongoing education. Educational programmes should be aligned with the needs of the labour market. Educational results in recent years raise concerns. The government will in 2024 address these challenges through a report to parliament on school years 5–10 during.

The education system must be considered in the context of the need for structural adjustment in the economy. The education system must be better aligned and dimensioned to match the demands from those who are seeking education and those of the labour market. The government has established the Norwegian Committee on Skill Needs to provide the best possible evidence-based assessment of Norway's future skill needs. It will form the basis for planning and informed decision-making for authorities and labour market participants at regional and national levels.

There is a need to enhance and improve people's skills throughout their lives so that they are better equipped to tackle tomorrow's challenges. The government aims to facilitate flexible education nationwide and will take measures to ensure that education and training are accessible to all. Among other initiatives, the government has set up the Norwegian Committee on Skills Reform to better support adjustment and learning in the labour market, with the goal of achieving high stable employment, countering increasing inequality and securing the skills demanded by the labour market.

The government will also work to help students progress more quickly through their programmes, including by implementing a new admission system for higher education

### **1.2.2 Solving problems in a smarter way**

More tasks and scarcity of resources mean that tasks must be solved more intelligently. We need to manage the workforce and other important resources carefully. The ability and willingness to adapt will be crucial. The government will facilitate this along several tracks:

The need to complete more tasks with scarce resources requires smarter solutions. We must manage our workforce and other essential resources efficiently. The ability and willingness to adapt will be crucial. The government aims to facilitate this across several tracks:

#### *Using public resources more efficiently*

Managing public resources in the best possible way is a fundamental responsibility of public authorities and contributes to building trust in society. The government aims to ensure that public resource use is efficient. This includes using resources within the public sector more efficiently, making the right investments, and ensuring that transfer programmes to private businesses and households provide incentives for work and improve productivity.

Just as capital per hour worked in the production of goods has increased over time, public services should also continue to deliver more and better services with the available resources. This may involve new ways of solving tasks, improved collaboration across sectors and administrative levels, new working methods, and more purposeful development and use of technology—such as through digitalisation and automation of services. Successfully

leveraging opportunities to provide certain public services with fewer employees can free up labour for other purposes. The government is committed to ensuring that individuals feel secure in the support provided by the public sector, regardless of their location in the country. There should be freedom to find local solutions in line with the government's Trust Reform. Achieving this requires effective collaboration between management and workers, better utilisation of workers' skills and simplified reporting and documentation requirements. More efficient resource use and new working methods will be necessary to deliver a quality service across all of Norway.

Innovation within the health space can contribute to better health and improved quality of life as well as more efficient healthcare services. A correct allocation of scarce resources in health and care services is crucial for the sector to remain sustainable in the face of medical and technological advancements. This will require the provision of high-quality, fair and equitable services given resource constraints. The government will present a report to parliament on priorities in health and care services in 2025.

### *Improved planning and prevention*

The government aims to facilitate good public health and prevent adverse health outcomes. Public health is essential for quality of life, individuals' capacity to work and the development of public expenditures. Improved planning and prevention can help allocate scarce labour resources to those who need them most.

Prevention and facilitation of healthy lifestyle choices improve public health. This approach allows the population to live longer healthier lives and older individuals can maintain active lives for longer.

Every elderly person in Norway should be safe and have high quality of life in old age. To facilitate this, their own planning is crucial—for example, assessing whether current housing and living environments require adjustments for years with reduced mobility. Such adjustments can enable people to stay in their own homes longer and lead independent lives. Effective spatial planning can also relieve the burden on public care and housing services by creating housing and living environments suitable for older adults, including proximity to services they may need.

Education and skills policies aim to qualify and mobilise more individuals who are outside the labour market. This strengthens labour supply and reduces the need for other welfare services.

### *General framework conditions for a productive and innovative business sector*

The future of work will be impacted by innovation and adjustment.

The government aims to provide conditions for a productive and innovative business sector throughout the country by ensuring favourable, sustainable and predictable framework conditions and efficient use of resources. This effort is supported by various policy areas, including tax policy, competition policy, education and skills policy, labour market policy, targeted business policy and investment in research and development.



The government emphasises that all subsidies should have a clearly defined goal of what they aim to achieve and it should be designed with broad, objective criteria to encourage competition between projects and technologies. This approach can limit lobbying activities and unintended effects such as negative competitive consequences while reducing the burden on public budgets.

Research, development, and innovation are crucial for Norwegian companies to compete internationally and to achieve ambitious climate objectives. New solutions and technologies developed in the private sector also contribute to innovation in the public sector.

### ***More effective policies to reduce greenhouse gas emissions***

Climate and nature are central to the government's policies. The government facilitates Norway's transition to become a so-called "low-emission society". The Climate Change Act defines this as a 90-95 percent reduction in greenhouse gas emissions by 2050 compared to 1990 levels. The goal is to reduce emissions of greenhouse gases as quickly and cost-effectively as possible within nature's tolerance. With limited resources, it is essential to achieve significant emissions reductions, avoid mis-allocation and enable society to make the right choices for a sustainable environment and economy. The government will employ measures that provide incentives through emission pricing and other environmental policies, as well as regulations and support programmes.

Efforts to reduce carbon emissions must be fair and take social, geographical and economic consequences into consideration. It may be necessary to address climate transition across multiple policy areas to avoid undesirable distribution effects.

The development of low-emission technology will have primary importance in reducing emissions. For instance, the growth in investments in solar energy, wind turbines, and battery solutions globally has made several low-emission technologies competitive with fossil fuels. This offers hope that even in a fragmented world, we can achieve climate goals and that innovative solutions can be cost-effective enough to drive out less climate friendly sources of energy. The IPCC also supports this, indicating that climate measures costing less than 100 USD per tonne of CO<sub>2</sub> equivalents can halve global greenhouse gas emissions by 2030 compared to 2019 levels. Approximately half of these reductions cost less than \$20 per tonne of CO<sub>2</sub> equivalents. Norway will continue its international efforts for emissions reduction alongside increased domestic action.

Norway's large land area relative to its population provides excellent opportunities for outdoor activities. The government emphasises sustainable and efficient resource and land use. Knowledge-based land planning and efficient use of energy resources can contribute to climate transition.

### ***Responsible management of natural resources***

The government views ensuring national control over the country's abundant natural resources as essential.

The government will continue its efforts in ensuring efficient market regulation, responsible and sustainable land management, a robust tax system and responsible management of natural resources.

The ability to achieve climate and adjustment policy goals increasingly depends on maintaining power and load balance domestically while ensuring stable access to power in the face of change. Continued efforts are necessary to keep the total costs of developing and operating the power system low, a longstanding advantage of Norway's power supply.

The government takes as a given that power supply must evolve to allow ongoing reductions in fossil energy use and economic growth going forward. This requires improved transmission capacity in the power grid, increased power production, and a system capable of meeting consumption during high-demand periods. The government aims to strengthen the power balance through investments in hydropower, solar power, onshore and offshore wind power, and a more ambitious energy efficiency policy.

All power production has environmental consequences. The need for increased renewable power production may conflict with the preservation of critical natural values or alternative land uses. The government aims to facilitate profitable development of renewable energy through well-balanced concession processes. Enhanced energy efficiency efforts can help avoid unnecessary environmental impact and reduce peak loads in the grid. Pricing environmental impact, regulations, improved land management, and conservation efforts contribute to balancing conflicting goals. Proper incentives in regulatory frameworks ensure optimal resource utilisation.

Renewable energy resources must be managed wisely. The principle that the community should benefit from the returns on shared natural resources has served Norway well. Revenues from natural resources should also benefit local communities where production occurs. Simultaneously, attractive returns and value creation are goals for actors willing to invest in developing society's resources within nature's limits.

The government aims to maintain a high level of activity on the Norwegian continental shelf, with stable conditions for petroleum activities and increased involvement in renewable industries over time. Leveraging expertise from the oil and gas industry, Norway seeks to be a reliable supplier of low-emission oil and gas and a significant contributor to Europe's energy security.

### *Improving security and preparedness*

Ensuring security for people in Norway is the government's most fundamental task. The government is committed to handling both anticipated and unforeseen challenges.

With a changed security landscape, Norway must allocate a larger portion of society's resources to defence and security. The government has presented a long-term plan for defence, which includes a significant strengthening of the military and ensuring that Norway meets NATO's goal of allocating two percent of GDP to defence purposes by 2024. Furthermore, Norway has committed to providing multi-year and comprehensive military and civilian support to Ukraine through the Nansen Support Programme for Ukraine. The

government aims to enhance society's collective resilience. Critical infrastructure and essential functions should be robust, as they are prerequisites for a resilient society. Strong local communities and effective civil preparedness are critical for handling highly demanding events. Food security and self-sufficiency are also central considerations.

The need for prevention and adaptation to a changing climate is substantial and increasing. Climate change leads to more unpredictable weather and heavy rainfall may increase the occurrence of floods and landslides. Longer periods of high heat will raise the incidence of forest fires and drought. To improve climate preparedness, the government will aim to strengthen incentives and requirements for flood and landslide protection and ensure effective planning regulations and vulnerability assessments.

### *Promote international cooperation*

The government is focused on the role of research in solving known and unknown challenges. Norway relies on research-based knowledge and expertise to understand and address the societal challenges we face. The development of new knowledge through research, especially long-term basic research, forms much of the foundation we stand on when dealing with challenges and crises. Norwegian participation in international education and research cooperation is an important part of this.

International cooperation is essential for steering the world toward a path where we continue to reap the benefits of global trade while safeguarding common goods such as a habitable planet, diverse nature, and peaceful coexistence.

The Norwegian government is committed to effective international collaboration on climate and nature conservation, providing assistance to reduce emissions in developing countries. In addition, the government contributes to the global fight against hunger and poverty.

Recognising the role of research in addressing known and unknown challenges, the government emphasises evidence-based knowledge and skills. Developing new knowledge through research, especially fundamental research, forms a crucial foundation for tackling challenges and crises. Norwegian participation in international education and research cooperation is an integral part of this effort.

### **1.2.3 Economic policy to ensure a fair distribution of resources**

The government aims to further develop the welfare state so that the entire population may benefit from increased prosperity, both today and in the future. To achieve this, economic policies must account for current and future challenges. The projections in this report highlight the need to make prudent decisions today to ensure the sustainability of public finances and stable access to welfare services going forward.

### *Maintaining low inequality and vibrant communities throughout the country*

The government aims to pursue a policy for stronger communities, growth and development throughout the country.

A distinctive feature of Norway is the existence of vibrant local communities across the entire nation. The government aims to preserve and enhance this feature.

Norway is a diverse country, rich in human and natural resources. The government intends to safeguard and develop this diversity. A prerequisite for achieving this goal is that people live and work throughout the country.

Our society is built on the principle that every individual should have opportunities for development and to contribute and to receive support when needed. The welfare model ensures that knowledge, healthcare and public services are accessible to all, regardless of private finances or networks. This foundation promotes equitable distribution and equal opportunities across the entire country, a commitment the government aims to protect and further develop.

Creating an attractive environment for raising children is essential. The government has improved parental leave, strengthened child benefits, and reduced daycare costs to improve the well-being of both parents and children. Efforts to reduce poverty, especially child poverty, are ongoing. Additionally, the government plans to establish a commission to investigate the causes and consequences of low birth rates and explore potential measures to reverse this trend.

Improving overall population health is crucial for increasing labour force participation and maintaining employment. The government will continue its work to reduce health disparities.

The work line contributes to low inequality, as widespread employment significantly reduces income disparities in Norway. It also ensures revenue for public services, supporting those in need and fostering a balance between contributors and recipients.

### *Responsible economic policy*

The government aims to maintain an economic policy that ensures stable access to quality welfare services in the future.

The government aims to support the interaction between economic policy and wage formation. Wage formation characterised by responsible social partners is in combination with economic policy crucial for achieving favourable economic developments in the short and long run.

Significant economic and labour market transformations are expected going forward. Consequently, maintaining the Norwegian wage formation model (the so-called front-runner model with industry as the leading sector) will be particularly important. Wage coordination helps mitigate wage pressures at a high employment level and allows for higher employment than would be possible with uncoordinated wage formation.

Promoting employment, ensuring people do not drop out of the labour market and improving efficiency boosts labour supply and maintains flexibility. Such efforts also help increase fiscal space.

The economic policy should be designed with a long-term considerations in mind and preserve high living standards and equity.

To avoid substantial adjustment costs and high structural unemployment, the scope of the welfare state must align with income levels. The government follows to the fiscal rule for expenditure of funds from the Government Pension Fund Global, ensuring stable public expenditures and taxes over time.

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