

# NORWAY

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Norwegian Krone (NOK)**

### POPULATION AND GEOGRAPHY

AREA: **304 246** km<sup>2</sup>

POPULATION: **5.137** million inhabitants (2014), an increase of 1.2% per year (2010-14)

DENSITY: **17** inhabitants/km<sup>2</sup>

URBAN POPULATION: **80.2%** of national population

CAPITAL CITY: **Oslo** (19% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **337.1** billion (current PPP international dollars) i.e. 65 613 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **10 586** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **28%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.944** (very high), **rank 1**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>428</b>	-	<b>18</b>	<b>446</b>
MUNICIPALITIES (KOMMUNER)		COUNTIES* (FYLKER)	
AVERAGE MUNICIPAL SIZE: <b>12 185 INHABITANTS</b>		* Excluding Oslo	

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Norway has a two-tier subnational government system, composed of municipalities and counties with no hierarchical link and which carry equal rights and responsibilities. The city of Oslo is both a county and a municipality. Norway has implemented several policies aimed at merging municipalities whose number was reduced from 744 in 1957 to 428 today. A new process of voluntary municipal mergers was launched in 2014 and will continue until 2017, 52% of municipalities still have less than 5 000 inhabitants. A similar process is on-going at the regional level and a committee of experts was recently appointed to analyse the new regional map resulting from regional consolidation (approximately ten new regions could be created in 2020). Central government is directly represented at the local level by the office of the county governor.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Local Government Act of 25 September 1992 sets the basic legal framework for local and regional government. Several reforms took place recentralising (hospitals in 2001) or decentralising some functions (regional development and spatial planning for the counties, health and social care for municipalities in 2003 and 2010). Currently, municipal functions include education (pre-school, primary and lower-secondary schools), health and social care (care for the elderly, disabled and children, social services, primary health care, housing support, etc.), local roads, utilities (water supply and sewerage, waste), local town planning, environmental protection, culture, firefighting, etc. County responsibilities include regional planning and development, roads and public transport, upper-secondary education, dental health, culture, environmental protection, etc. Spending autonomy is limited for social welfare, health and education sectors which are closely scrutinised by the central government. A possible reshuffle of tasks across the different levels of government may be undertaken in the framework of the current municipal and regional reforms.

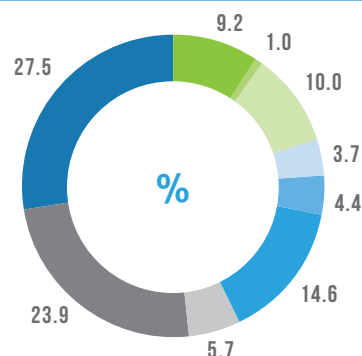
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL EXPENDITURE (2013)</b>	<b>15.0%</b>	<b>34.1%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	13.2%	-	88.0%
<b>STAFF EXPENDITURE</b>	7.7%	56.8%	51.5%
<b>INVESTMENT</b>	1.8%	41.7%	11.7%

The level SNG expenditure in GDP and total public spending is below the OECD average (16.6% of GDP and 40% of public spending) but above the average of OECD unitary countries (13.4% of GDP and 29% of public spending). The share of SNGs in public staff spending is particularly high (10 points higher than OECD unitary countries on average) while their role as public investors is generally more limited than in the OECD. However, the level of SNG investment in GDP is in line with the OECD average (1.9%).

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The main categories of SNG spending include social protection, education, health and economic affairs/transport. For the municipalities, primary areas of expenditure are in the social sector and health (52%), primary schools (23%) and water supply and treatment. In comparison, half of county expenditure is allocated to education and an additional quarter to roads and transportation.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	14.3%	25.7%	100%
TAX REVENUE	5.3%	17.1%	37.3%
GRANTS AND SUBSIDIES	6.5%	-	45.6%
OTHER REVENUES	2.4%	-	17.2%

The financing structure of Norwegian SNGs is very similar to that of the OECD on average, where grants and subsidies represented 37.6% of SNG revenue and taxes 43.8% in 2013. Regarding levels of SNG, counties are more dependent on grants and transfers than municipalities which rely more on tax revenues. Changes to SNG financing are planned in the framework of the current territorial and institutional reform.

**TAX REVENUE.** The share of SNG tax revenue in GDP and public tax revenue is in line with the average of the OECD of unitary countries. The primary source of tax revenue (88% of SNG tax revenue) is a share of income tax, raised both by counties and municipalities. It is based on the "ordinary income" of the PIT from incomes of those residents within their jurisdiction. A maximum tax rate for each level of government is decided annually by the Parliament. Other municipal taxes include a wealth tax (also shared with the central government) and a property tax while counties raise a tax on natural resources paid by companies operating in the energy sector. The property tax is an optional tax (in 2013, 77% of municipalities had introduced it) at rates ranging from 0.2% to 0.7% of the assessed value of the property. Municipalities have significant leeway regarding tax base, rates and methods of calculation. In 2013, it represented 11% of SNG revenue and 0.6% of GDP.

**GRANTS AND SUBSIDIES.** The central government system of transfers comprises both block and earmarked grants. The General Purpose Grant Scheme is a major source of revenue for SNGs (created in 1986, it replaced some 50 earmarked grants). The system includes both the grants and the tax equalisation. Tax receipts from PIT, wealth-tax revenue and natural resource taxation are redistributed between SNGs according to a formula-base, including demographic criteria. The system takes account of both structural cost differences (expenditure equalisation) as well as differences in tax revenues (income equalisation). Special grants are also available, such as rural grants, grants for small municipalities, urban grants, VAT compensation fund, discretionary grants which are granted in specific circumstances.

**OTHER REVENUES.** Revenues from service fees and charges represented 13% of SNG revenue in 2013 (water, sewage, garbage collection, day care, etc.) and those deriving from property income, 4% (interest, dividends, sales of assets), which is significant by international standards and related to SNGs links with power companies.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	14.8%	42.5%

Since 2001, both municipal and county level governments that meet the balanced budget requirements are allowed to borrow in order to finance capital expenditure only (golden rule). Those that do not meet requirements must follow special approval processes by the county governor or the Ministry of Local Government and Modernisation in order to make lawful decisions about borrowing and long-term leases. These municipalities are listed in a specific register (ROBEK, *Register for Governmental Approval of Financial Obligations*). In September 2014, 54 municipalities out of 428 were listed on this register. The debt-to-GDP ratio of Norwegian SNGs is in line with the OECD average of the unitary countries (15.1%). However, the share of SNG debt in public debt is significantly higher (12%), which is also explained by the low level of overall public debt. In 2013, SNG outstanding debt was made up of loans (63%), bonds (24%) and other accounts payable (13%). Kommunalbanken Norway (KBN), a 100% owned State government funding agency created in 1926, provides loans to the SNG sector with attractive conditions (around 50% of market share).

A joint study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2016) OECD Economic Surveys: Norway 2016 • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Borge L-E. (2016) Welfare services in Norwegian local governments: Has decentralization come to an end?, in J. Kim, J. Lotz and N.J. Mau (Eds.) Decentralization of education, health and social protection: Issues and challenges, The Korea Institute of Public Finance and the Danish Ministry of Economic Affairs and the Interior • Council of Europe (2015) Local and regional democracy in Norway, CG/2015(28)5PROV • Norwegian Ministry of Local Government and Modernisation (2013): "Local Government in Norway".