



Budget Day 2018: The Highlights



National Budget Day

- In the first week of October, His Majesty the King of Norway officially opened the legislative session of the Parliament with his Throne Speech. The King's Speech expresses the main positions of the Government's policy for the coming year. The speech was followed by the “throne debate” – a political debate where the Government defends its overall policies before the opposition.
- The State Budget Day took place on October 8, 2018. The budget proposal was presented by the Minister of Finance, Siv Jensen, before the legislators at the Parliament.
- The presentation of the budget will be followed by a cycle of parliamentary hearings and debates on the budget, which will last until mid-December.

The Speech from the Throne – Key highlights

The speech presented six key challenges for Norway:

- The restructuring of the Norwegian economy to create new jobs and ensure diversification of the economy.

- Fulfil Norway's climate commitments to take responsibility for combating climate change.
- Create an inclusive labor market, and invite employers to take part in a collective national effort to recruit more people who are currently excluded from the labor market
- Sustain a robust welfare system at a time when the proportion of elderly people in the population is increasing
- Reduce poverty through allowing a larger share of the population into the labor market as a way for people to increase their incomes and improve their wellbeing.
- Significantly strengthen efforts to promote integration and have immigrants participate fully in Norwegian society, both in their local and wider communities.

The National Budget – Key Elements:

- The National Budget aims to **secure a sustainable welfare society and a healthy, stable economy.**
- The Government's economic policy is based on the premise that wealth needs to be created through high labor utilization and high productivity before it can be shared.
- The downturn that followed from the fall in oil prices in 2014 has ceased and the **country is experiencing an economy in a cyclical upturn.**
- The **growth in the mainland economy is forecasted to be 2.3% this year and 2.7% next year.**
- **Unemployment is projected to decline from 3.8% this year to 3.7% next year.**
- **Spending of petroleum revenues is estimated at NOK 231.2 bn.** This is equivalent to 2.7% of the capital in the Government Pension Fund Global at the beginning of 2019.
- The Norwegian economy will be strengthened by prioritizing measures promoting economic growth and higher productivity through programs to foster entrepreneurship and digitalization.
- To reach climate goals, and to facilitate growth and employment in sectors exposed to international competition, the **Government will increase its support of sustainable energy solutions, such as wind, hydrogen, as well as efforts on carbon capture and storage (CCS).**
- The government **will invest more in hospitals, effective treatment and quality of elderly care.**
- In line with the Government's long-term defense plan, the budget plan allocates greater funding for the Armed Forces. **Norway aims to further strengthen its bilateral defense agreements with the US Armed Forces.**
- The **foreign aid budget will be increased to 1% of GDP**, providing support for common solutions to global challenges.

The Governments fiscal policy in 2019 – Key Figures

- NOK 285.8bn estimated net cash flow to the Government Pension Fund from petroleum activities.
- The real, underlying growth in fiscal budget expenditure from 2018 to 2019 is estimated at 1.3%, well below projected real GDP growth in the mainland economy. In nominal terms, expenditure is projected to grow by 4.0%.
- The consolidated surplus of the Fiscal Budget and the Government Pension Fund, including NOK 225.7 bn in interest and dividends, is estimated at NOK 279.0 billion.
- NOK 277.3bn estimated government financial balance, equivalent to 7.6% of GDP.
- NOK 8,700bn estimated market value of the Government Pension Fund Global at the end of 2018, and NOK 9,195b at the end of 2019.
- Defense spending has increased from NOK 55 to 59 bn (1.6%of GDP).

Potential Impact on Business?

- Corporate and personal income tax is reduced from 23% to 22%.
- For companies subject to financial tax, a rate of 25% is maintained.
- The government suggests reversing the sugar tax introduced in the 2018 state budget on chocolate and confectionaries but maintaining the taxation on non-alcoholic beverages. The government will establish a working group to come up with recommendations on a future tax regime on food and beverage.
- The contested **NOK 350 de minimis level on shipments from abroad remains.**
- NOK 40m extra for the health data analysis platform is important for the development of precision **pharmaceuticals** and genetically-guided development of new drugs.
- As of 2019, **hotel and restaurant** employers will be liable to report tip income, deduct taxes and pay employees' national insurance contributions.
- Increased **air passenger duty** on long haul flights: from NOK 80 to NOK 200.
- NOK 59bn allocated to the defense budget, an increase of 7.3% from NOK 55bn in 2018. This is roughly 1.8% of the total GDP.
- Norway will take on a leading role in the battle for clean oceans and the fight against marine litter by increasing its aid program by NOK 250m from 2018 to NOK 400m.
- Reducing the electricity tax by NOK 0.01 per kilowatt hour.
- NOK 747m to important public transportation projects in the four largest cities.
- NOK 150m for next generation mobile broadband and better mobile service in Norway.

- A change to interest limitations and corporate tax residency rules was proposed to curb profit shifting and base erosion, aiming to restrict profit shifting strategies and thereby level the playing field for national and multinational businesses. This is in line with several EU countries that have implemented similar tax rules to comply with the EU's Anti-Tax Avoidance Directive. The proposal implies that companies incorporated in Norway, and foreign companies performing effective management in Norway, will be deemed residents in Norway and liable to pay tax on their worldwide income.

Annex

Agenda - Planned

- Budget Day: October 8
- Alternative budgets from the opposition parties: October – November
- Committee hearings: October 15 – October 25
- Committee propositions and deliberation deadline: November 30
- Parliament votes on budgets: December 15

Agenda – Expected dynamics

- The current government coalition – comprised of the Conservative Party, the Progress Party and the Liberal Party – is dependent on support from the Christian Democratic Party. The Christian Democrats, who have supported the past five national budgets, are noncommittal. Their party leader, Knut Arild Hareide, has announced that they will clarify their future political direction this fall. He seeks to establish formal cooperation with Labor and the Centre Party, whereas his deputy leaders prefer to negotiate an agreement with the current government. The internal debate in the Christian Democratic Party is therefore likely to prolong the budget process until the end of the year.
- The Christian Democrats' National Congress could decide to support Hareide's recommendation to form a centre-left government, causing a vote of no confidence in Parliament and force the Government to step down. Negotiations within the centre-left for a new government platform is then likely to take place. Conversely, if the party should arrive at a decision to enter talks with the centre-right, they would enter negotiations on the 2019 National Budget first and likely with the current government shortly after.
- At this point, we believe one of the following three Government structures will take shape after this fall:
 1. A Conservative-led four-party majority coalition where the Christian Democrats enter the current government.
 2. A Labor-led three-party minority coalition with the Christian Democrats, the Centre Party and Labor with support from the Socialist Left Party.
 3. Status quo – given that the Christian Democrats choose neither, or that any potential negotiations does not lead up to any agreement.

This update was prepared by [Hill+Knowlton Strategies](#), in collaboration with AmCham Norway.

Hill+Knowlton Strategies is hosting a “Budsjettlunsj” with the Minister of Finance, Siv Jensen, on Friday, October 12th. AmCham Members are welcome to attend this event. Please find additional information [HERE](#).

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