Norwegian fiscal policy

07 October 2026

Budget broadly neutral for growth and Norges Bank

The government's budget proposal for 2027 implies a further increase in petroleum revenue spending to NOK 608bn. Due to continued growth in the oil fund, spending is unchanged at 2.7% of GPFG. The fiscal impulse is estimated to be marginally expansionary, though underscoring that overall fiscal demand impulses will ease in coming years. The budget proposal appears broadly in line with Norges Bank's expectations and is thus unlikely to materially alter the near-term monetary policy outlook. Complicated negotiations await as the minority government needs support from four left-wing parties for its budget to be passed in Parliament.

Overall conclusions: The 2027 budget proposal is broadly neutral from a fiscal-policy perspective and largely in line with expectations. The government signals some restraint, although petroleum revenue spending continues to rise. However, strong growth in the GPFG means spending will remain at 2.7% of the fund's value. The Ministry of Finance's macro models show a marginally positive contribution of 0.1-0.2ppt to mainland GDP. Considering that the government outlines a rather healthy economy with solid growth, low unemployment and still-high wage growth, one could argue that more restraint would have been desired. Broad-based tax cuts will underpin economic activity (and inflation), implying that fiscal policy will remain a complicating factor for Norges Bank. That said, spending appears broadly in line with Norges Bank's expectations and is thus unlikely to materially alter the near-term monetary policy outlook.

The minority government needs support from four left-wing parties for its budget to be passed in Parliament. This will likely increase petroleum revenue spending slightly beyond what is estimated in this proposal. An amended budget will likely be approved by mid-December latest.

Tax reforms: The budget proposal includes several tax adjustments. The government proposes personal tax reliefs in total of NOK 6.4bn by increasing the basic allowance and reducing social security contributions, providing broad-based support to households. The tax breaks in VAT related to electrical cars will be further scaled back, with the benefits scheduled to be fully phased out by 2028. This will help finance the income tax cuts. Subsidies related to the fixed-price electricity scheme "Norgespris" will continue, although the fixed-price will be increased marginally (from 0.40 to 0.45 NOK ex. VAT), still cushioning Norwegian household from high and volatile electricity prices. The budget proposes to raise the wealth-tax exemption threshold while maintaining the tax rate unchanged at 1% up to NOK 21.5mn in wealth and 1.1% on wealth above this.

Fiscal position: Norway's fiscal position remains outstanding. The budget proposal puts the overall surplus at NOK 508bn in 2027, down from NOK 664bn in 2025, which corresponds to 8.6% of GDP. Excluding petroleum income, the government is running a deficit. The non-oil budget deficit is estimated to increase markedly by NOK 107bn to 562bn in 2027. In relation to mainland GDP, the non-oil budget deficit is estimated at 11.6% in 2027 vs. 9.9% in 2026.

Fiscal impulse: The structural non-oil budget deficit (i.e., actual petroleum revenue use) is estimated at a record high NOK 608.4bn, up from 583.4bn in 2026 (which has been lifted by NOK 4.4bn from the revised budget). Hence, the government plans to increase petroleum revenue spending by NOK 25bn next year, though measured in 2027-prices the increase is a more modest 4.9bn. This includes a support package to

Ukraine of NOK 85bn which is unchanged from 2026. The fiscal impulse (i.e., the change in the structural deficit from one year to another) is estimated at 0.0ppt of trend mainland GDP vs. 1.1% in 2026. The Ministry of Finance thus concludes that the budget is "broadly neutral", though its macro models suggest a slightly positive fiscal contribution of 0.1-0.2ppt.

Spending in relation to the fiscal policy rule: The fiscal policy rule states that petroleum revenue spending should equal the expected real return of the GPFG over a full cycle, set at 3%. The budget proposal puts spending at 2.7% of GPFG in 2027, unchanged from 2026. Considering optimistic growth projections and long-term challenges (e.g., demographics, increased spending related to demographics, defense and climate) spending should be well below the 3% rule. Moreover, increases in the oil fund's value have been very large in recent years. In the start of 2027, the size of the GPFG is estimated to NOK 22400bn, an increase of 1100bn from 2026. The large increases in GPFG explain why fiscal spending, measured as the structural non-oil budget deficit, remains below the 3%-rule while spending has increased significantly in NOK amounts. To wit, funding from the GPFG is estimated to account for 26.6% of the budget and has increased markedly over the past years and stood at 21.5% in 2023.

Net cashflow from petroleum and oil prices: The government estimates net cashflow from petroleum (i.e., direct and indirect taxes, income from direct holdings and dividends) petroleum revenues of NOK 568.4bn in 2027, down from 670.6bn in 2026. Such income has gradually declined from the peak in 2022 when gas prices were historically high. Of the estimate for 2027, 58% is derived from petroleum taxes, 38.2% from the States Direct Financial Interest (SDFI) and 3.8% from dividends from Equinor. More specifically, petroleum taxes are estimated to decline by NOK 30bn to 359bn in 2026. Estimated income is based on an assumed average Brent oil price of NOK 803/bl (or 85 USD/bl) this year and NOK 703/bl (75 USD/bl) in 2027 as well as a gas price of 5.4 and 4.1 NOK/Sm3 in 2026 and 2027, respectively.

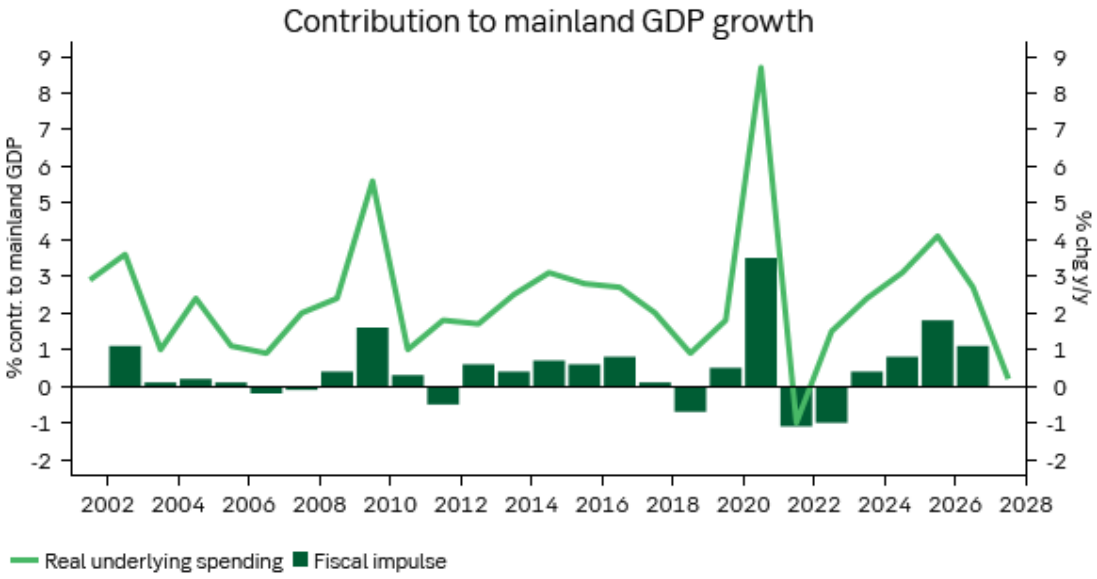
Transfer to GPFG: Transfers to the GPFG were record-high in 2022-2023 owing to surging petroleum income, which has more than compensated for the large withdrawals during the pandemic. Transfers have moderated in recent years, and the government estimates a significantly smaller transfer of NOK 6.7bn in 2027 vs NOK 215.8bn in 2026. Meanwhile, income from the GPFG (e.g., interest rates and dividends) is expected to increase from NOK 460.2bn in 2026 to 515bn in 2027.

NOK purchases: As excess income is transferred to the GPFG and invested abroad, the government via Norges Bank is exchanging NOK-denominated petroleum income to FX before transferring income to the GPFG. However, petroleum revenues (which are used to fund the non-oil budget deficit) are denominated in both NOK (petroleum taxes, dividends from Equinor) and in FX (SDFI). What matters regarding the calculation of FX purchases is the non-oil budget deficit, not the structural one. There has been a large gap between the two deficits in recent years, explained by the trend/structural adjustments. For 2027, the non-oil budget deficit increases by NOK 106.9bn to 561.7bn. Hence, the actual need for NOK will increase relative to 2026. Meanwhile, petroleum tax income is expected to fall by NOK 30bn to 359bn. A simple equation by the budget proposal data suggests that there will be a need to buy NOK in the market to fund the deficit next year. In 2026, the budget also showed a NOK-buying need (which has then turned to NOK-selling due to higher petroleum tax income). As a comparison, revised 2026 numbers based on the new budget numbers imply an annual NOK need of approx. NOK 75bn in 2026 and 210bn in 2027.

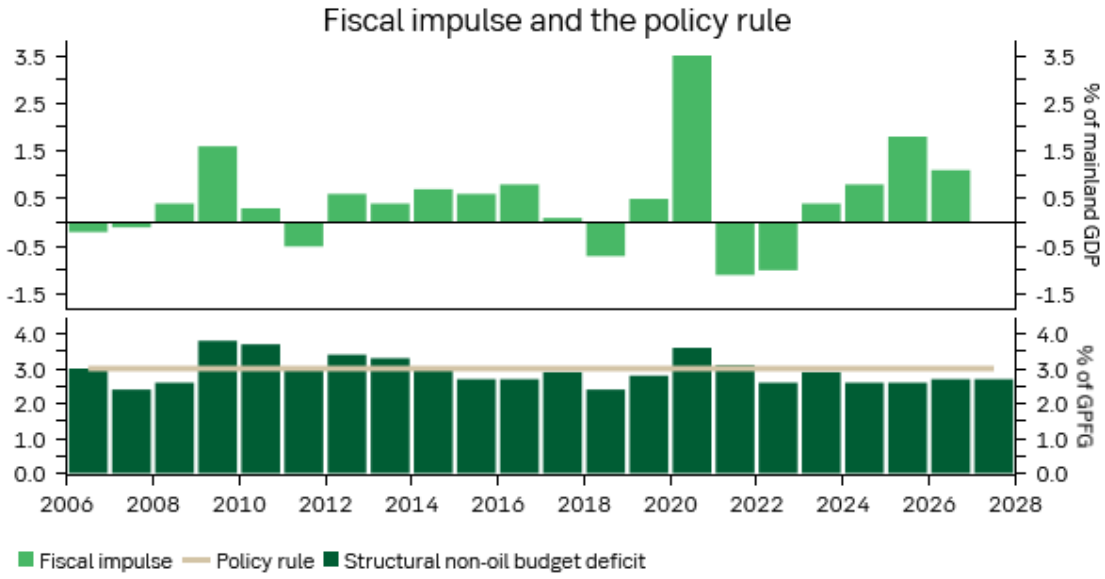
NST borrowing: The structural non-oil deficit is always covered via a transfer from the GPFG, as issuance of government bonds is only allowed for funding of government lending schemes and to cover maturing existing debt. The borrowing requirement has been trending higher in recent years due to the maturity

profile implying larger refinancing needs. However, the government seeks to avoid large swings in borrowing from year-to-year which is why Norges Bank has funded part of the increase by drawing on the government's cash reserves. Since 2025, Norges Bank's supply estimate has exceeded the underlying borrowing requirement with the aim of building up the cash reserves. For 2027, the underlying borrowing requirement is estimated to NOK 93.6bn vs. 95.7bn in 2026. And the Ministry of Finance states that a desire to maintain relatively stable borrowing from year to year could imply higher issuance than suggested by the requirement. Meanwhile, the government's borrowing mandate in long-term debt is increased by NOK 50bn to NOK 200bn, providing greater flexibility and allowing for a potential increase in its own holdings. Overall, the budget proposal points to stable bond supply at around NOK 110bn, with risks tilted towards a modest increase.

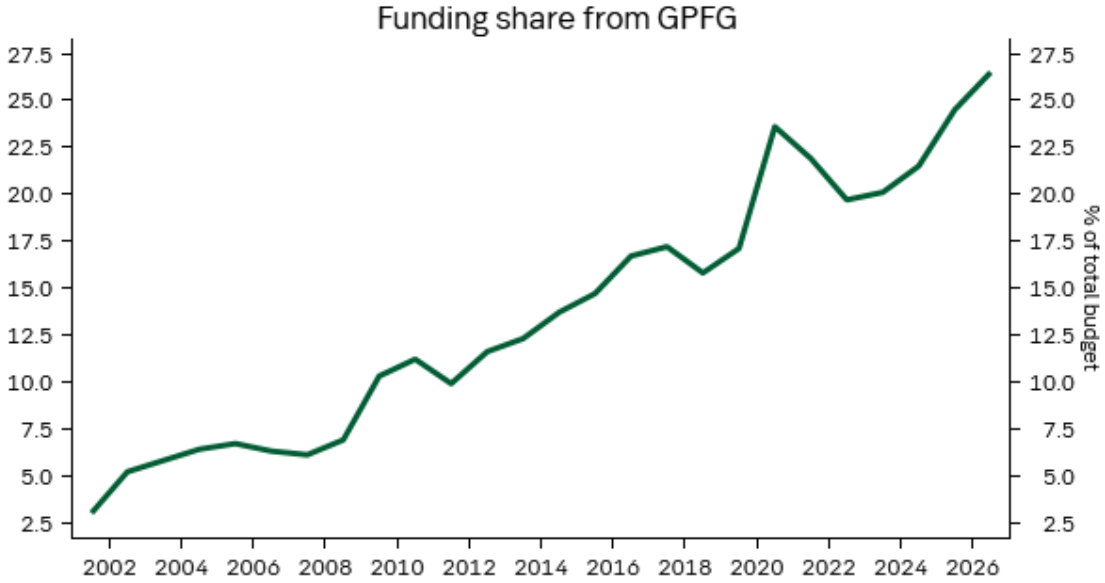
Macro projections: The government presents a positive outlook for the Norwegian economy, despite global uncertainty as well as rising domestic price growth and interest rates expectations over the past six months. Mainland GDP growth has been revised down to 1.1% in 2026 and 1.7% in 2027 but remains above Norges Bank's forecast of 0.9% and 1.0%, respectively. The government's forecast for household consumption differs notably from Norges Bank's: the government projects growth of 1.4% in 2026 and 1.8% in 2027, compared with Norges Bank's 0.8% and 2.6%. A higher wage growth forecast helps explain the government's stronger consumption outlook this year: it expects annual wage growth of 4.6% in 2026, versus Norges Bank's 4.4%. Norges Bank forecasts wage growth of 4.0% in 2027. The government also expects somewhat more persistent underlying inflation, with CPI-ATE unchanged at 3.1% in 2026 before easing marginally to 2.8% in 2027, this is 0.1ppt above Norges Bank's 3.0% and 2.7% estimates, respectively. Registered unemployment is expected to remain stable at 2.1% in the coming years. Most importantly, spending equivalent to 2.7% of GPFG is in line with Norges Bank's assumption in the Sep26 MPR. Hence, the budget proposal should not impact monetary policy near term.



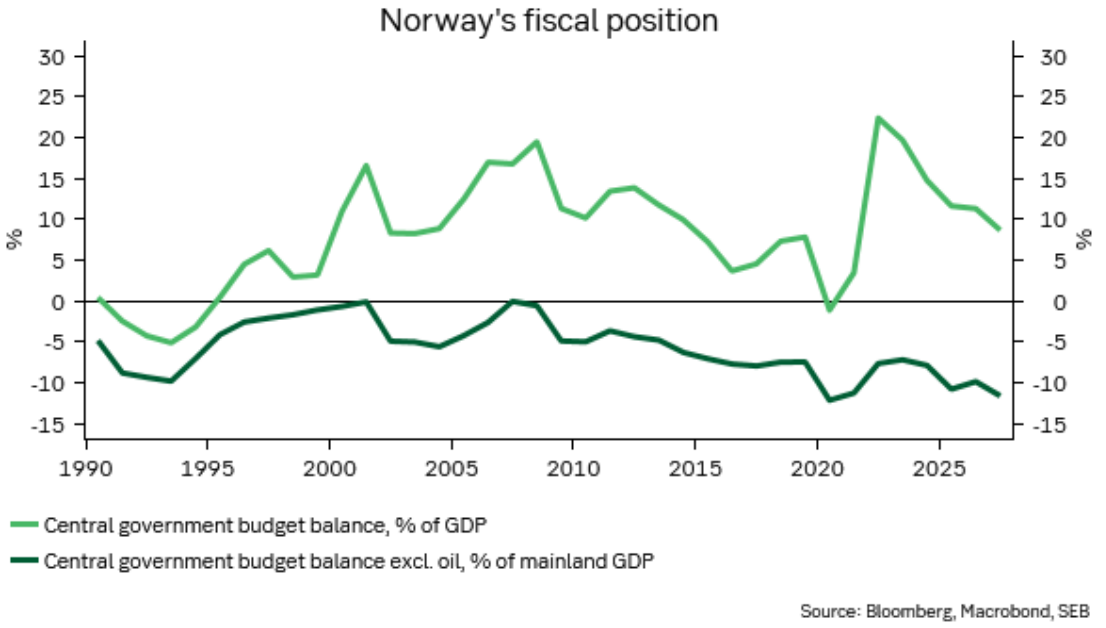
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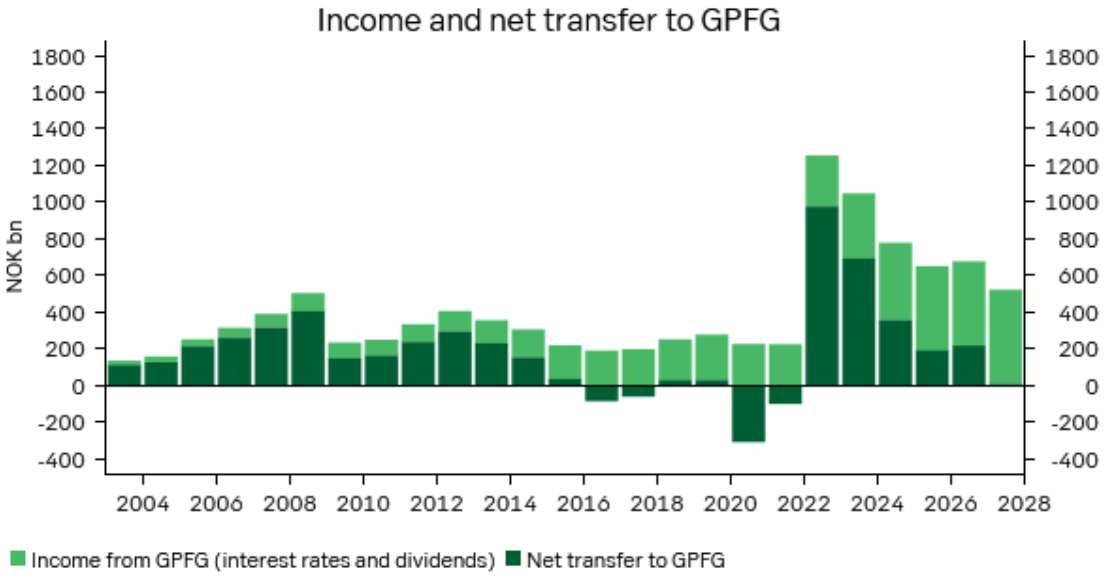
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Marthe Eide
Macro Strategist Norway
marthe.eide@seb.no
+4748115825

Erica Dalstø
Chief Strategist Norway
erica.dalstoe@seb.no
+4722827277
SEK_bonds