



Finansdepartementet

A model for fiscal policy analysis in Norway

Progress update

Presentation to Model og Metode Utvalget, May 25 2018



Progress update

- Governance
 - Project management document finalized
 - Participation from SSB
 - Participation from Norges Bank
 - Steering committee
- Modelling
 - Good progress towards development of a “baseline” model *roughly* calibrated to Norwegian data
- Next steps
 - Finalize baseline model
 - Improve calibration
 - Extensions
 - Estimation



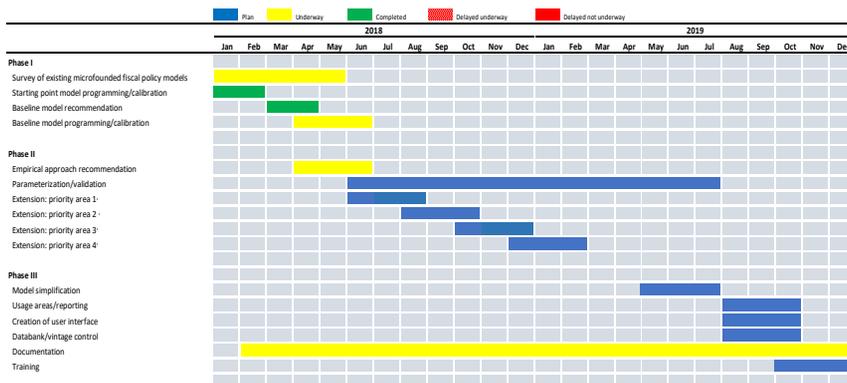
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Usage areas

What do we intend to use the model for?	What do we not intend to use the model for?
<ol style="list-style-type: none"> 1. Medium term policy analysis (2-8 years) : <ol style="list-style-type: none"> I. Macroeconomic effects of different fiscal policy instruments II. Macroeconomic effects of disturbances/shocks 2. Understand driving forces in the economy: <ol style="list-style-type: none"> i. Interpretation of historical movements in the data ii. Interpretation of drivers of forecast (from other models) of the mainland economy 	<ol style="list-style-type: none"> 1. Baseline forecast for the Norwegian economy 2. Modelling the impact of policies on trend growth 3. Long-term (10 years +) projections/policy analysis 4. Distributional impact of policy changes (?) 5. Industry-level policy analysis 6. Optimal fiscal policy

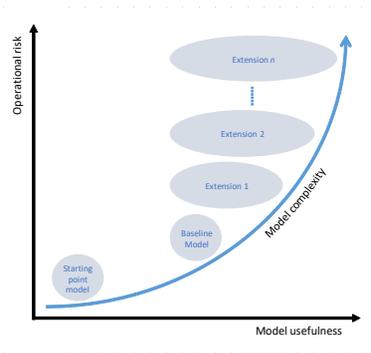
Prosjektplan



¹² The areas (and order in which) to extend the model will be decided in consultation with the project steering committee. See section 7.1 for details.

Development of a “baseline” model

- The “baseline” model satisfies (but does not exceed!) the minimum requirements of the Ministry of Finance
- Intermediary step between “starting point model” and “target model”
- Goal to reduce operational risk by ensuring project has multiple “exit” points



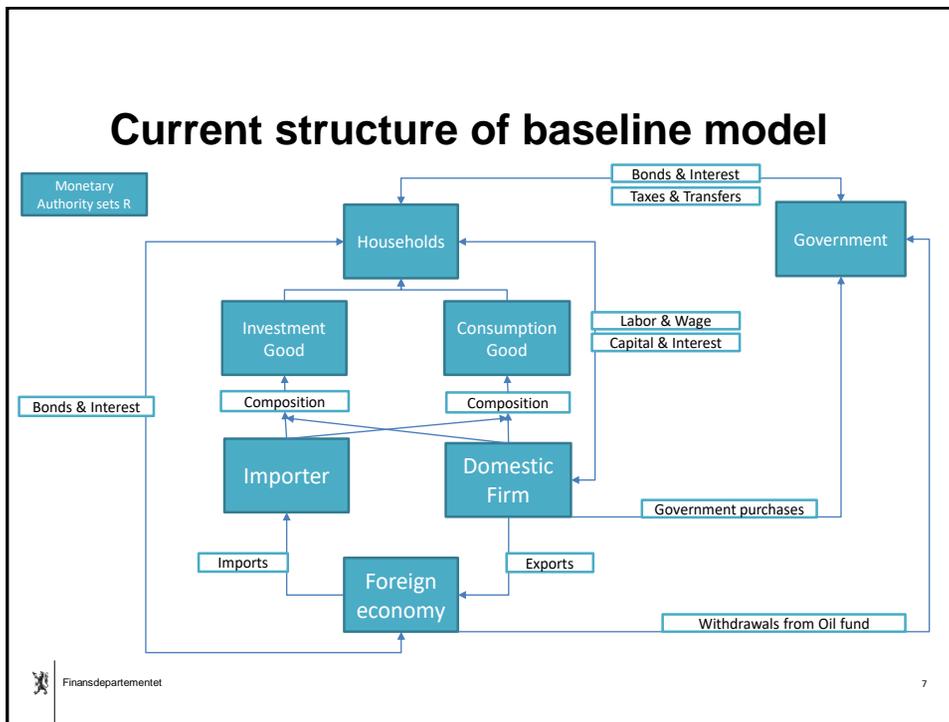
What are the characteristics of the the “baseline” model?

Baseline model

- Standard small open economy DSGE model
- Rule of thumb households
- Fiscal block:
 - Distortionary taxes on persons (ordinary income, social security, surtax on labor income), corporates (social security, profits), and indirect taxes (VAT, custom duties)
 - Government consumption, investment, and transfers
 - Public employment
 - Exogenous oil fund withdrawals
- Exogenous foreign sector
- Unemployment
- Calibrated to Norwegian data

Possible extensions

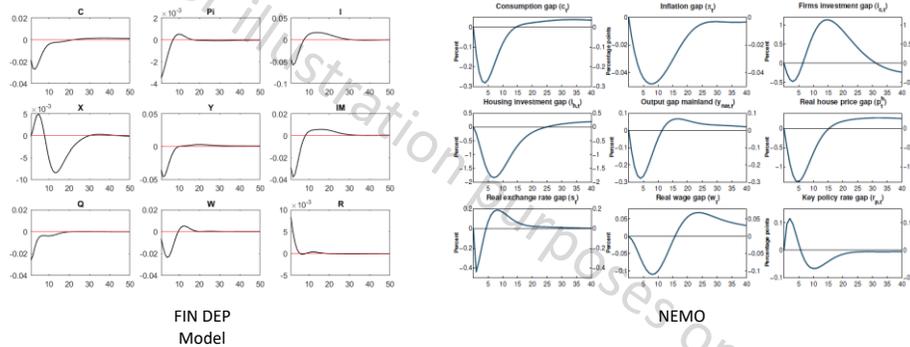
- More realistic modelling of the household sector
- More realistic modelling of wage formation in Norway
- Non-tradable sector
- Labor force participation
- Alternative mechanisms for expectations formation
- Semi-structural foreign sector
- A more realistic fiscal rule
- Estimation



Further details

- Households:
 - Ricardian and rule of thumb
 - Habit persistence
 - Set wages subject to adjustment costs
 - Involuntary unemployment
- Firms:
 - Domestic firms and importers
 - Price adjustment costs
- Government:
 - Distortionary consumption, labor, and capital taxes
 - Government spending = purchases from private sector + public employment + transfers

Monetary policy shock



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Topics for discussion

- Does the MMU have comments on the proposed usage areas for the new model?
- Does the MMU have comments on the design of the “baseline model”
- Does the MMU have comments on what extension should be prioritized, and suggestions for extensions that we have not thought of?

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Thank you

