

# The Norwegian Economy

NORINT0500 - Norwegian Life and Society

Hilde Karoline Midsem  
16.10.17

# Outline of today's lecture

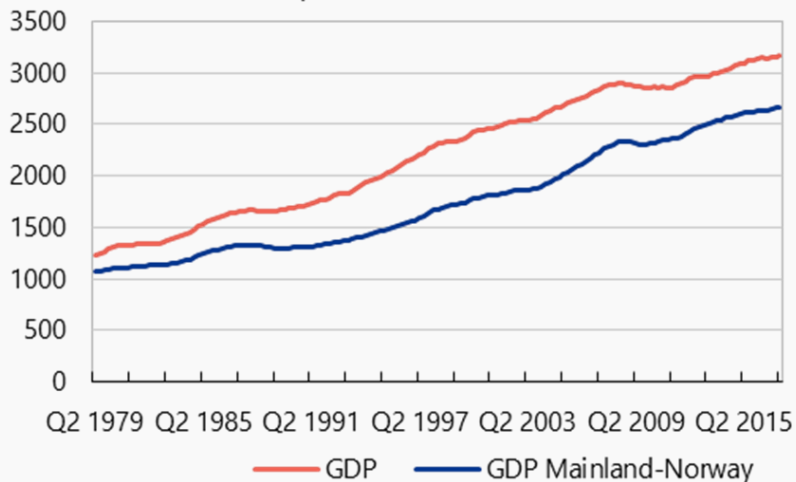
1. **Current economic situation**
2. **Production, trade and the oil history**
3. **The labor market, standard of living and the public sector**
4. **Future challenges for the Norwegian economy**

# Norway: A wealthy nation

## 13% of GDP from petroleum sector 2016

### Norway: GDP

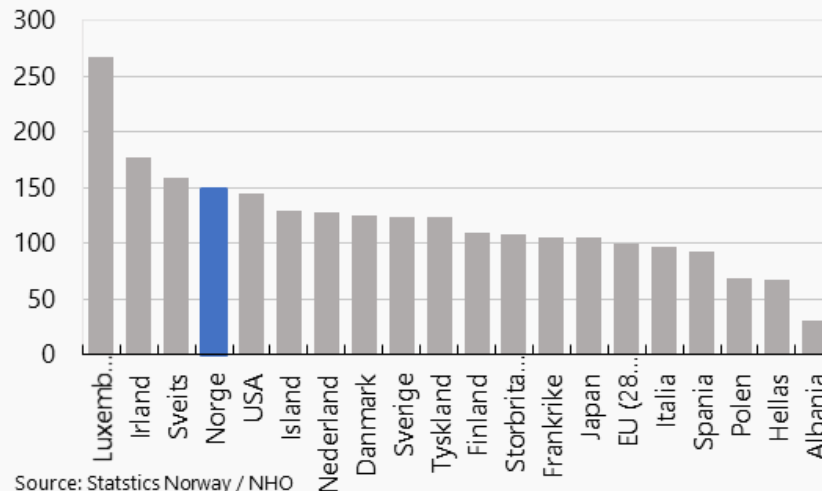
NOK 2014-billion. Four quarter sum.



Kilde: Statistisk sentralbyrå/Thomson Datastream/NHO

### Gross domestic product per capita

2016. PPP-adjusted. EU28=100

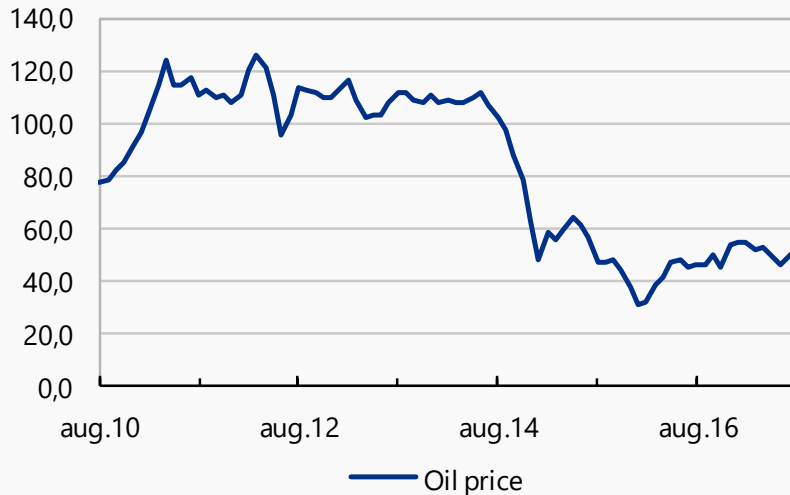


Source: Statistics Norway / NHO

# In 2014, the oil price dropped and investments in the oil sector started to decline

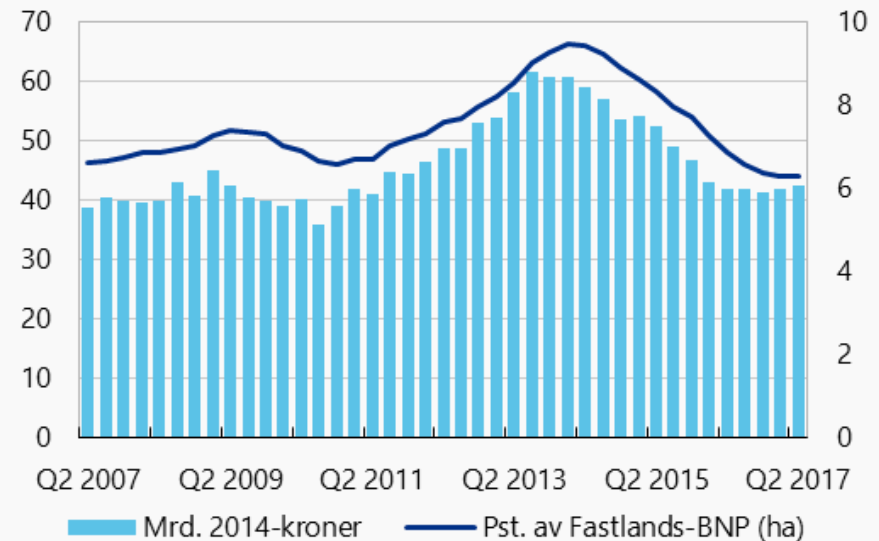
## Oil price

USD/Barrel



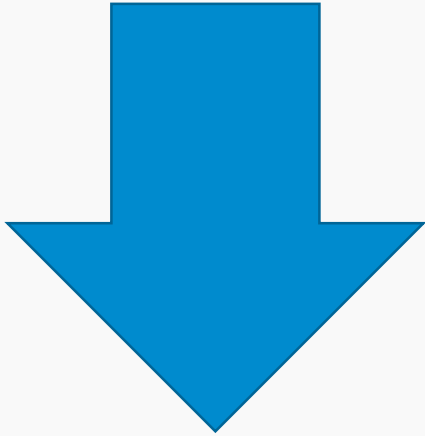
Source: Norges Bank, PPR 2017-III/NHO

## Norway: Oil investments



Kilde: Statistisk sentralbyrå/Thomson Datastream/NHO

... and many people in oil related business lost their jobs.



... A serious situation for an economy with a lot of petroleum related activity

... As a response, the government lowered the interest rate.

Housing loans got cheaper

### Interest rate on housing loans



Source: Norges Bank, PPR 2017-III/NHO

... Also, the government increased its expenditures  
 High investments in roads and buildings a.o.

**Norway: Public sector investments**

NOK 2014-billion. Four quarter sum. Pct. share





Positive effects for  
 construction industry a.o.

Source: Statistisk sentralbyrå/Thomson Datastream/NHO



# After the oil-price decline in 2014 until recently

- Oil investments 
- Oil-related manufacturing and oil-related service industries 
- Construction and in tourism-related industry went well

# Centralized wage bargaining

- LO : Largest union confederation
- NHO : Largest employers confederation
- Possible to respond quickly to cyclical changes in the economy



A modest wage growth



Modest growth in costs on salary payments for the businesses



# Low exchange rate and modest wage growth - Improved competitive ability for business

## Oil price og trade-weighted exchange rate

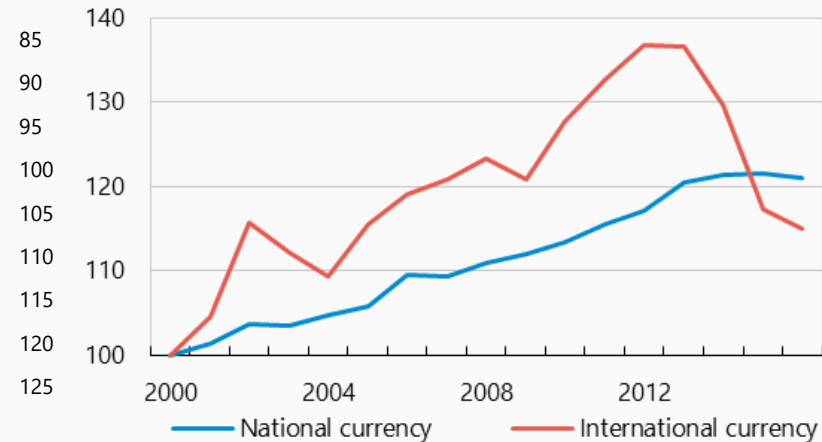
USD/barrel. Index



Source: ICE London/Thomson Datastream/NHO

## Hourly labor costs in manufacturing

Norway/Trading partners, index 2000 = 100

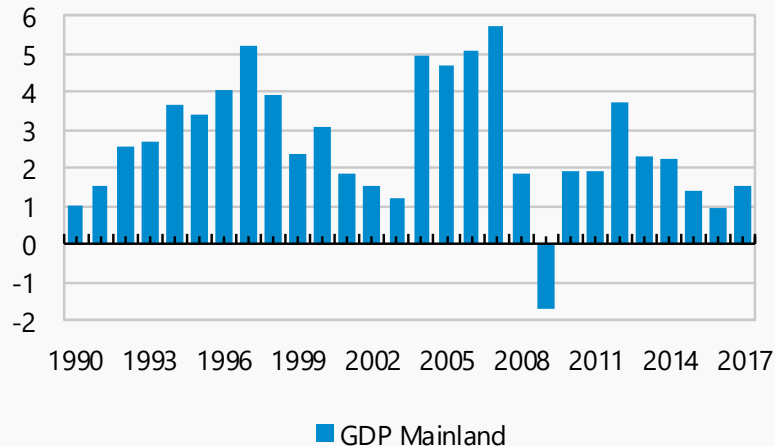


Source: TBU/NHO

# Situation has improved this year. The economic downturn that started in 2014/2015 is over.

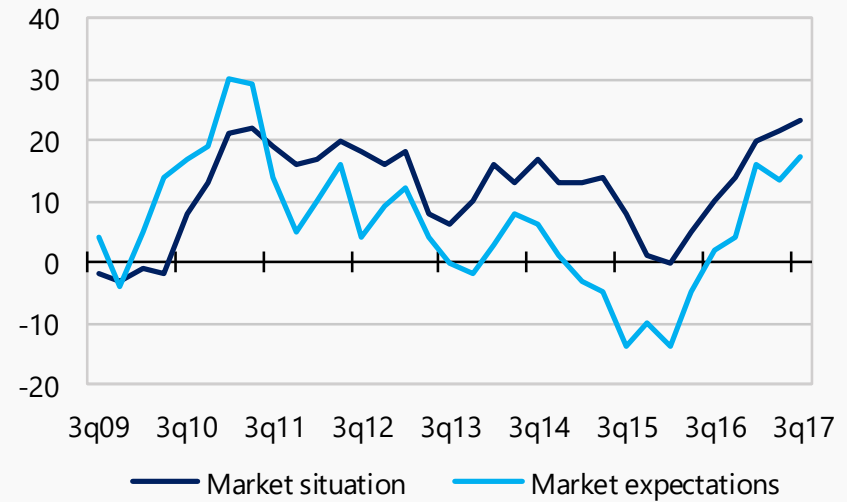
## GDP Mainland Norway

Annual percentage change



## Market index

Diff. positive and negative answers. PP



Source: Statistics Norway/NHO

Source: NHO

## **Production, trade & the history of the oil**

# Natural resources

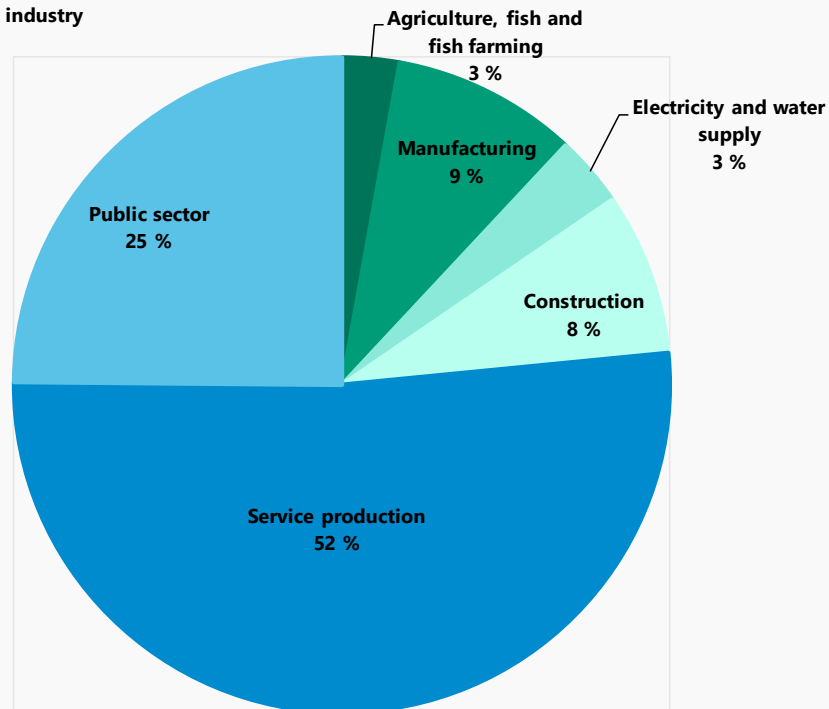
- Oil
- Fish
- Waterfalls – electricity
- Metals



# Production in Mainland Norway

**Mainland Norway: GDP by industry**

Per cent. 2016

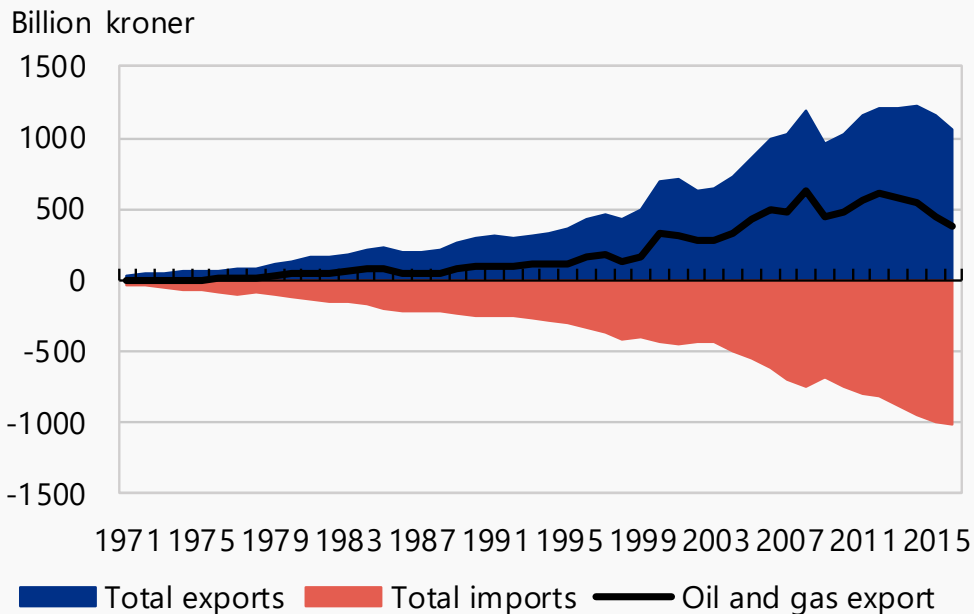


Source: Statistics Norway / NHO

# Trade is important to the Norwegian economy

## Export surplus every year since 1990

### Norway: Exports and imports

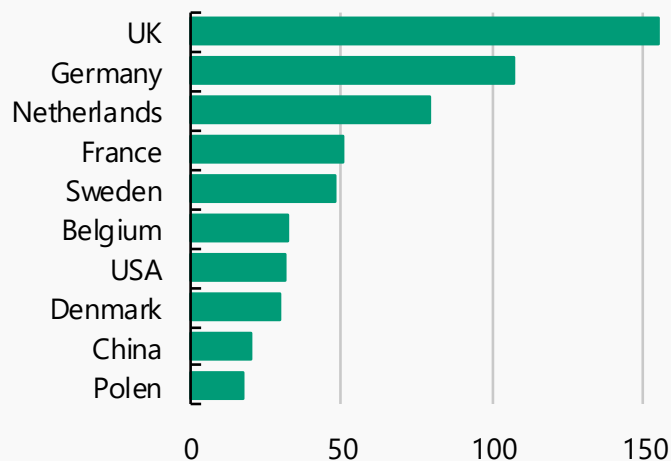




# Important trading partners: Sweden, UK, Germany and China

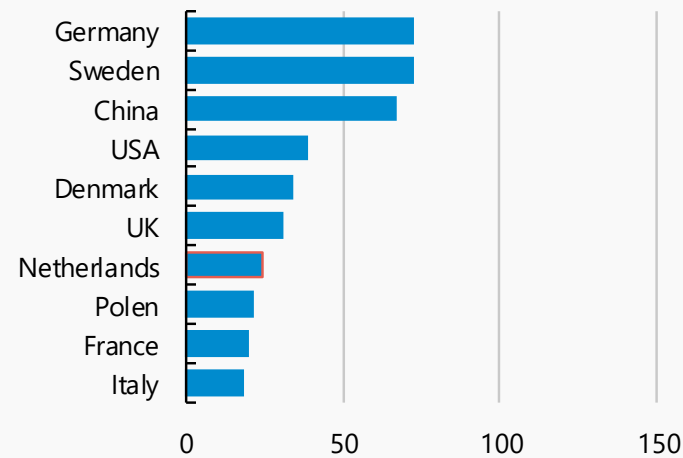
## Export: Main trading partners

Billion kroner. 2016



## Import: Main trading partners

Billion kroner. 2016



Source: Statistics Norway / NHO

# What do we export?



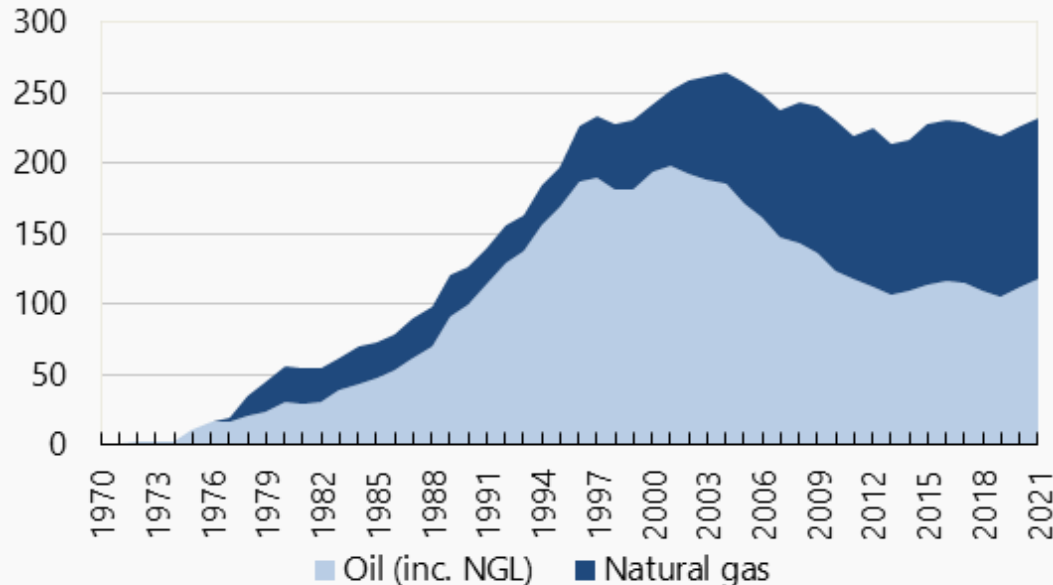
**Services**



The discovery of oil and natural gas in the late 1960s has had great impact on the Norwegian economy.

### Oil and gas production in Norway

Historical and expected. Million Sm<sup>3</sup> o.e.



# The managing of the oil resource

In 1963 Government proclaimed sovereignty over the Norwegian continental shelf

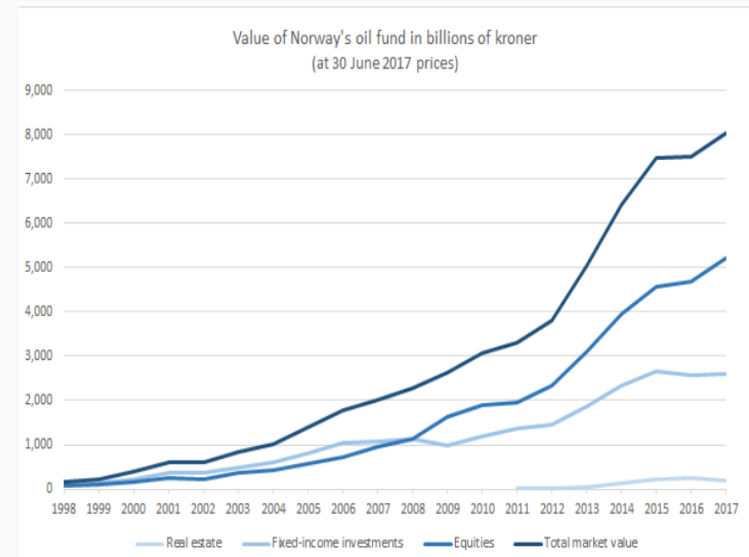
Statoil: 1972

Government aimed to build national knowledge and competence

From the beginning: Moderate extraction in order to prevent «over heating» of the economy

Question: Spending a lot of oil money – is it a problem?

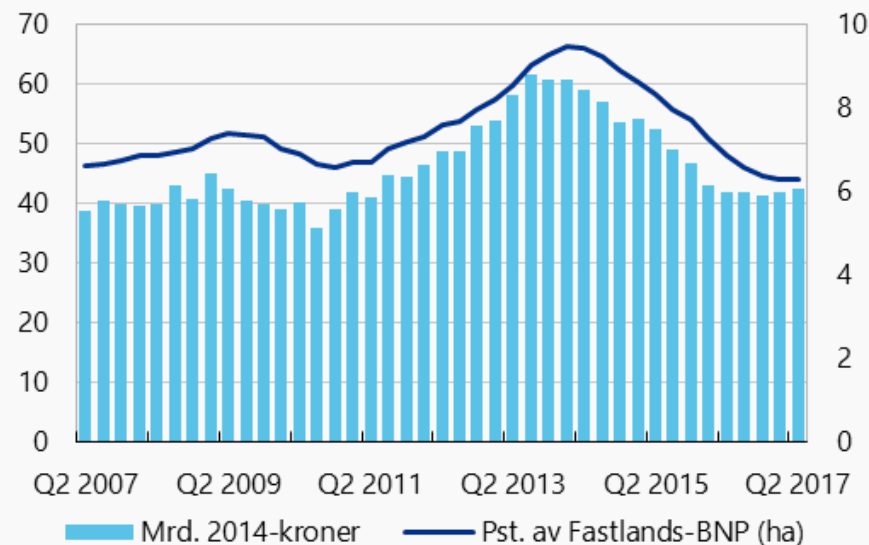
# The Oil Fund and The Budgetary Rule



# Investments in the oil sector: Important source of demand for Norwegian business

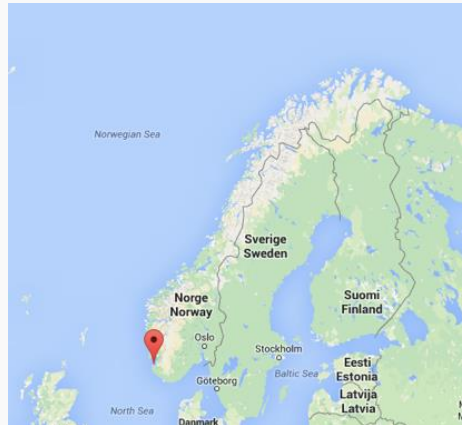


Norway: Oil investments



Kilde: Statistisk sentralbyrå/Thomson Datastream/NHO

... and industry in Mainland-Norway is an important supplier to the petroleum sector



Is this a problem?

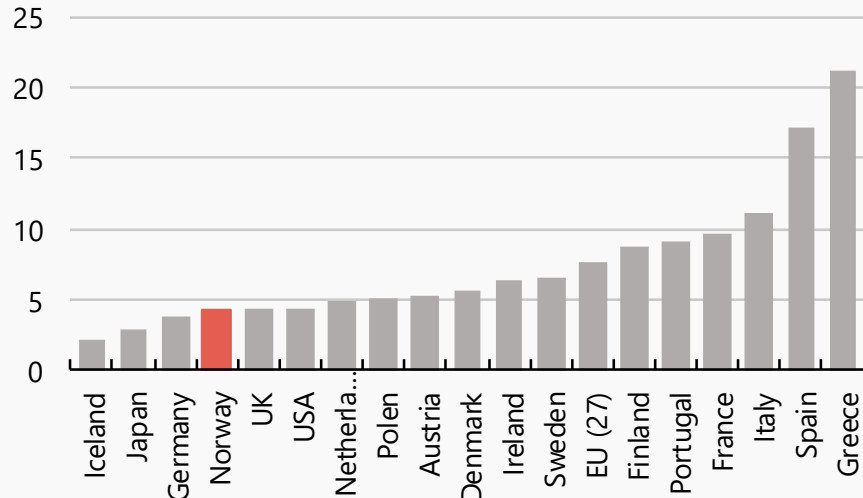


# **The labor market, household economy and the public sector**

# The labor market: Unemployment is low

## Unemployment rates

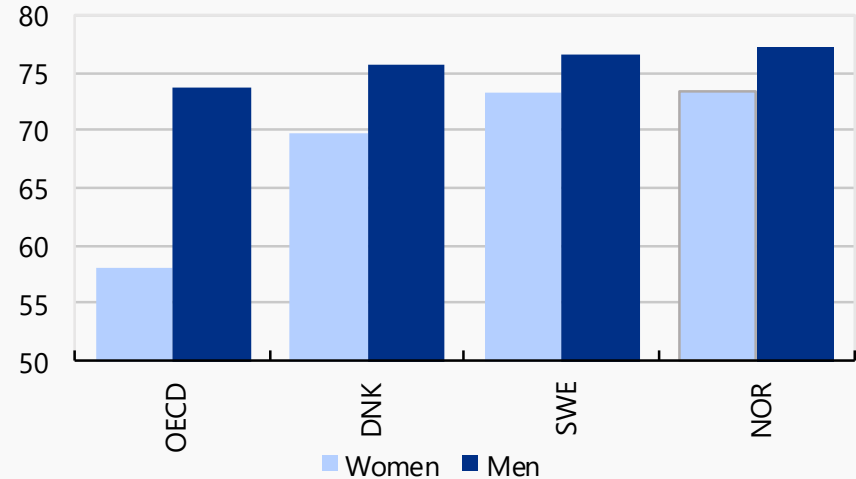
June 2017. Per cent



Source: Statistics Norway / NHO

## Employed persons

In per cent of persons 15-64 years. 2014



Source: OECD ES17 / NHO

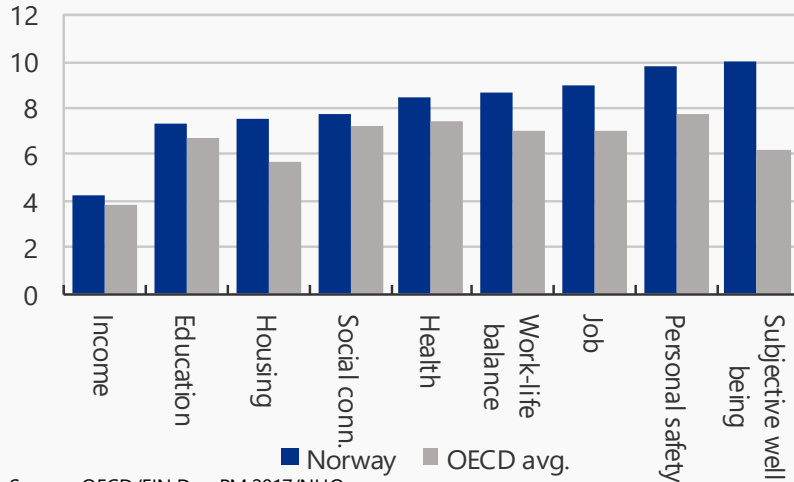
# High share of employed women

- A result of a conscious choice of the policy makers
- Subsidised day-care for children
- Paid parental leave

# Living standard is high. Income inequality is low

Scores well on «How's Life Index». High degree of trust.

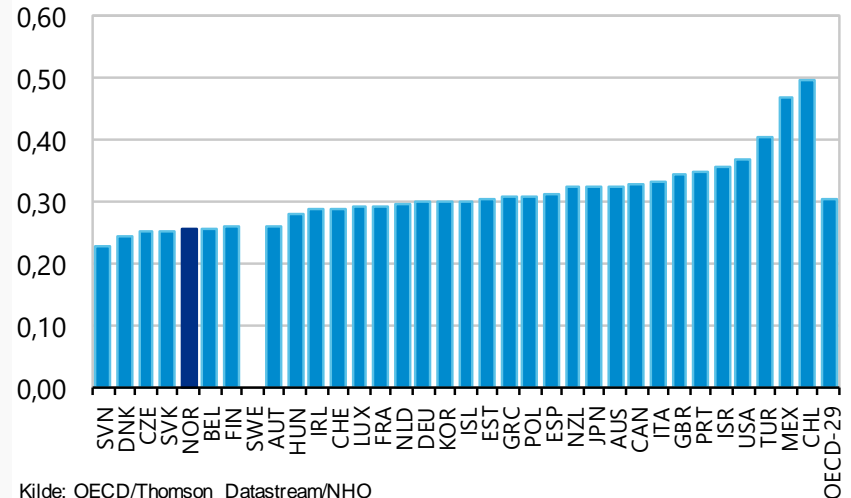
OECD's How's Life Index



Source: OECD/FIN Dep PM 2017/NHO

Income inequality

Gini coefficients. Disposable income. 2006-2009



Kilde: OECD/Thomson Datastream/NHO

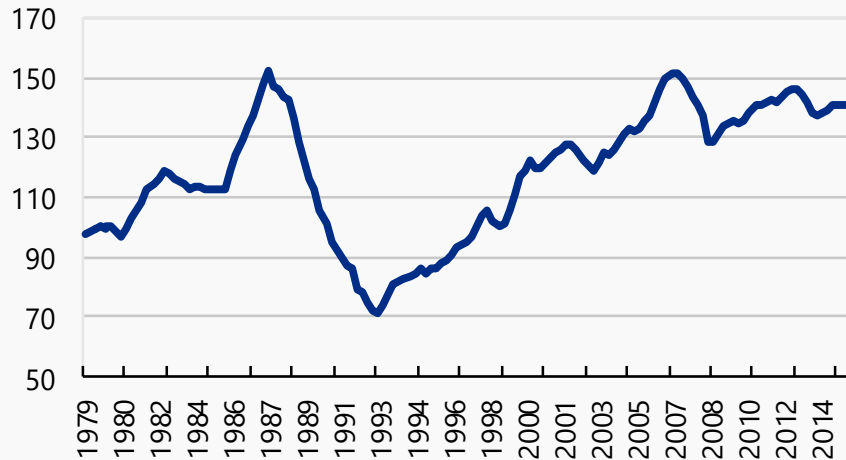
# Norway: A nation of home owners



# House prices have grown dramatically last decades... And so has household debt

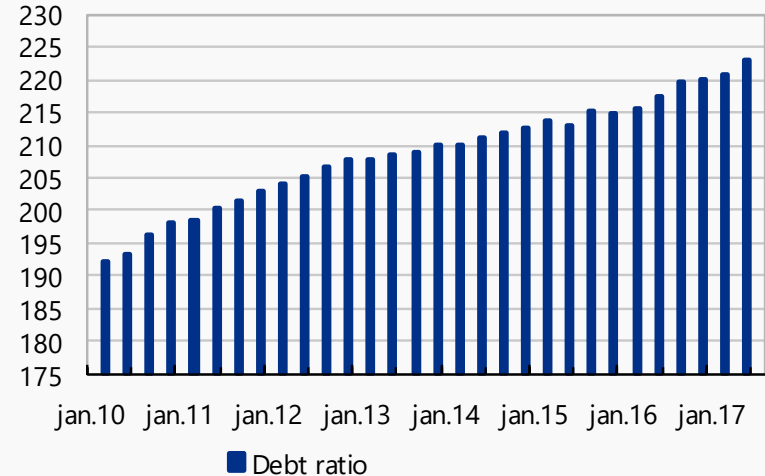
## House prices to disposable income

1998Q4=100



## Household debt ratio

Debt as percentage of disp. income



Source: Norges Bank, PPR 2017-III/NHO

## ... Reason to worry?

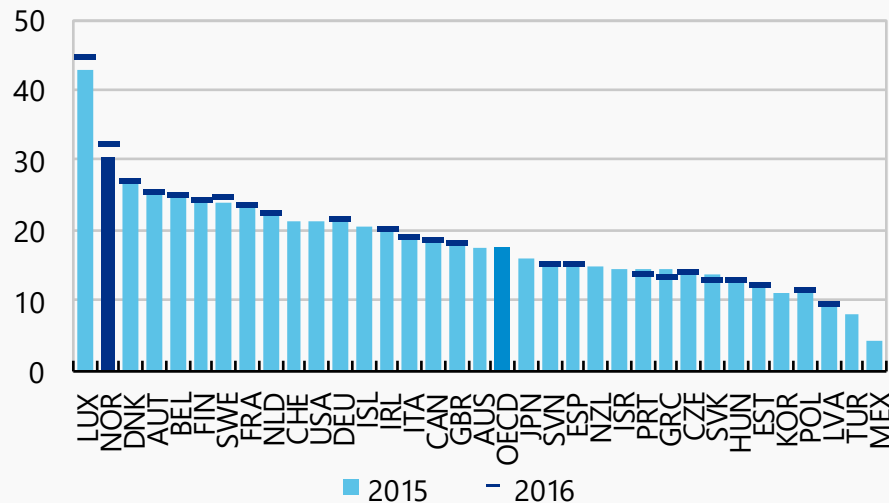
- Interest rates
- Changes in regulation on residential mortgage loans this year
- Some decline in housing prices last months

# Large public sector

Only Luxembourg spends more per capita. Highest employment share of all

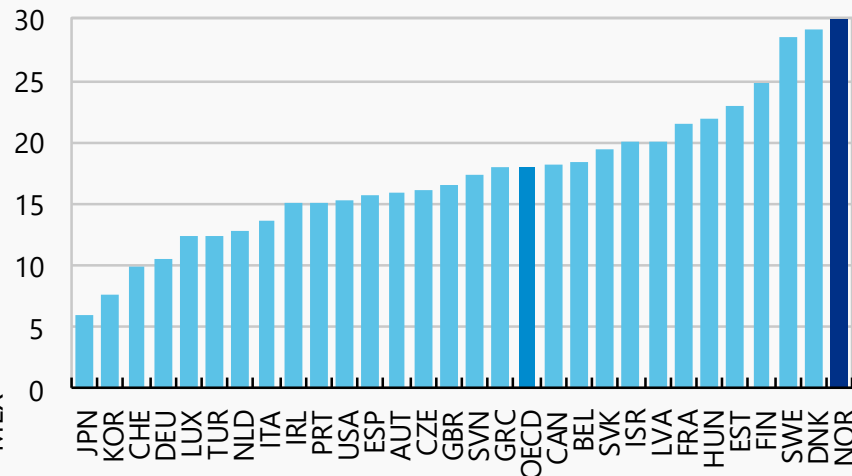
## Government expenditures per capita

1000 PPP-USD



## Employed in gen. government

Share of total persons employed. 2015



Kilde: OECD, Government At A Glance, 2017/NHO

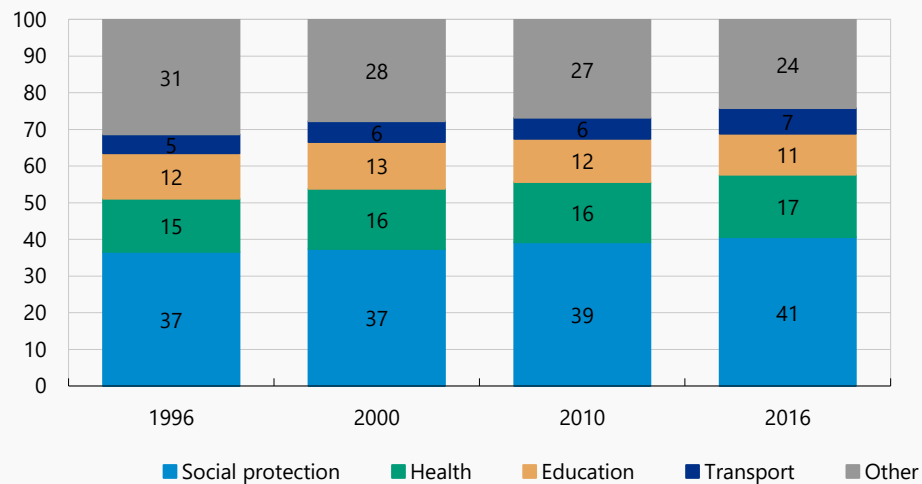
Kilde: OECD, Government At A Glance, 2017/NHO



# Where does the money go?

## Government expenditures

Purpose. Pct. share

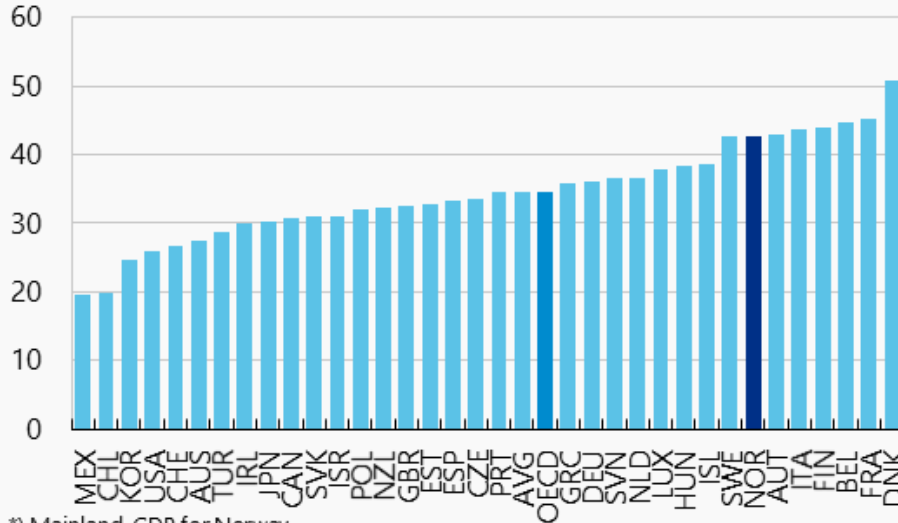


Source: Statistics Norway/NHO

# ... and the tax-level is relatively high

## Tax revenue, 2014

Per cent of GDP\*



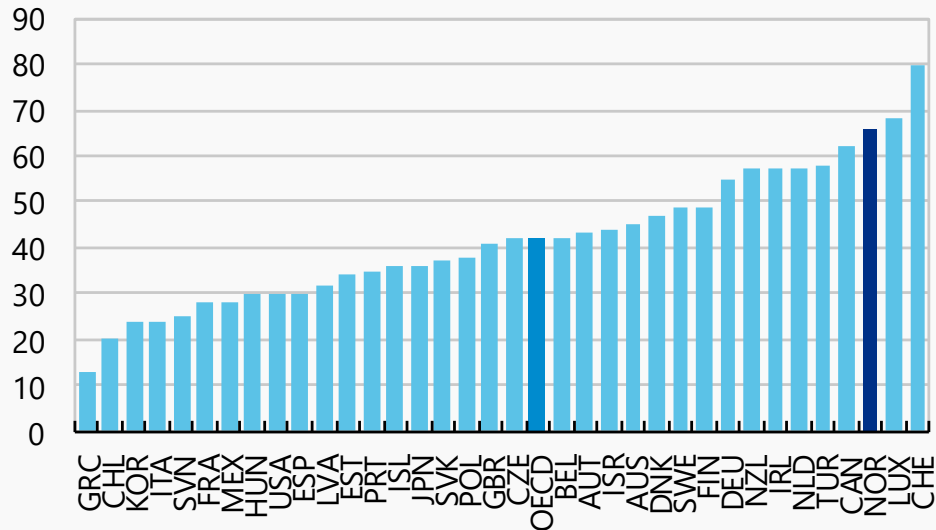
\*) Mainland-GDP for Norway

Source: OECD Economic Survey Norway, 2016/NHO

# The population trust the government

## Confidence in the national government

Per cent. 2016



Source: Gallup World Poll/OECD, Government At A Glance, 2017/NHO

# Norway

The golden age won't last for ever

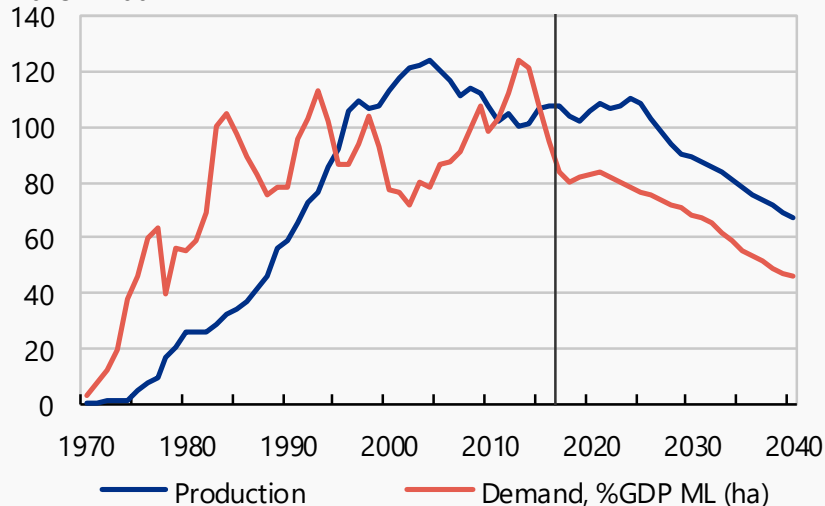
Future challenges:

# Oil sector will shrink. The population is getting older

Lower oil price-level, lower production. Public expenses on health care etc. will increase

## Petroleum sector

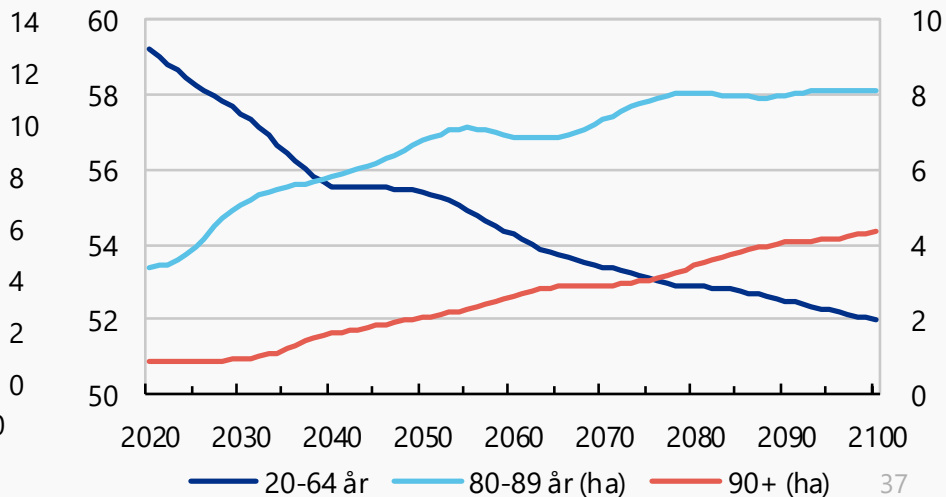
2013 = 100



Kilde: Finansdepartementet, PM17 & RNB17NHO

## Population by groups of age

Per centage share.



Source: Statistics Norway/NHO

# In close future

Tough challenges in turning around industrial sector to other areas when the oil sector diminishes.

Thank you