

# The Norwegian Economy

NORINT0500 - Norwegian Life and Society  
Spring 2018

Hilde Karoline Midsem  
19.03.2018



# Outline of today's lecture

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

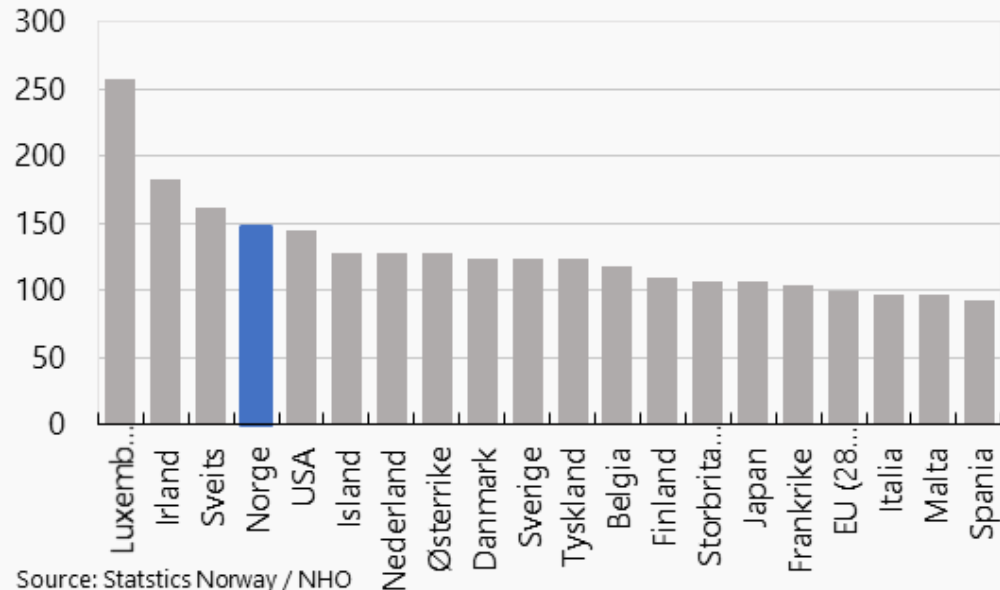
# Norway: A wealthy nation

GDP/capita among highest in the world.

- High GDP per capita
- High standard of living
- Low income inequality

## Gross domestic product per capita

2016. PPP-adjusted. EU28=100



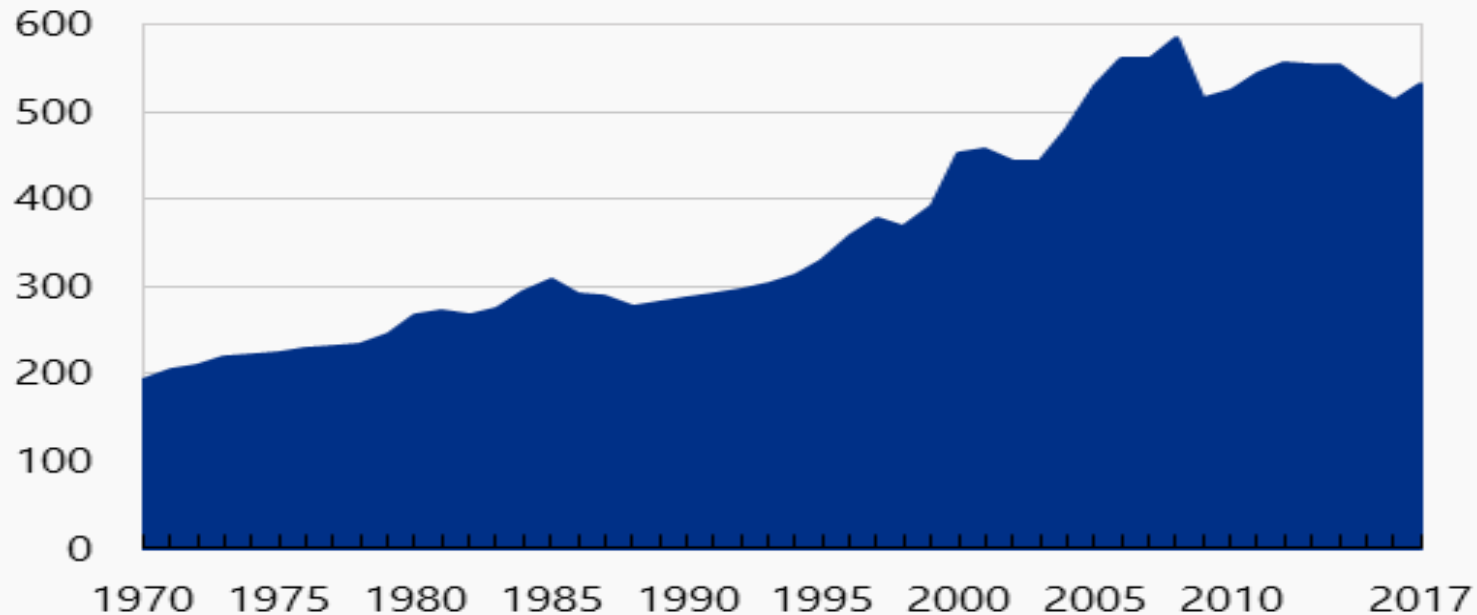
Source: Statistics Norway / NHO

# ... But Norway has not always been rich

A vast income growth last 50 years.

## Disposable income per capita

Billion 2017-NOK. Adjusted for inflation.



# Norway's economic system

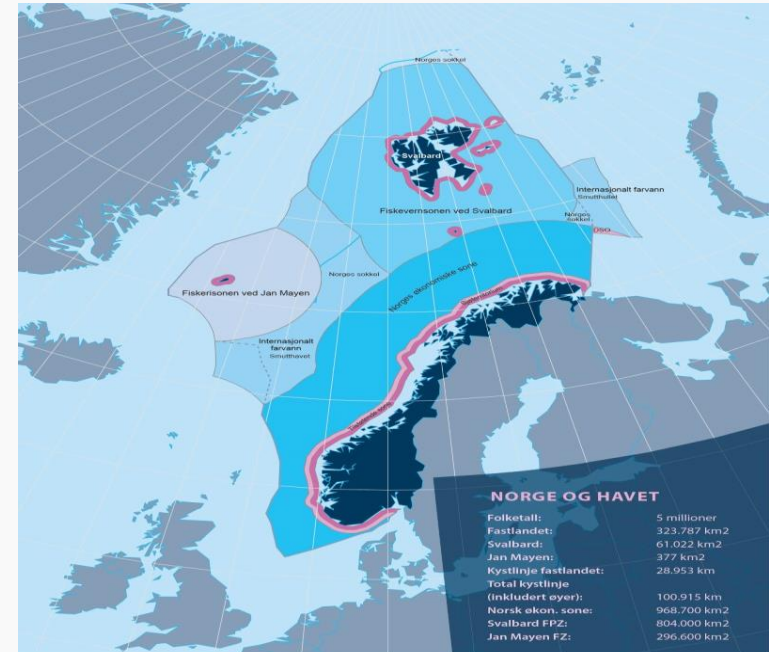
Social democracy. Welfare state

Combination free market activity/ large state ownership in key sectors.



# Norway: Large economic zone

Rights regarding the exploration and use of marine resources (UN)



Source: Wikipedia/www.government.no

**Production**

**Trade**

**Natural resources**

# Norway is rich on natural resources:

Oil and natural gas



Fish



Waterfalls/electricity



Metals/aluminium



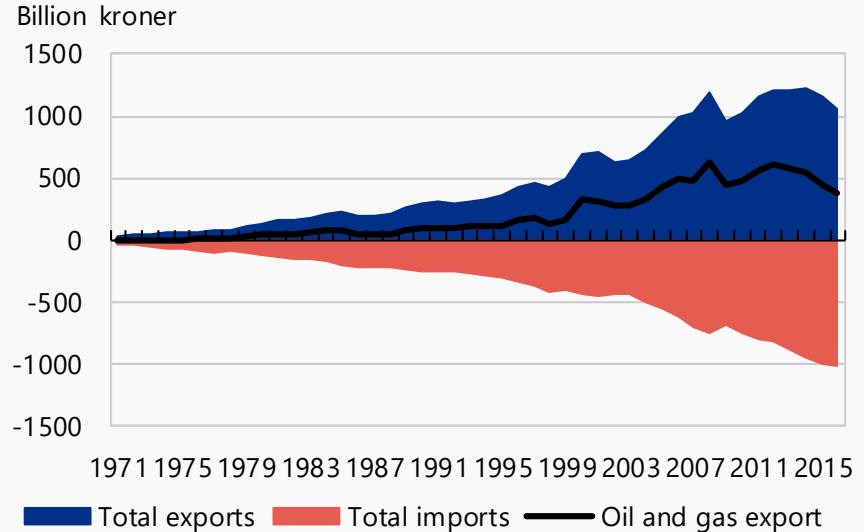


# Norway: An «open economy»

Trade – a key factor behind Norwegian economic growth

- Import consumer goods
- Export : natural resource-based goods

**Norway: Exports and imports**



Source: Statistics Norway/NHO

## Most important export-goods



... and industrial machinery

## Most important import-goods

Cars, trucks

Industrial machinery

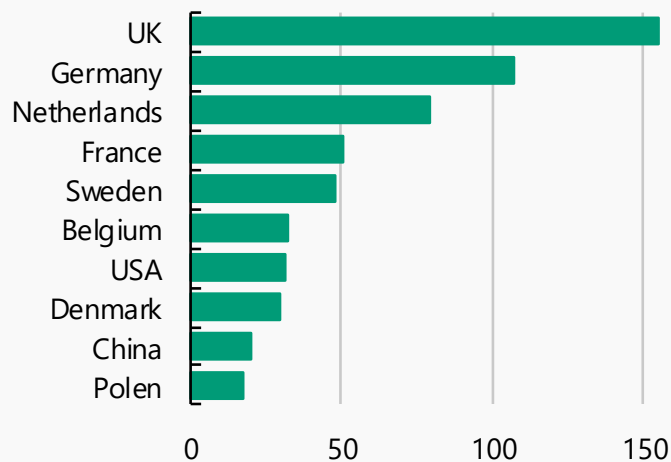
Cellphones/computers

Clothes etc.

# Important trading partners: Europe, USA and China

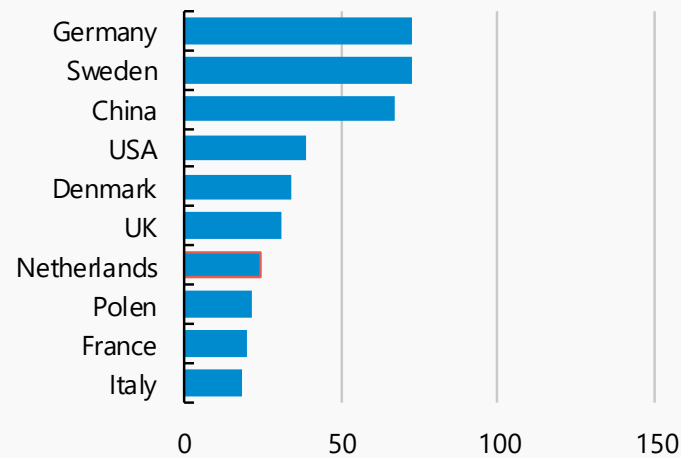
## Export: Main trading partners

Billion kroner. 2016



## Import: Main trading partners

Billion kroner. 2016

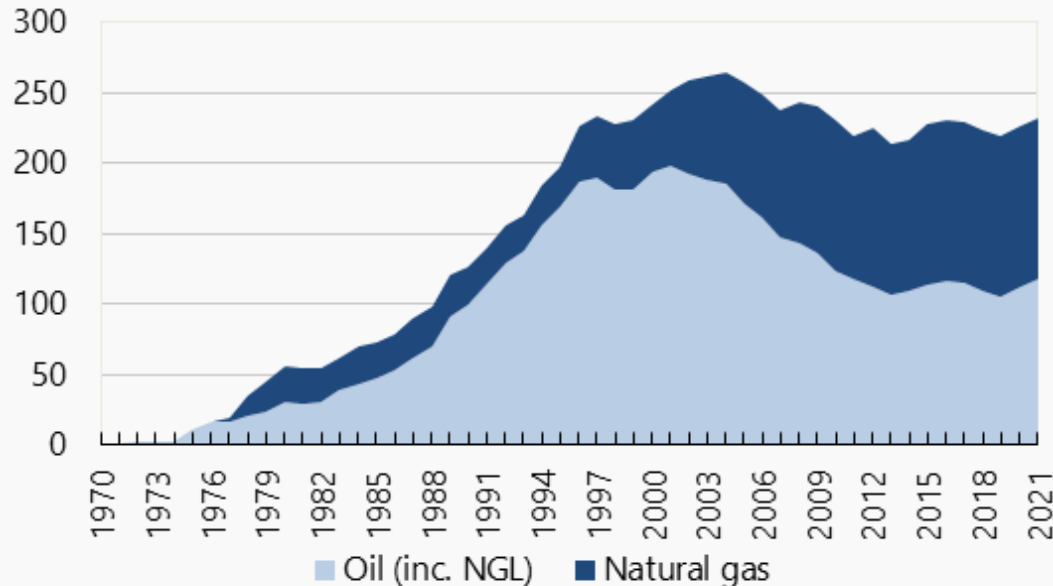


Source: Statistics Norway / NHO

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.



# Norwegian continental shelf

## A large source of income



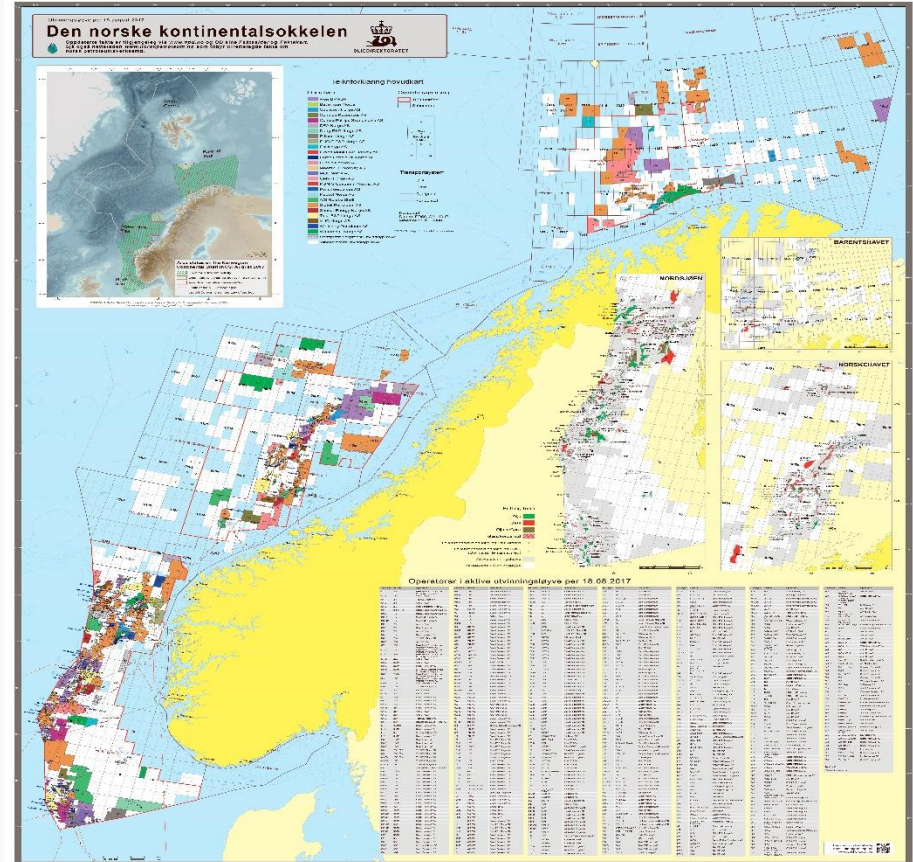
1959: Finding of natural gas in Groningen Netherlands led attention to the Nordic Sea – maybe there could be oil?

1962: Phillips Petroleum applied for permission for exploration in the North Sea

1963: Norwegian Government proclaimed sovereignty over The shelf

1966: First well drilled in 1966 – it was dry

1969: Ekofisk field: First discovery in 1969 – oil adventure began.



• Source: [www.government.no/Norwegian petroleum directorate](http://www.government.no/Norwegian_petroleum_directorate)

# The managing of the oil resource



- Statoil: 1972

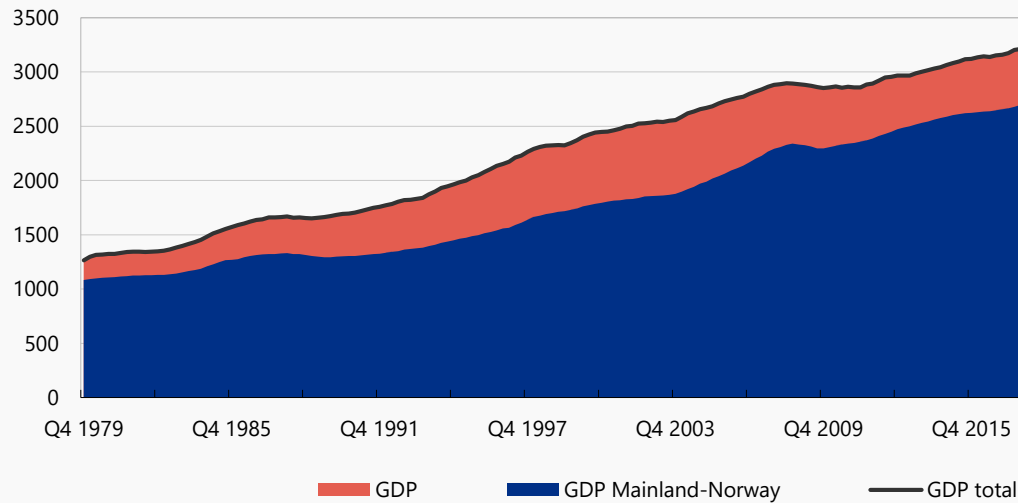


- Principle of 50 percent state participation in each production licence was established.
- Government aimed to build national knowledge and competence
- From the beginning: Moderate extraction in order to prevent «over heating» of the economy

# Oil and natural gas: 13 % of total production

## Norway: GDP

NOK 2015-billion. Four quarter sum.



Oil and Offshore production

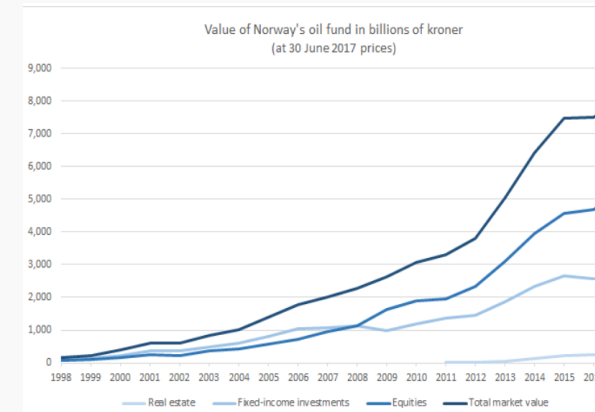


Mainland - production

# The Oil Fund and The Budgetary Rule

- Established in 1990
- Owned by the Norwegian people
- Primary purpose to finance the welfare state
- 2000: Budgetary Rule: *"Never use more than the long run projected interest return from the Fund" (estimated to 3% of fund value)*

Value: 1000 billion USD



# The Oil Fund - investments all over the world

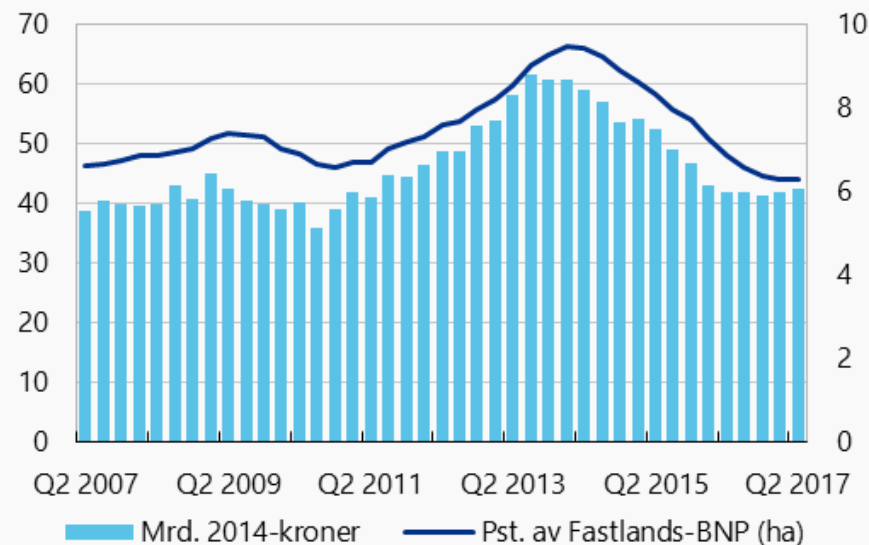


Source: <https://www.nbim.no/en/investments>

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

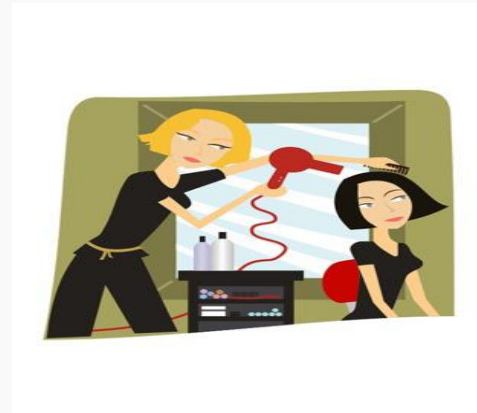
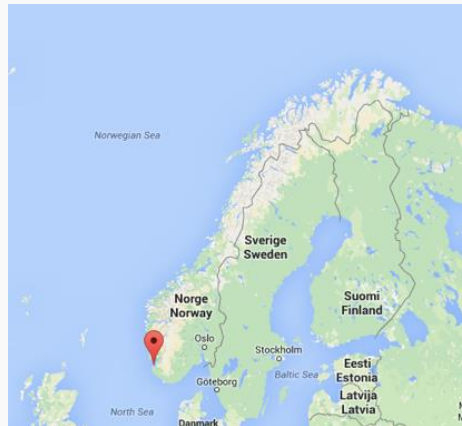


Norway: Oil investments



Kilde: Statistisk sentralbyrå/Thomson Datastream/NHO

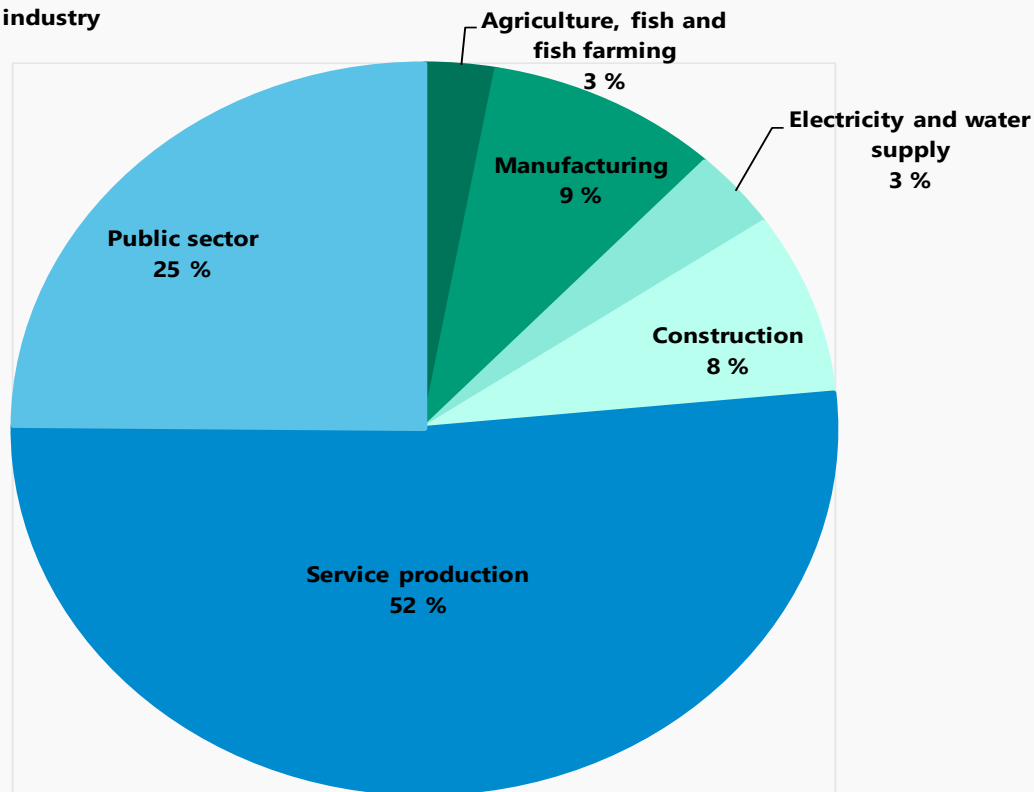
... and industry in Mainland-Norway is an important supplier to the petroleum sector



Is this a problem?

# Production in Mainland Norway

**Mainland Norway: GDP by industry**  
 Per cent. 2016



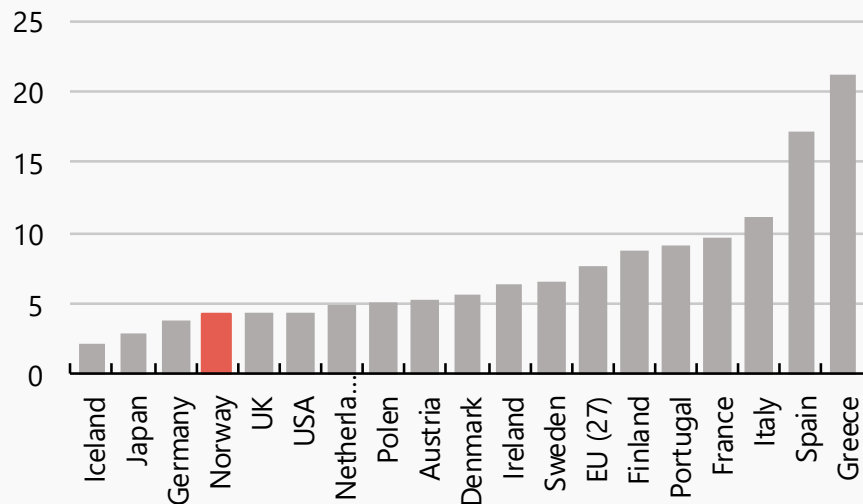
# **The labor market, household economy and the public sector**

# Unemployment is low in Norway

## High share of employed women

### Unemployment rates

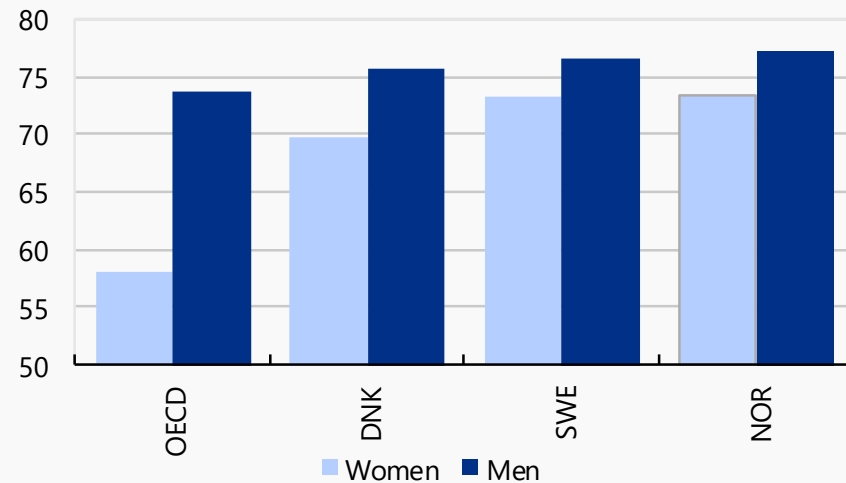
June 2017. Per cent



Source: Statistics Norway / NHO

### Employed persons

In per cent of persons 15-64 years. 2014



Source: OECD ES17 / NHO

## High share of employed women

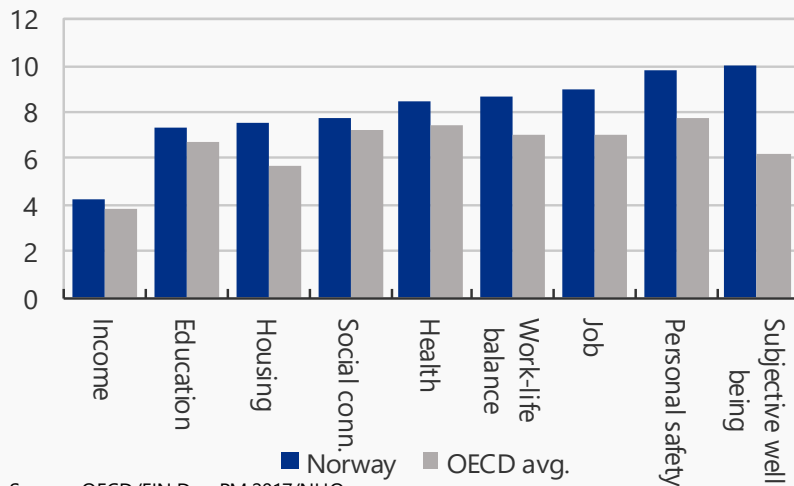
Womens participation in the labour market increased gradually after 1970s

- A result of a conscious choice of the policy makers
- There was a demand for labor in the 70s
- Subsidised day-care for children
- Paid parental leave

# High standard of living. Income inequality is low

## High degree of trust in the population.

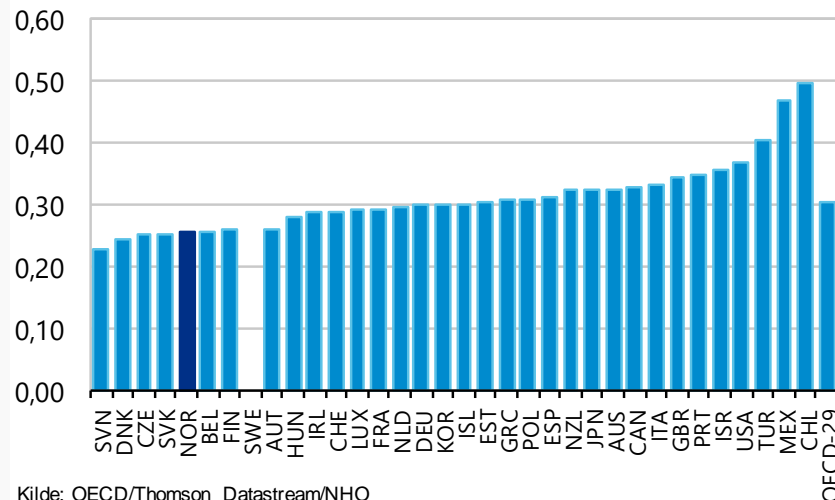
### OECD's How's Life Index



Source: OECD/FIN Dep PM 2017/NHO

### Income inequality

Gini coefficients. Disposable income. 2006-2009



Kilde: OECD/Thomson Datastream/NHO



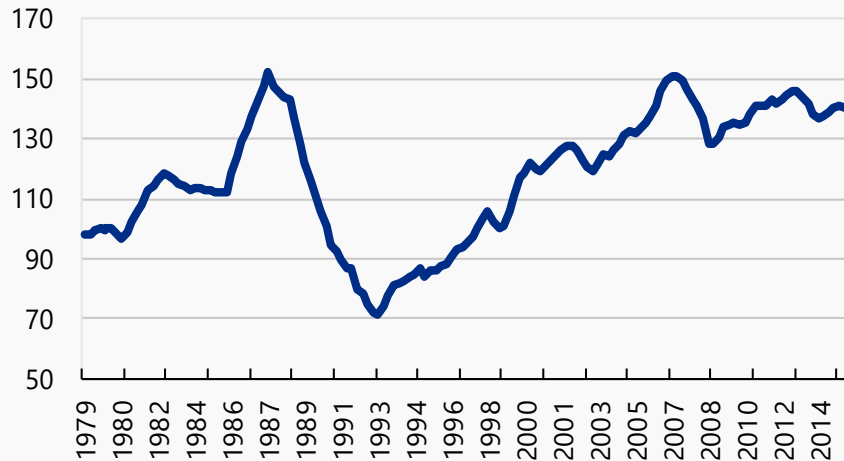
Norway: A nation of home owners  
85% own the house they live in



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

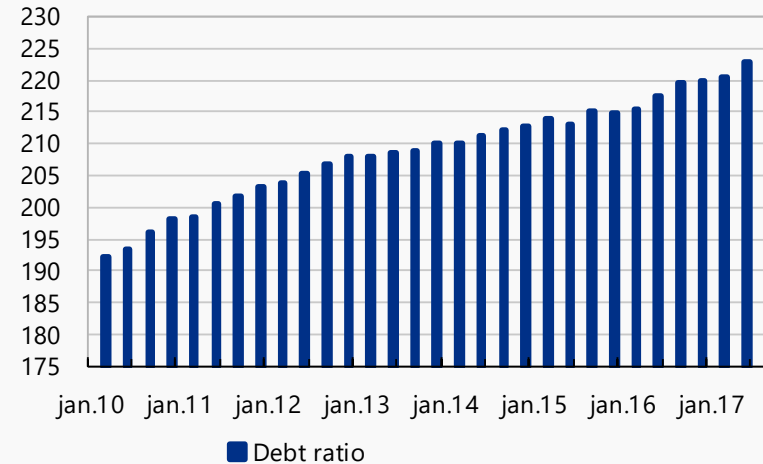
## House prices to disposable income

1998Q4=100



## Household debt ratio

Debt as percentage of disp. income



Source: Norges Bank, PPR 2017-III/NHO

## ... Reason to worry?

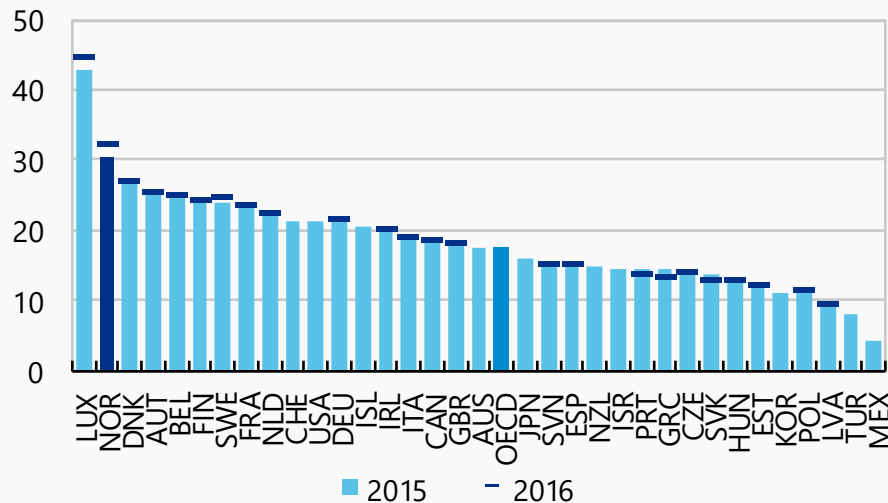
- Interest rates
- Changes in regulation on residential mortgage loans this year
- Some decline in housing prices last months

# Large public sector

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

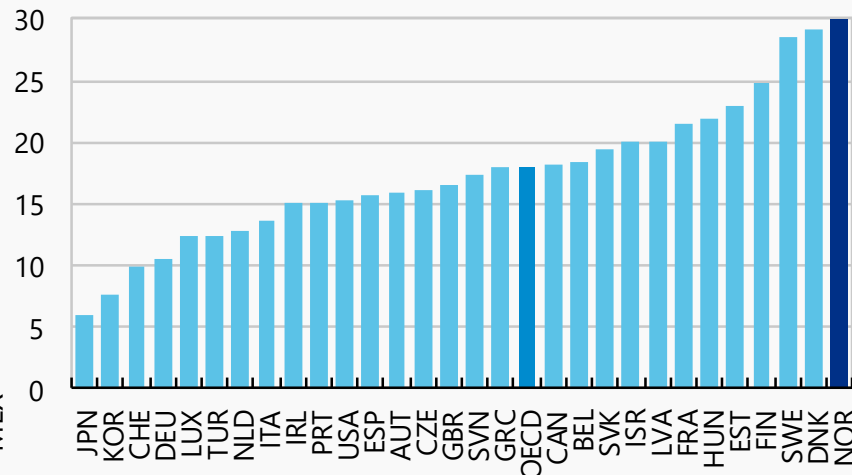
## Government expenditures per capita

1000 PPP-USD



## Employed in gen. government

Share of total persons employed. 2015



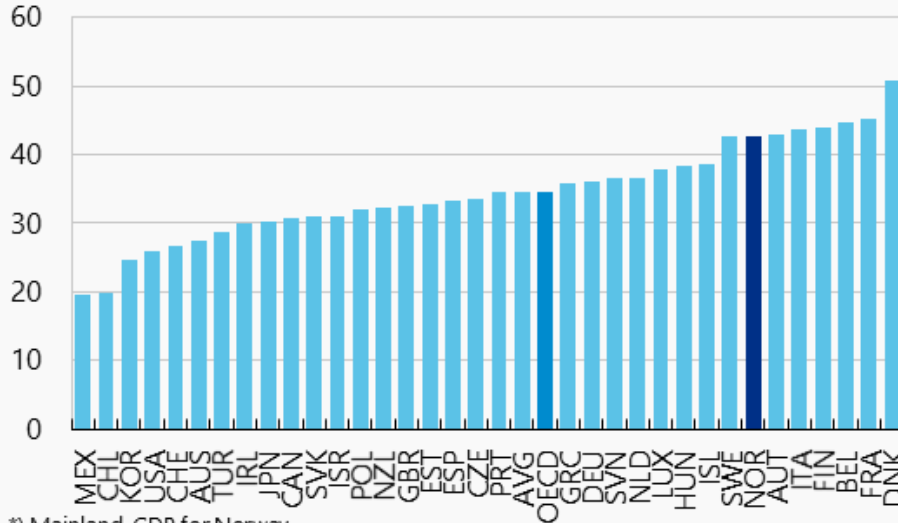
Kilde: OECD, Government At A Glance, 2017/NHO

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

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

## Tax revenue, 2014

Per cent of GDP\*



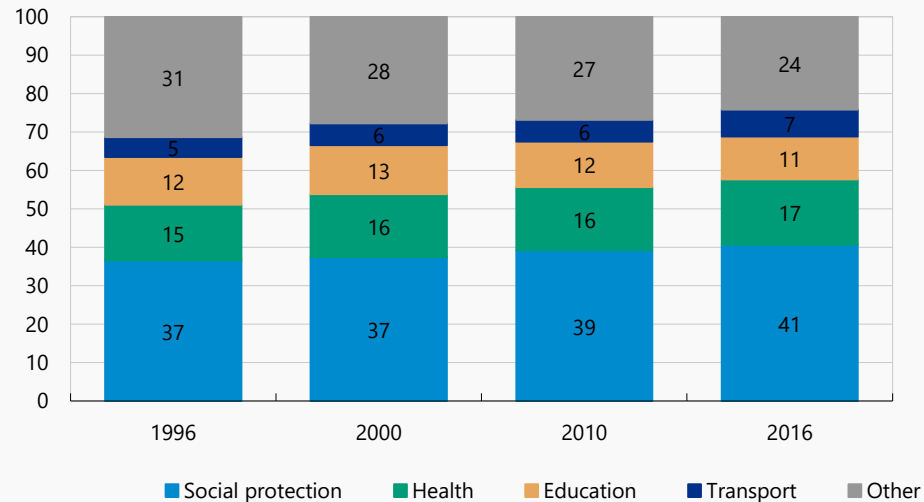
\*) Mainland-GDP for Norway

Source: OECD Economic Survey Norway, 2016/NHO

# Where does the money go?

## Government expenditures

Purpose. Pct. share

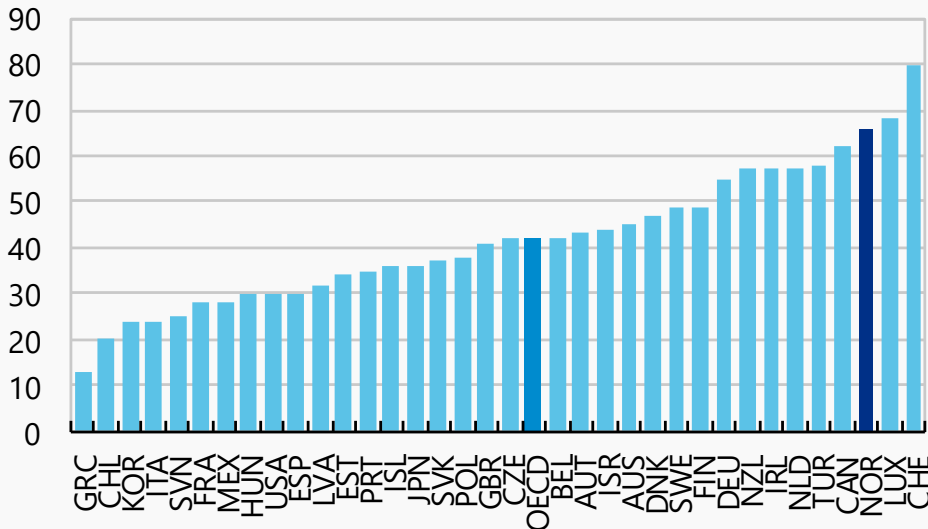


Source: Statistics Norway/NHO

# The population trust the government

## Confidence in the national government

Per cent. 2016

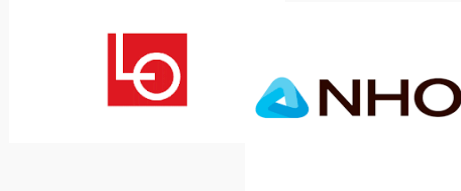


- Trust is important for the success of a wide range of public policies that depend on behavioural responses from the public.
- Trust is necessary to increase the confidence of investors and consumers.
- Trust is essential for key economic activities, most notably finance.
- Trust in institutions is important for the success of many government policies, programmes and regulations that depend on cooperation and compliance of citizens. ([www.OECD.org](http://www.OECD.org))

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

# Centralized wage bargaining

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



*The Scandinavian model for wage bargaining:*

The negotiation procedure is based on the principle that national wage growth should follow the wage growth in competitive export-sector. The competitive export sector (manufacturing industry) negotiates first



# Norway

The golden age won't last for ever

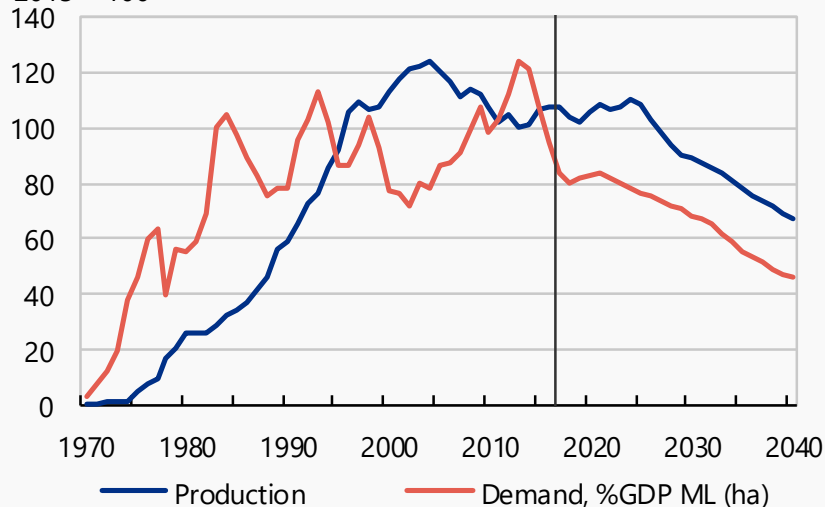
Future challenges:

# 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

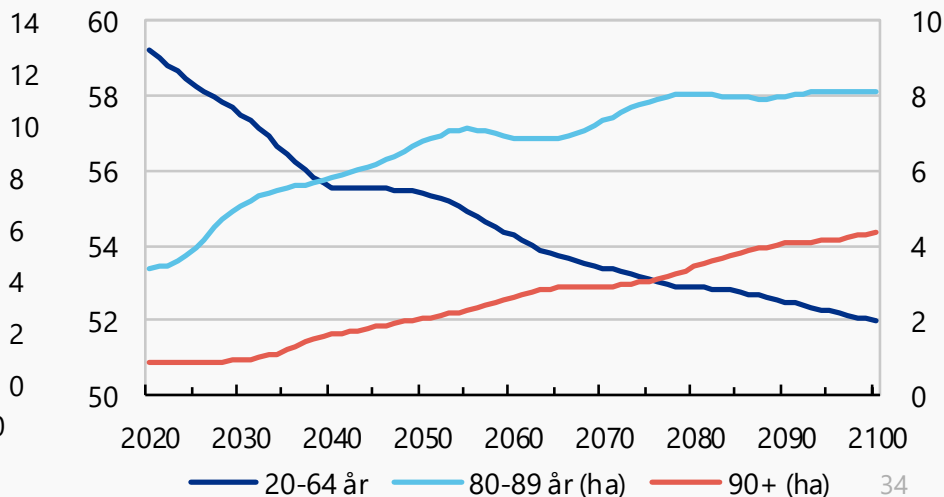
2013 = 100



Kilde: Finansdepartementet, PM17 & RNB17NHO

## Population by groups of age

Per centage share.



Source: Statistics Norway/NHO