

The Norwegian Economy

NORINT0500

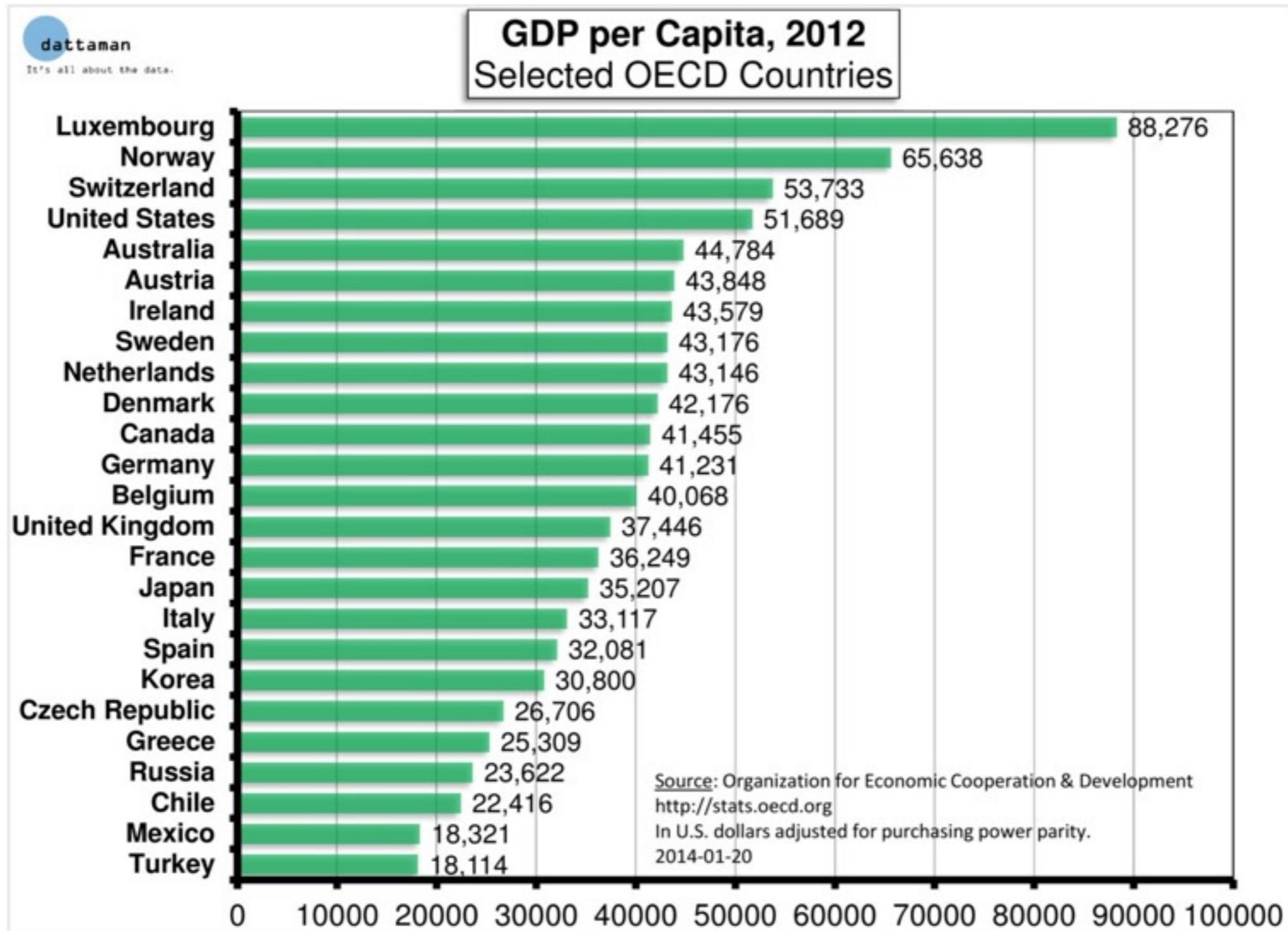
- Tord Krogh, Norges Bank
- Disclaimer: This presentation should not be reported as representing the views of Norges Bank. The views expressed are those of the author and do not necessarily reflect those of Norges Bank.

Outline of today's lecture

- a. A short international comparison
- b. What resources do we have, and what do we produce?
- c. The oil economy
- d. Housing market
- e. Economic policy
- f. The labor market

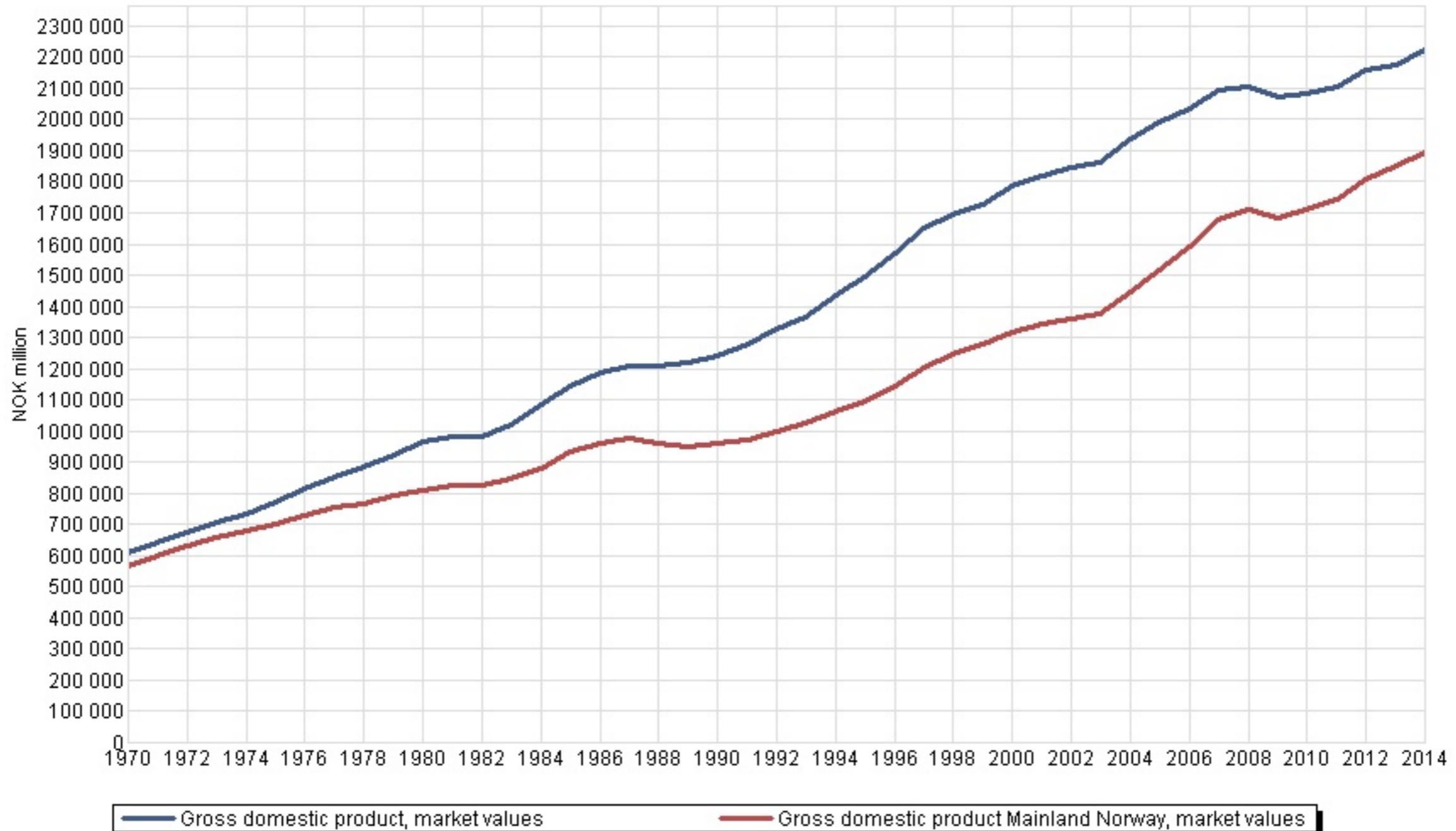
A short international comparison

Norway is relatively wealthy,



but behind the GDP comparisons, one must take oil into account

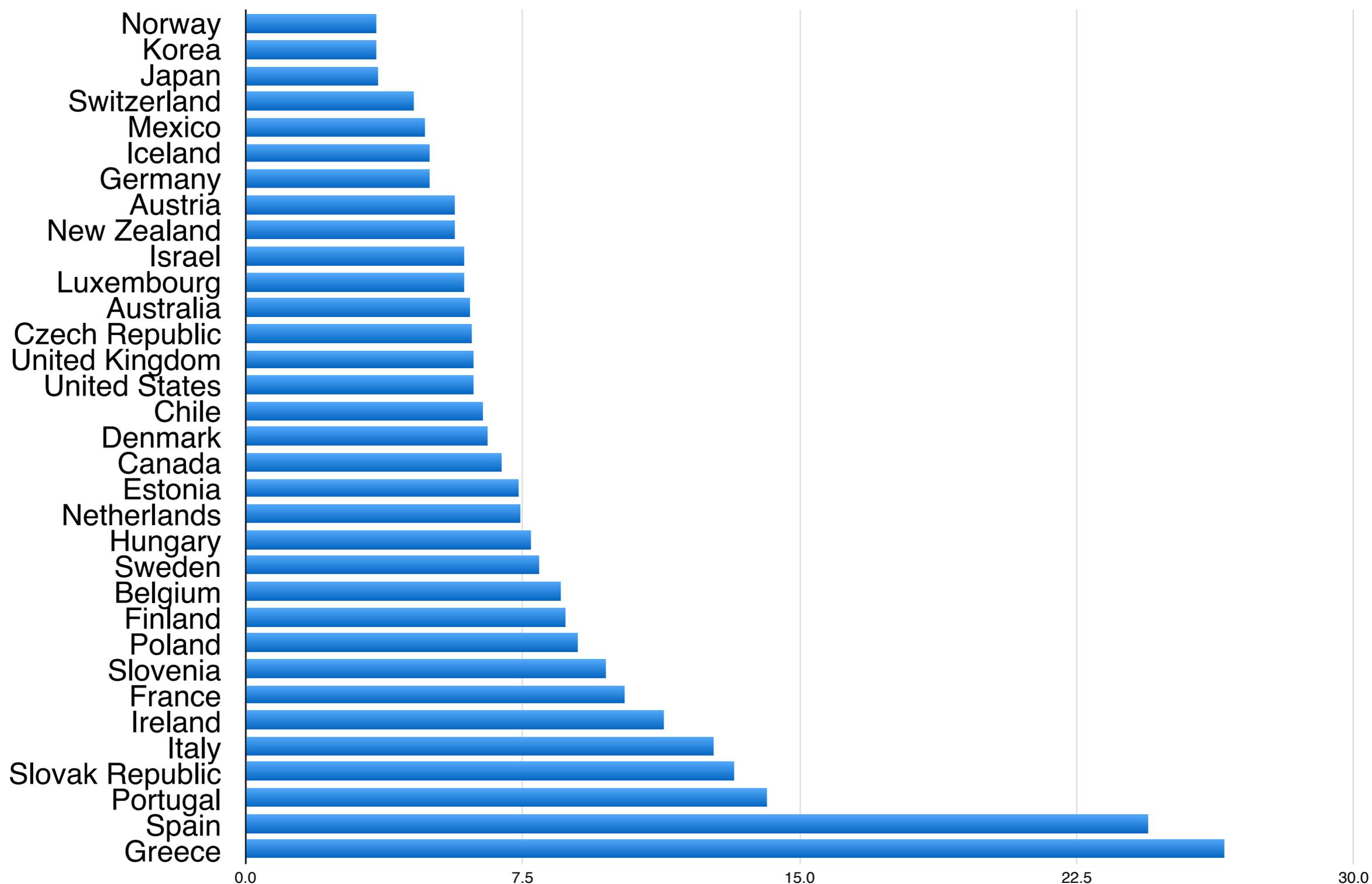
Final expenditure and gross domestic product,
by macroeconomic indicator and time.
Constant 2005 prices (NOK million).



Source: Statistics Norway

Norway has a fairly low unemployment rate,

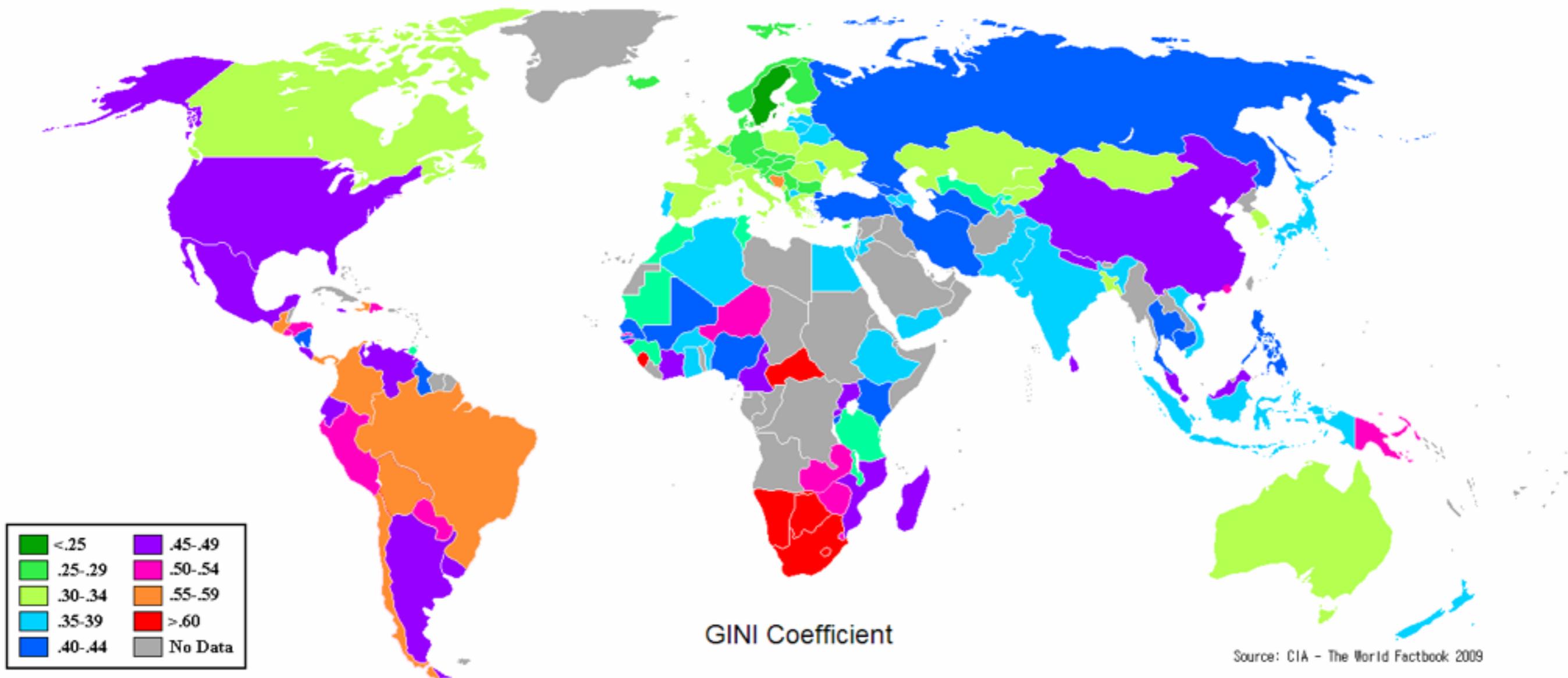
Unemployment rates in a selection of OECD countries, 2014 (source: stats.oecd.org)



but one should also look at social security..

- About 20% of the working-age population receive social security benefits (sick leave unemployment insurance, and disability insurance)
- Does this make the unemployment rate artificially low in Norway?
- A heavily debated issue

Norway features little income inequality (by international standards)



What resources do we have and what do we produce?

Structural changes during the last 150 years

- First wave: More effective farming/fishing industry
 - Fishing facilities (motorized fishing fleet)
 - Timber export
 - From cotter to farmer (rapid increase in the size of a average farm)
- Second wave: Manufacturing and construction
 - Sawmills and paper pulp
 - Energy-demanding industries: Electro-chemical and electro-metallurgical
- Third wave: Services – public and private
 - Expansion of the welfare state
- The last wave: Oil and gas era

Success Factors for the Rapid Economic Growth

- Resource endowment
- Knowledge and technology
- Coordinated market economy
- Collaboration, trust and equality
- Luck

→ This are important factors for explaining the high productivity and wage growth

For an in-depth study

Economist (Feb 2nd 2013): “ The rich cousin – Oil makes Norway different from the rest of the region, but only up to a point”

<http://www.economist.com/news/special-report/21570842-oil-makes-norway-different-rest-region-only-up-point-rich>

Dølvik, Jon Erik (2007): “The Nordic regimes of labour market governance: From crisis to success-story?”, Fafo-paper 07

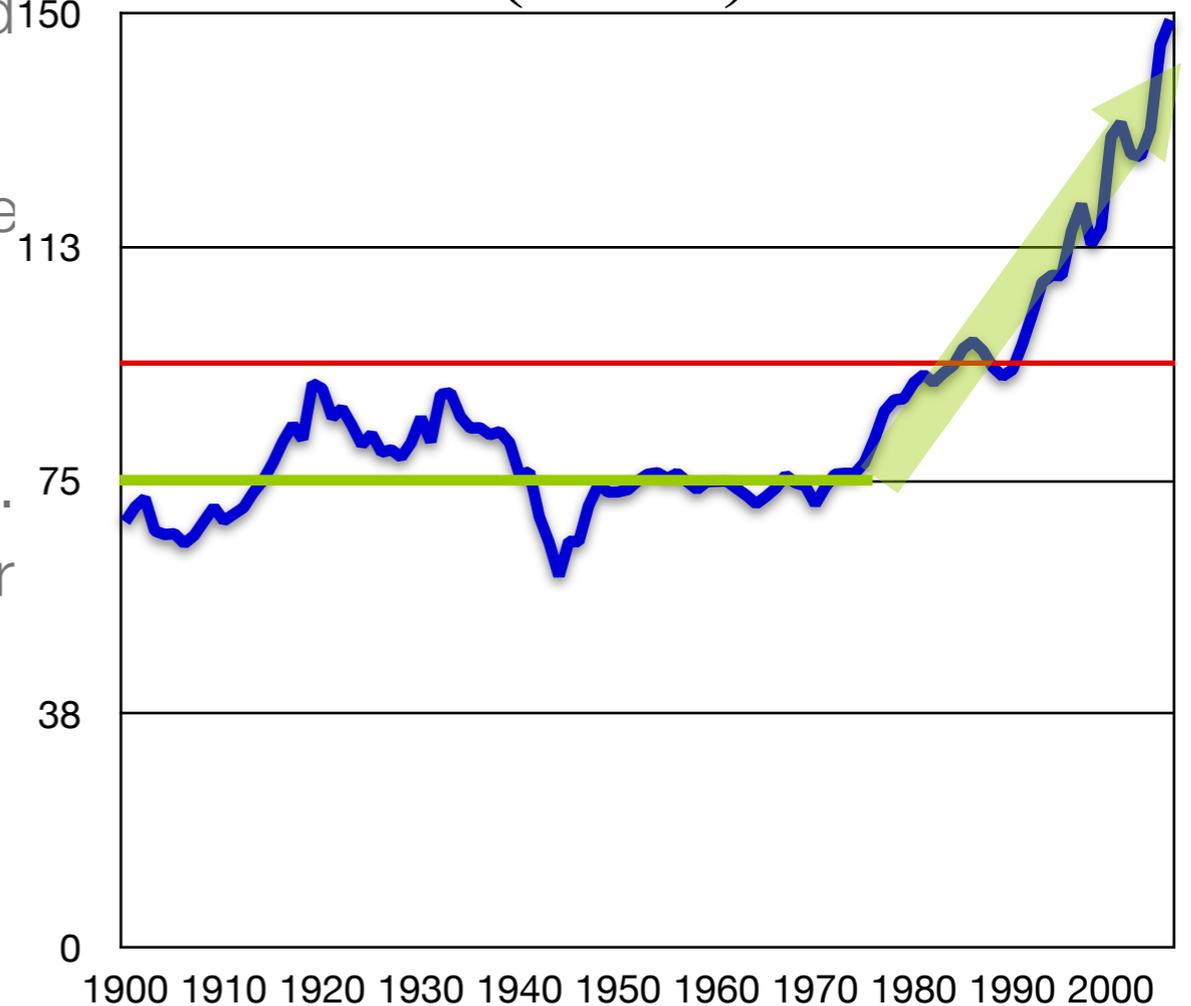
Larsen, Erling Røed (2001): “The Norwegian Economy 1900 – 2000: From Rags to Riches”, Economic Survey 4, 22-37 (<http://www.ssb.no/english/subjects/08/05/10/es/200104/roedlarsen.pdf>)

SSB (2011): Minifacts about Norway (<http://www.ssb.no/en/befolkning/artikler-og-publikasjoner/minifacts-about-norway>)

Resources

- Climate and geography
 - Mountains, rivers and Gulf stream
 - Electricity
 - The fjords and fertile soil – fish, timber and
- Oil
 - Increasing oil prices in the sixties and sevenies
the North Sea.
- Terms of trade
 - "China-effect" → improved terms of trade.
 - Cheap import goods and expensive exports

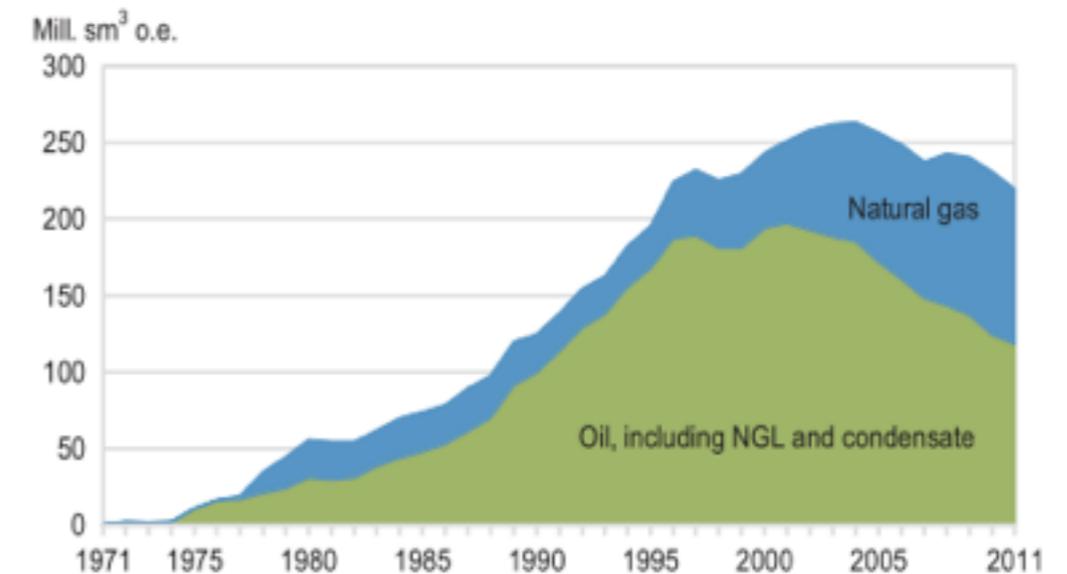
GDP pr capita – PPP adjusted – Norway versus Sweden (=100)



The Oil and Gas Reserves

- Started oil exploration in late the 1960-ties
- Oil production began early in the 1970-ties
- Have managed the natural resource curse
 - Dutch disease – “disagreements”
 - Wars and corruption
- “Too much too fast” is not good for the economy
- Pumping up oil and gas changes the wealth from oil below the ground till stock market shares abroad
- The environment problem

Total production of crude oil and natural gas. Million sm³ o.e.¹

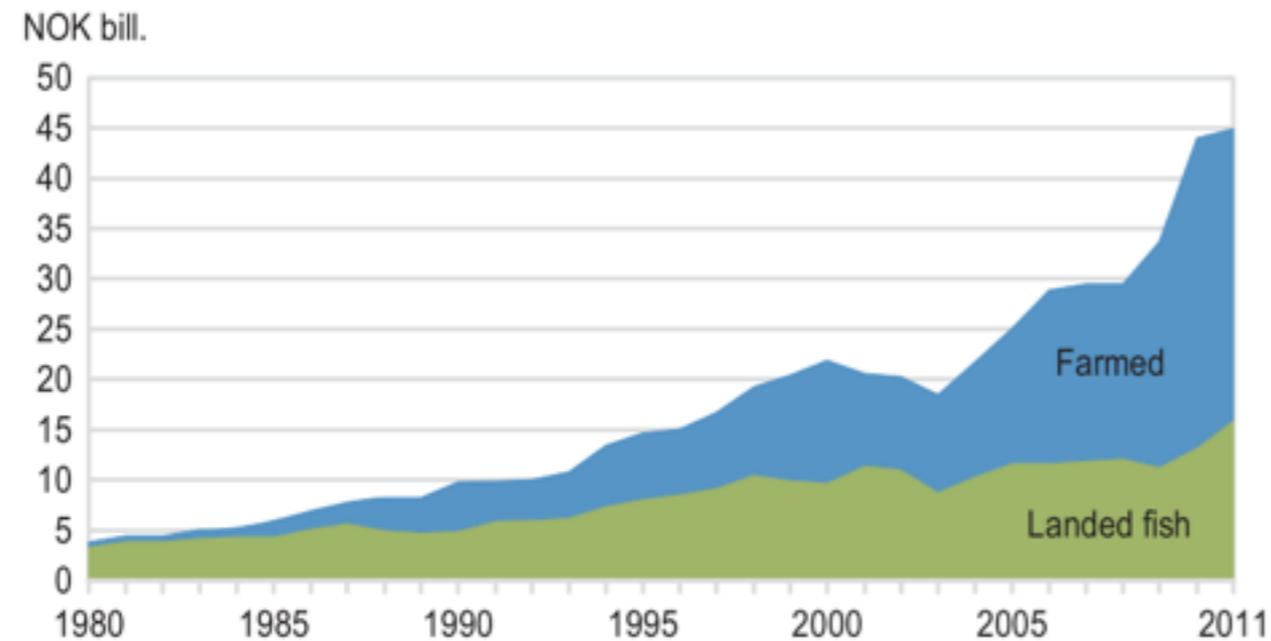


¹sm³ (standard cubic metre) o.e. (oil equivalent).
Source: Norwegian Petroleum Directorate.
More information: <http://www.ssb.no/en/ogprodre/>

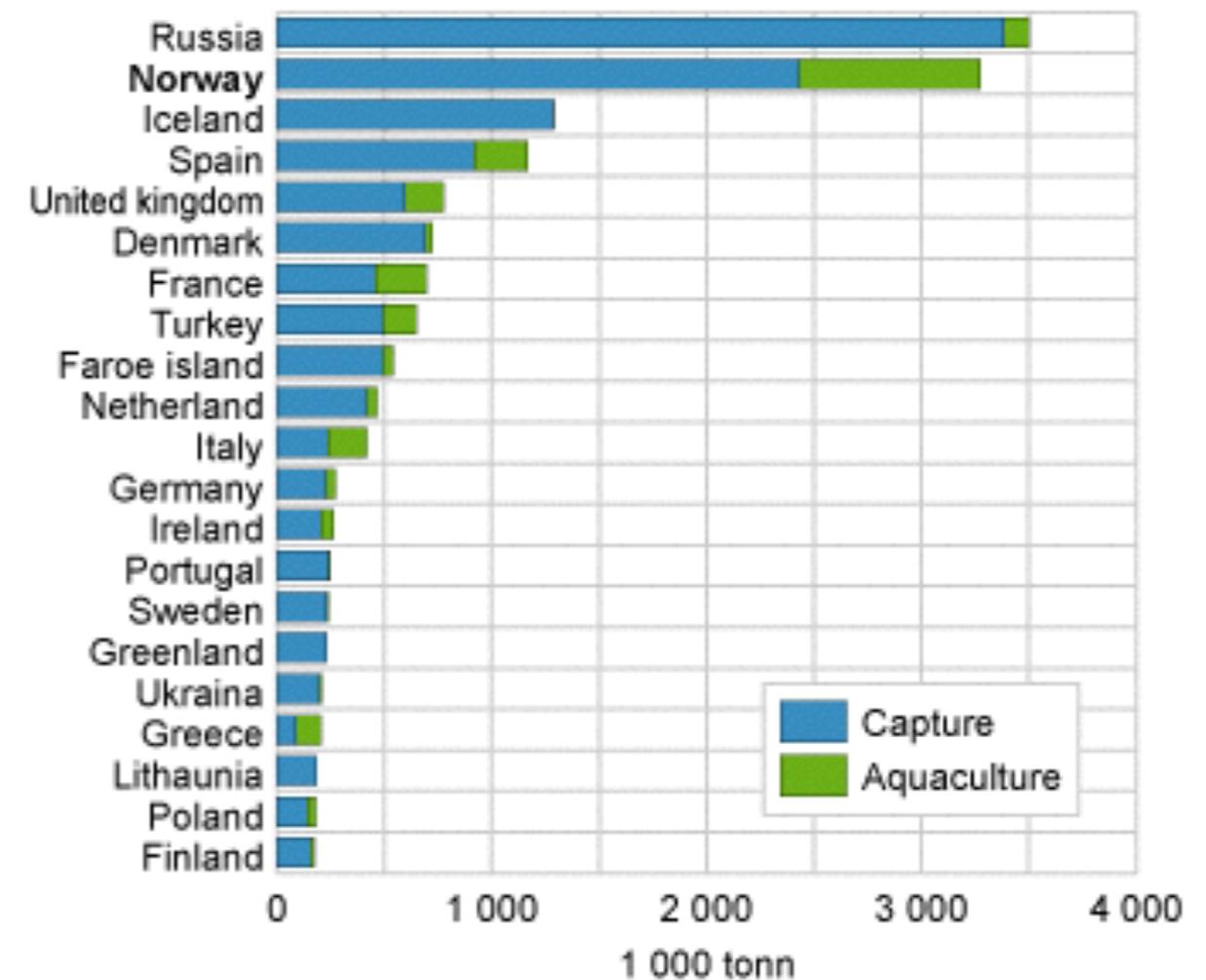
Swimming in the Sea

- Fish and aquaculture one of Norway's largest export article
 - Cod from Lofoten
 - Salomon from fish farms

Value of farmed and traditionally landed fish



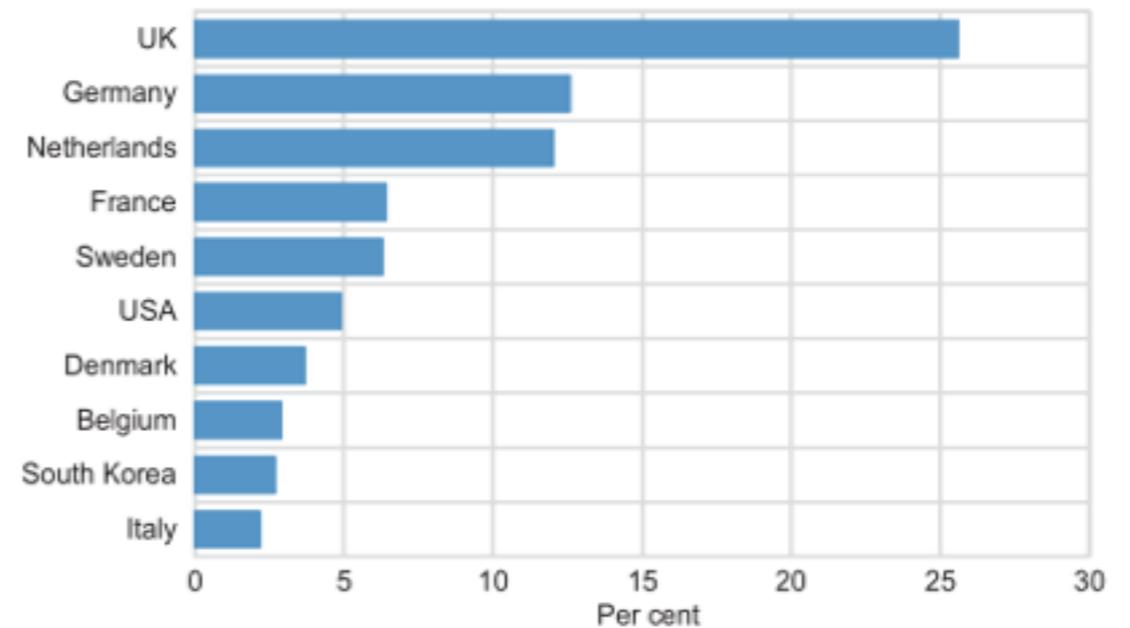
Europe's most important fishing nations, by capture and aquaculture. 2008. 1 000 tonnes



Trade

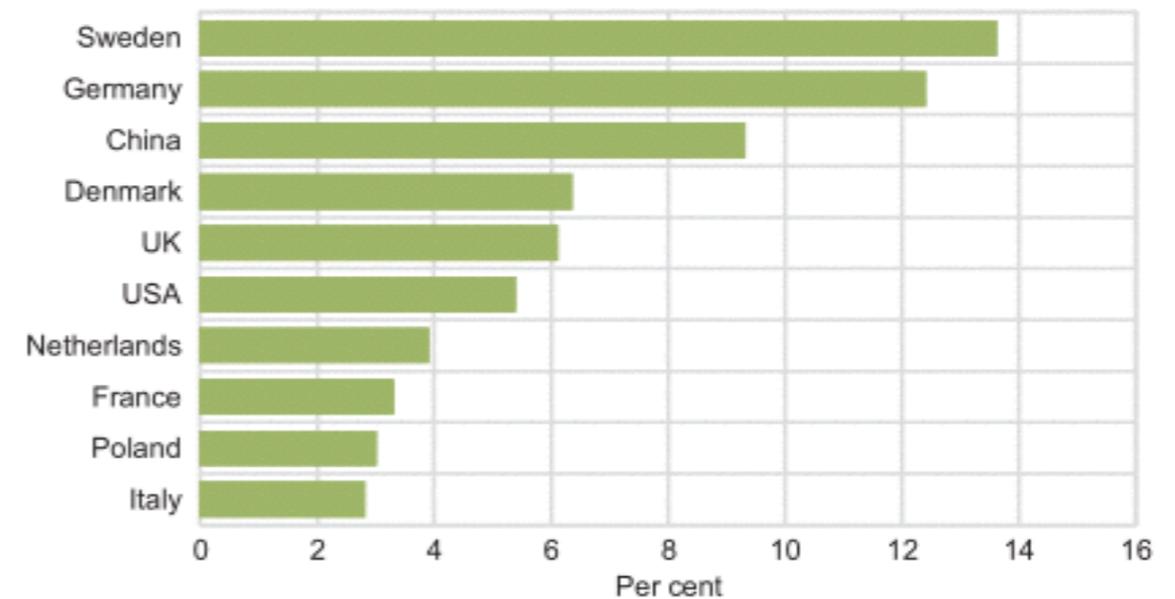
- Sweden, Netherlands, Germany, China and UK are our most important trading partners
- Natural gas and oil are the most important export good. But seafood and metals also count.

Share of Norway's export of goods. 2012*



Source: Statistics Norway.
More information: <http://www.ssb.no/en/muh/>

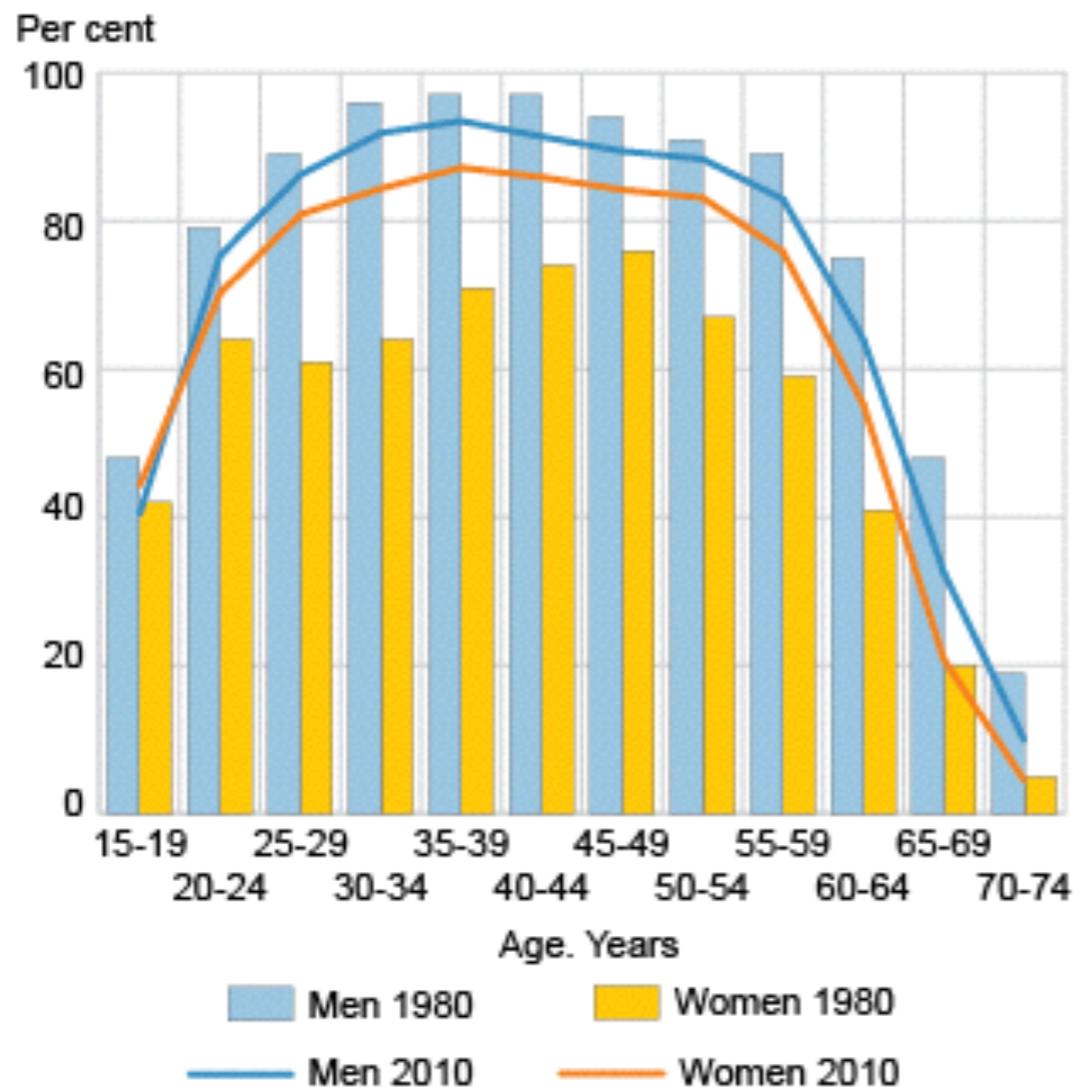
Share of Norway's import of goods. 2012*



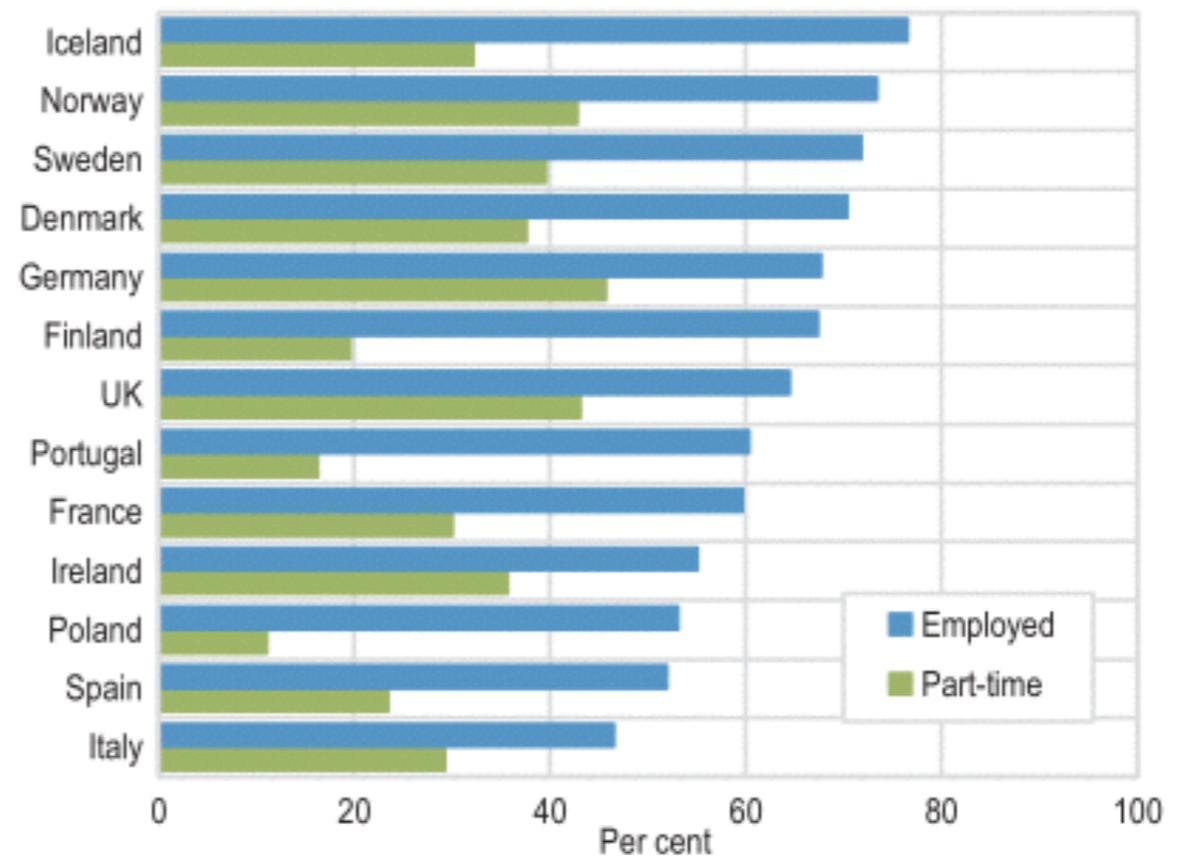
Source: Statistics Norway.
More information: <http://www.ssb.no/en/muh/>

Another important resource: Women!

Men and women in the labour force, by age as per cent of the total in each group



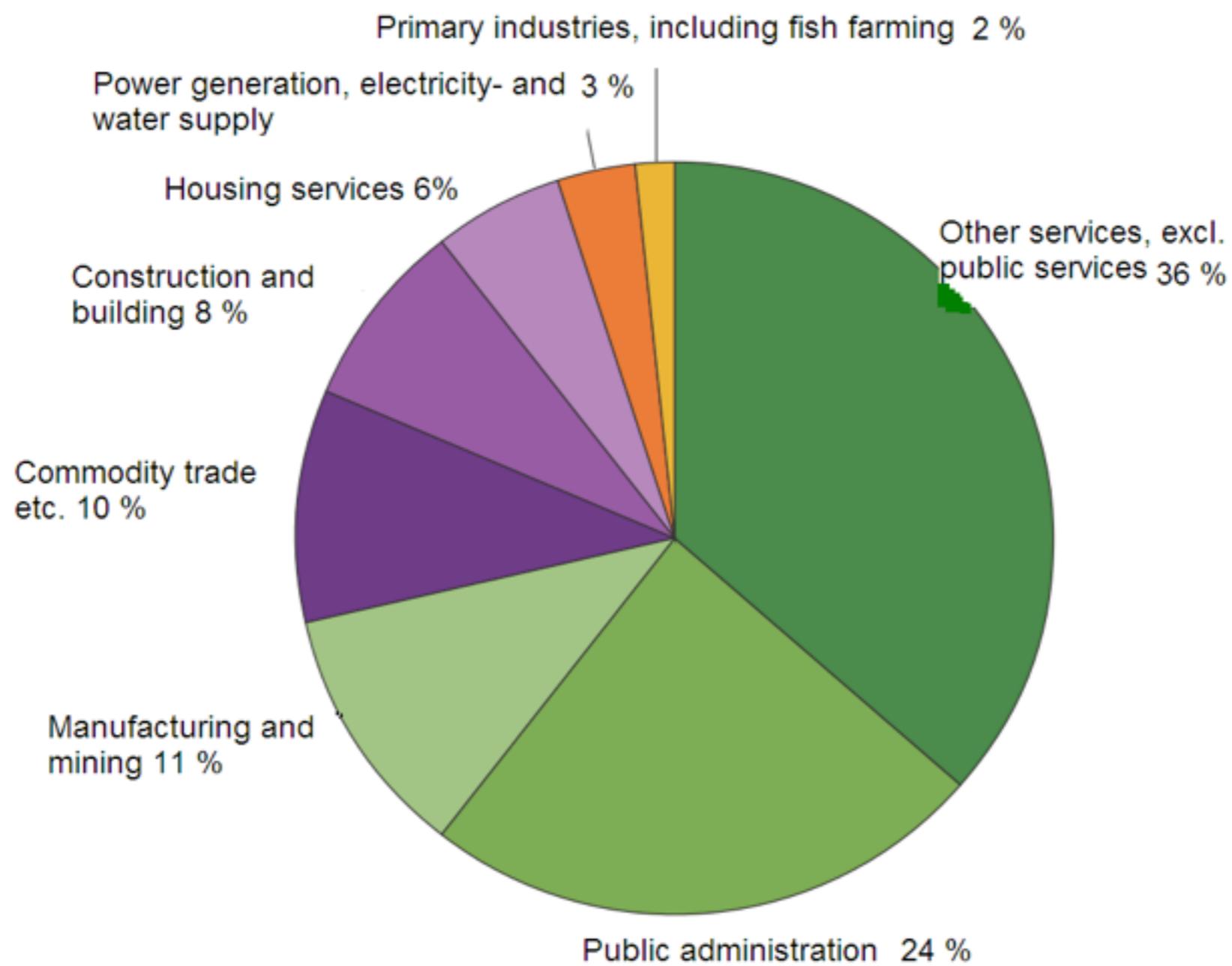
Women in the labour force¹ aged 15-64, and proportion of part-time workers. Selected countries. 2011



¹Percentage of women in the same age group in the population.

Source: Eurostat.

What industries are most important? Shares of *mainland* GDP, 2012



Kilde: Statistisk sentralbyrå.

The oil economy

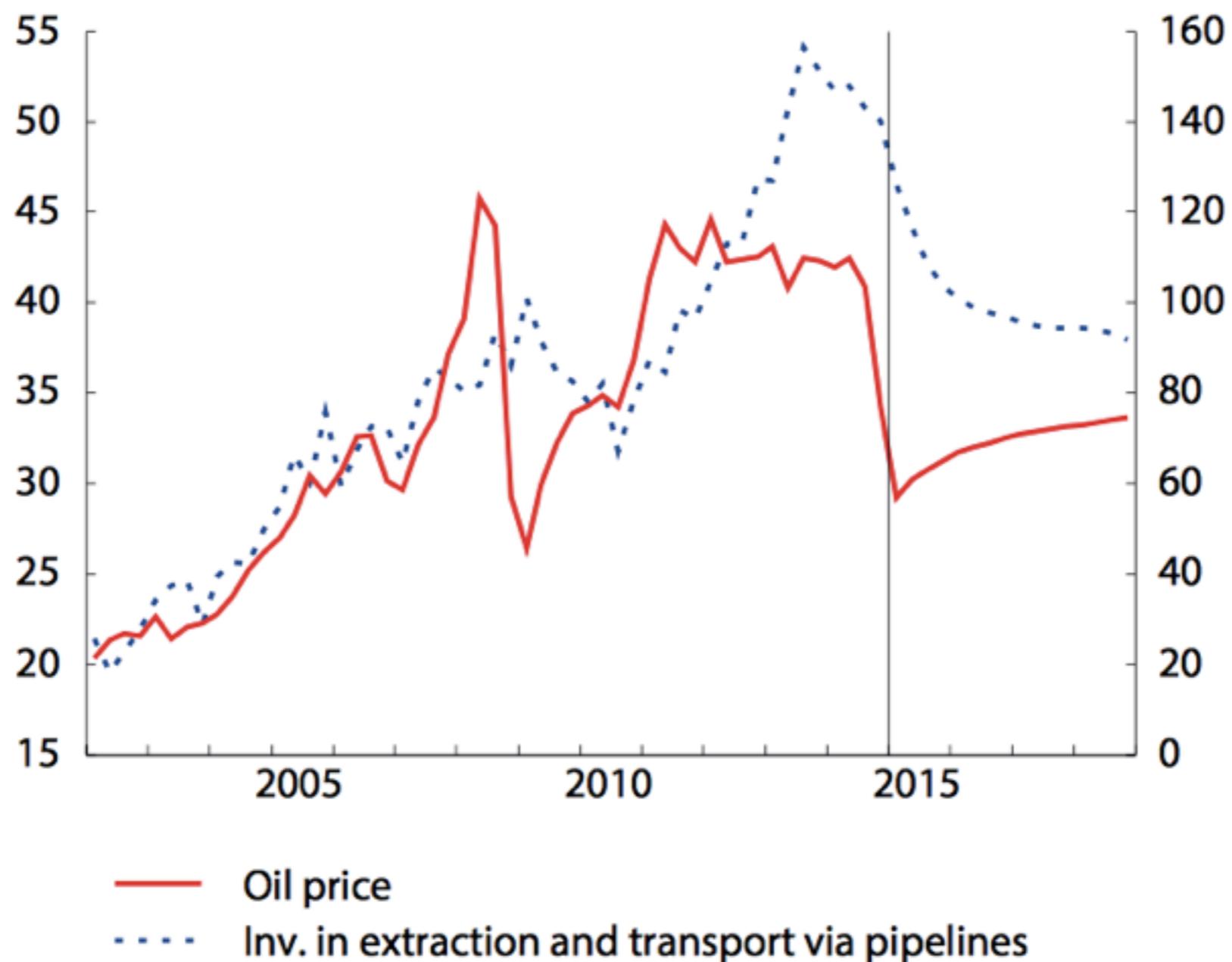
This isn't what we had in mind..

Crude oil brent price, US\$ per barrel



Growth in oil investments has been important to keep the economy running in recent years

Figure 8. **Petroleum investments and oil price in USD. Seasonally adjusted, billion 2012-kr., quarterly**



Source: Statistics Norway.

How important is the oil sector for the rest of the economy?

One could hope that this is a «tale of two economies»...

Oil production



Mainland Norway

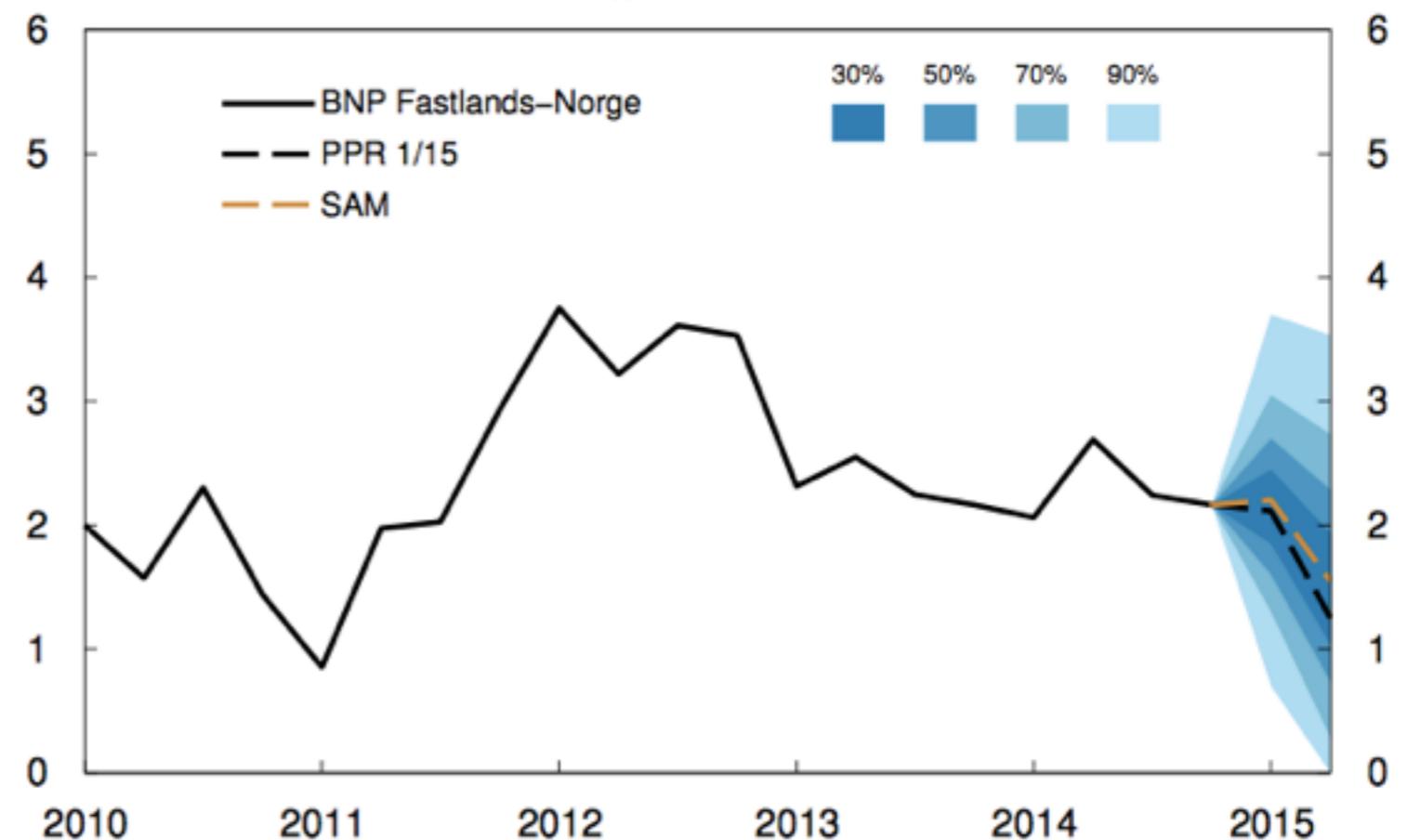


But «unfortunately» the oil sector matters quite a bit

- Large part of the mainland industry has developed into supply industry for the oil sector
- Demand from oil companies has also been important for many services, such as consulting
- For these reasons, GDP growth is expected to decline in the year(s) ahead

Figur 1.16 BNP for Fastlands-Norge. Faktisk utvikling, anslag i referansebanen og fremskrivninger fra SAM¹⁾ med usikkerhetsvifte.

Firekvartalersvekst. Volum. Sesongjustert. Prosent. 1. kv. 2010 – 2. kv. 2015²⁾



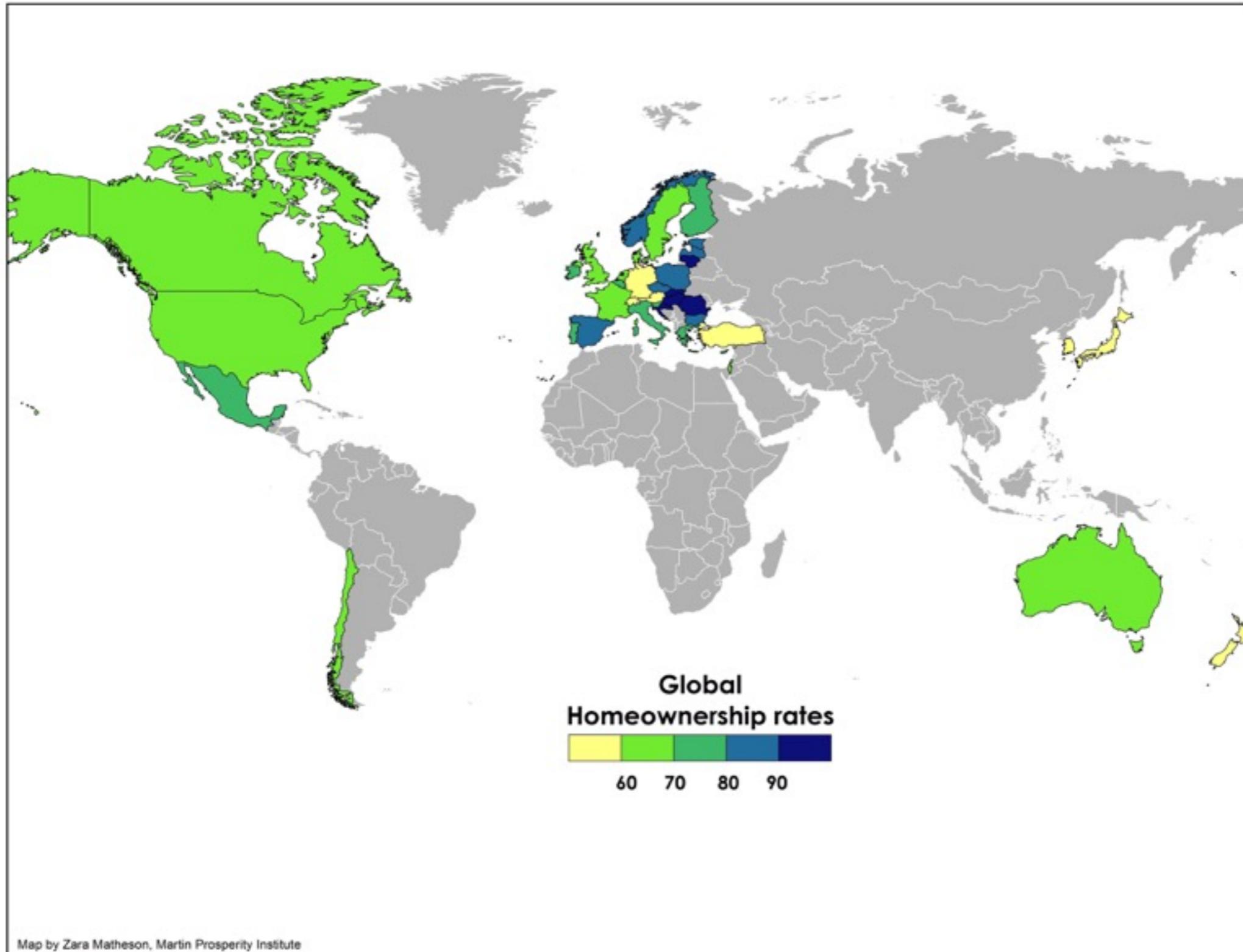
1) System for sammeneiling av korttidsmodeller

2) Anslag for 1. kv. 2015 – 2. kv. 2015 (stiplet)

Kilder: Statistisk sentralbyrå og Norges Bank

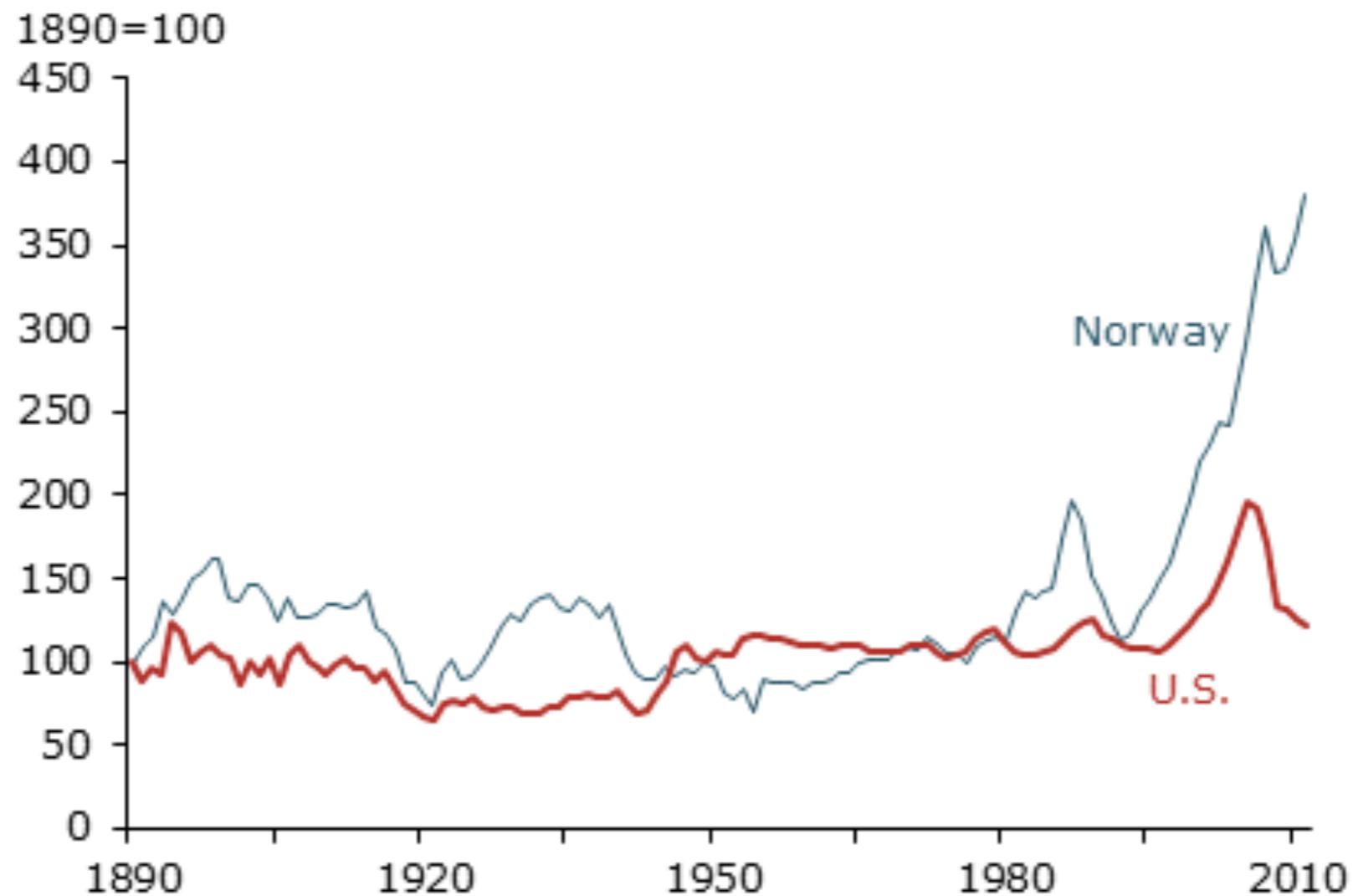
The housing market

A nation of home owners ...



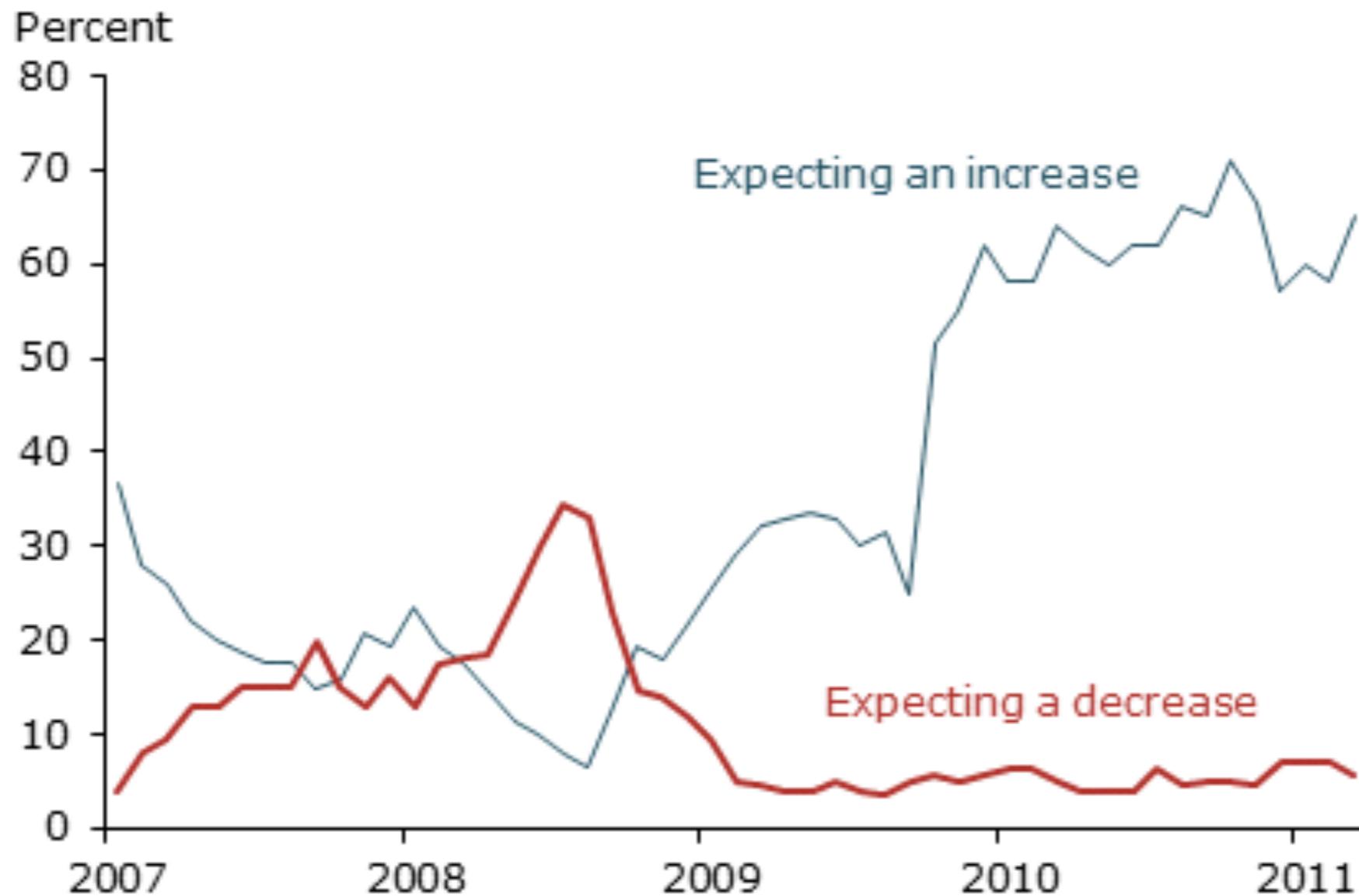
Did someone order a bubble?

Real house price index for Norway and the US
(Jurgilas and Lansing, 2012)



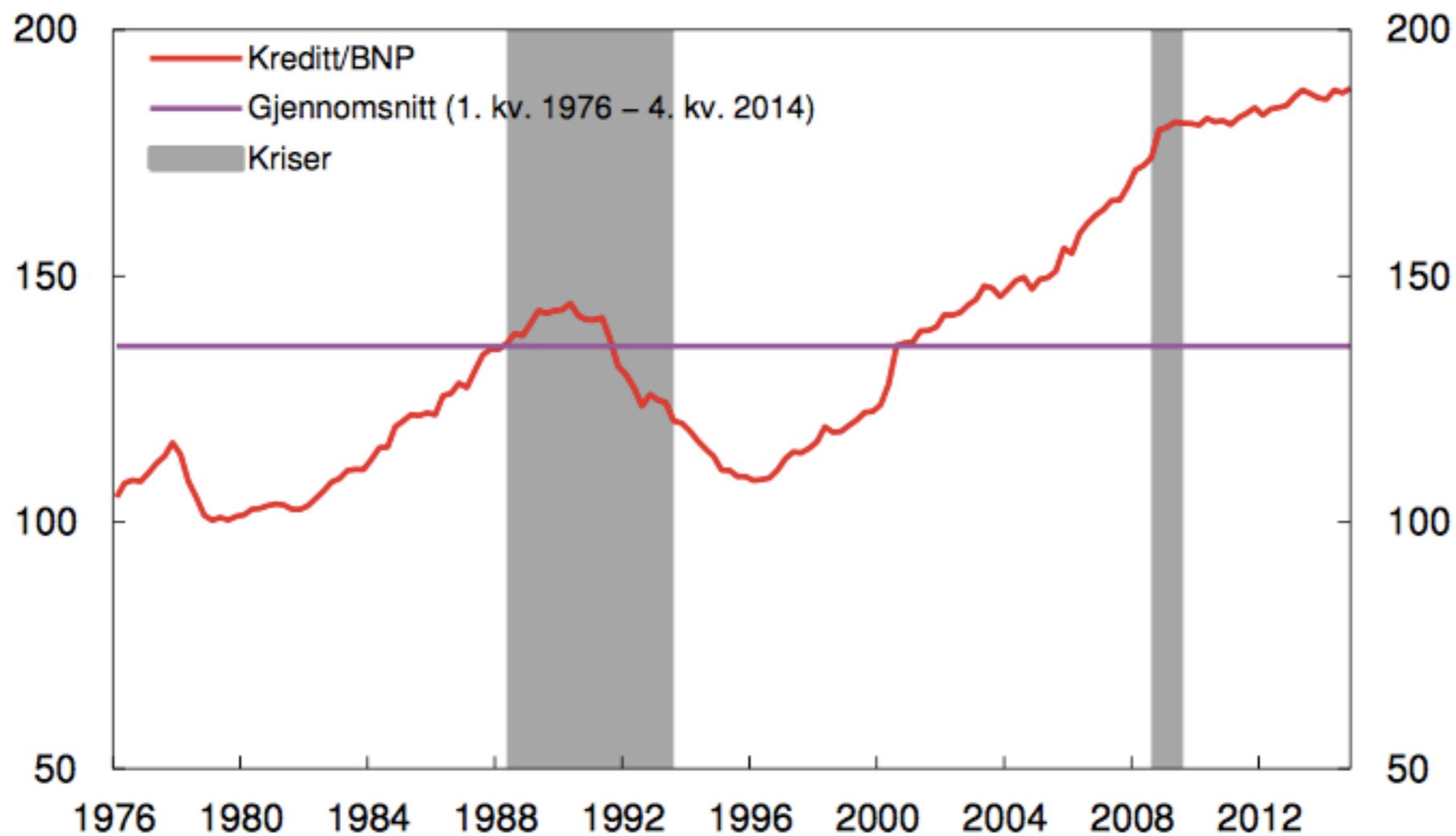
But surely what goes up must come down?

Households' house price expectations in Norway (Jurgilas and Lansing, 2012)



A house of debt

Figur 3.1 Samlet kreditt¹⁾ for Fastlands-Norge som andel av BNP for Fastlands-Norge. Prosent. 1. kv. 1976 – 4. kv. 2014

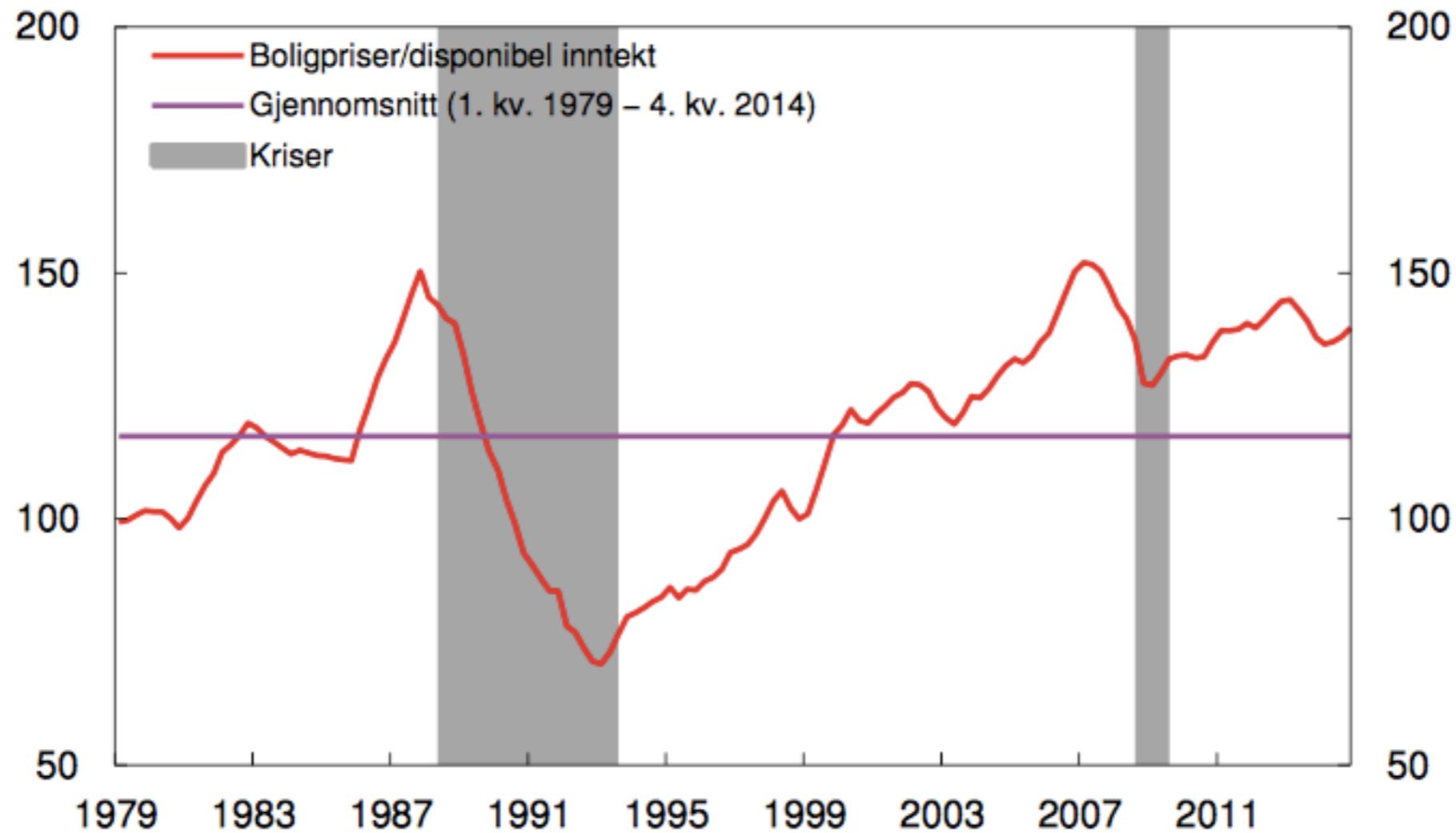


1) Summen av K2 husholdninger og K3 ikke-finansielle foretak i Fastlands-Norge (alle ikke-finansielle foretak før 1995). K3 inneholder K2 og utenlandsgjeld

Kilder: Statistisk sentralbyrå, IMF og Norges Bank

But income has grown a lot, too

Figur 3.7 Boligpriser i forhold til disponibel inntekt.
Indeks. 4. kv. 1998 = 100. 1. kv. 1979 – 4. kv. 2014



Kilder: Statistisk sentralbyrå, Eiendom Norge, Norges Eiendomsmeglerforbund (NEF), Finn.no, Eiendomsverdi og Norges Bank

Have house prices and credit grown too fast?

- In March this year, the Minister of Finance expressed her worry about rising household debt and house price levels
- The Financial Supervisory Agency was asked to come up with policy suggestions
 - Limits on Loan-to-Value, minimum amortization rate, minimum requirements for how high interest rates one can bear
- Their proposal is now on public hearing

Economic policy

The Scandinavian Welfare Model

- Social security net
 - Public disability insurance
 - Social security benefits
 - High unemployment benefits
 - ◆ Given some criteria, there is a 60% replacement ratio
- Birth leave
 - A couple gets almost one full year of birth leave (10 weeks reserved for dad, but he can take out more).
 - This, in combination with a large expansion in the supply of kindergartens has probably lead to an increase in women's labor force participation

Norwegian Tax System (2012)

- Payroll tax (2013)
 - In 2012 the average monthly wage was 39.600 kroner (\$6.500; €4.800)
 - Taxrates
 - 28% +7.8 %
 - Personal deduction (untill 78 150 kroner)
 - Average tax rate app. 33 %
 - But marginal tax rate is increasing till 48 % (to high pursuant to OECD)
 - Surtax, step 1: 9 % above 509.000 NOK
 - Surtax, step 2: 12 % above 823.300 NOK
- Wealth tax
 - 1,1 % (if net wealth above 870.000 NOK)
- Property tax at a local level - but not substantial in size
- Mortgage interest deduction (28 % of the interest paid are withdrawn before payroll tax are estimated)
- Indirect taxes
 - VAT. is 25 % on most goods and services
 - High taxes on all aspects of using a vehicle

Politics and its Influence on Growth

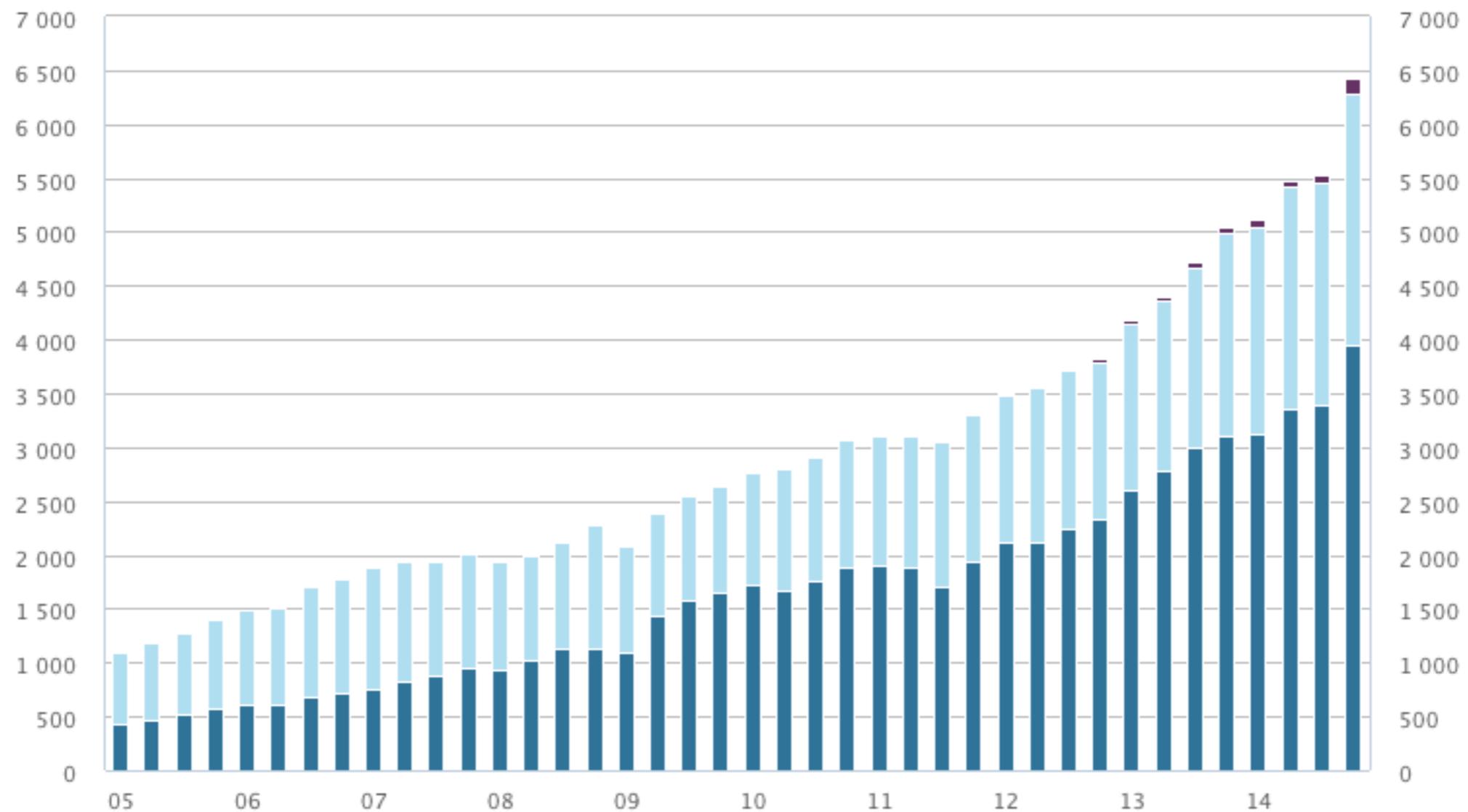
- Government intervene in most part of the economy
 - Public sector employment as share of total employment – 30%
 - Too a less degree publicly financed businesses providing public services
 - Public corporations
 - Important parts of the economy: Infrastructure, oil and gas, electricity, telecom, transport, banking
 - New technology: Innovation centres (green tech, export industry, R&D)
 - Important for the equality: Educational system, health care
- Taxes and subsidies
 - Tax things you dislike (tobacco, pollution etc)
 - Subsidy thing you like (tech, green tech, farming, electric cars etc)

Talking about subsidies..



The oil fund: Size in billions of NOK (Norwegian Mainland GDP was about 2 500 billion in 2014)

Milliarder kroner



Fiscal Policy Guidelines – Norway equivalent to the Maastrichts criteria

- The spending rule:
 - The government can use 4 % of the Fund's assets each year
 - More in bad years, less in good years (at least that is the idea)
 - Stabilizes the economy
 - Makes us less dependent on the oil rent
 - Saving for future generations
 - The population is getting older and older - when will the fund be eaten up??

Monetary policy

- As in most Western countries, the central bank is (quite) independent, and has been given a mandate of targeting inflation.
- Inflation target: 2.5% per year.
- But Norges Bank also looks at the real economy (unemployment) and the exchange rate. Important that they don't create unnecessary movements in any of these variables
- Also worry about financial stability?

The labor market

How it is organized

- Compared to many other countries, the Norwegian labor market is heavily regulated
- Better word: «Centrally organized»
- Strong (and too rigid?) employment protection (limiting the number of hours overtime, rest time)
- «Trepertssamarbeid» between the state, the employers organization, and unions

Wage setting

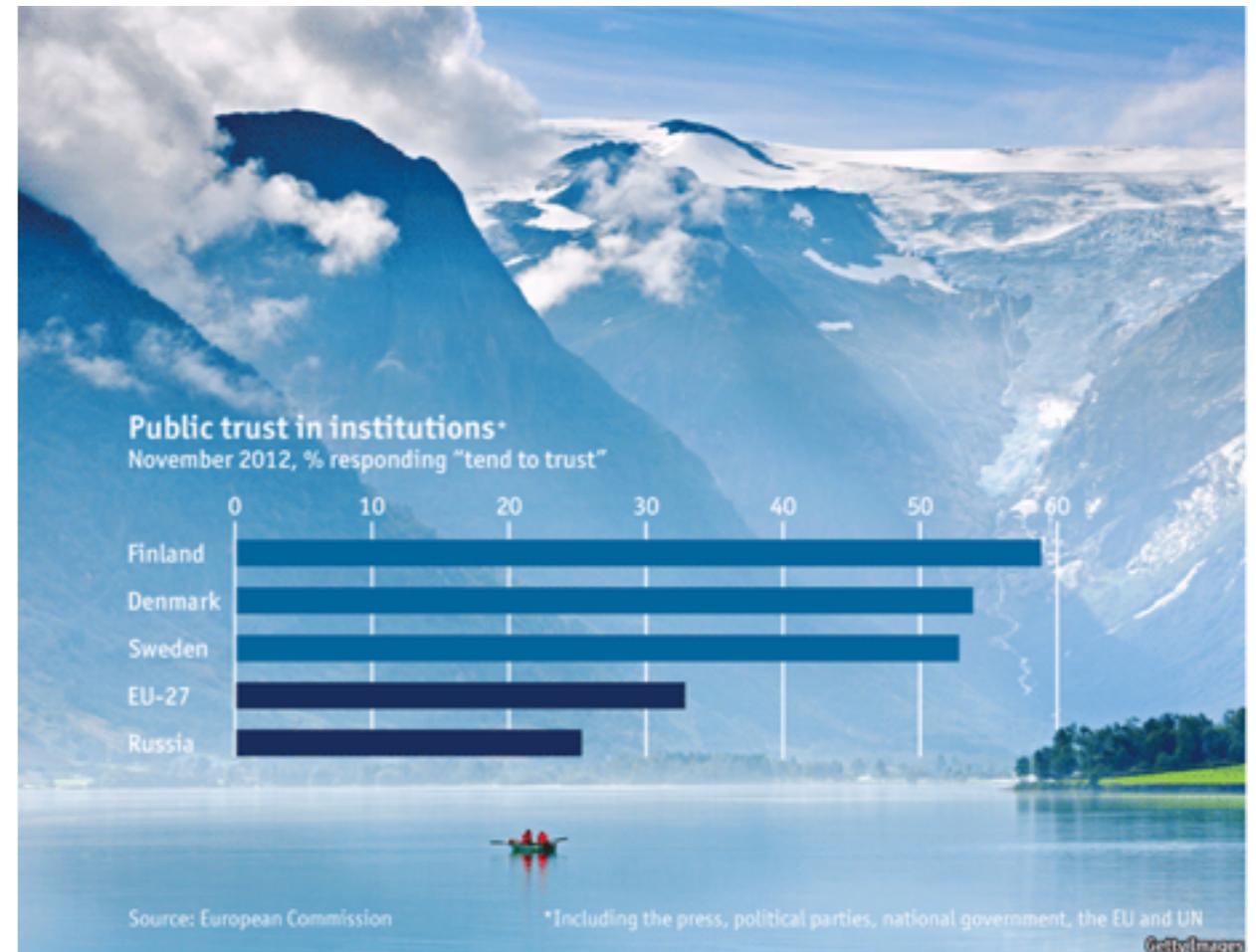
- Main negotiations every second year
- Central negotiations between the employers organizations and unions.
- The «main course model: The exposed sector negotiates first. Their wage growth should reflect growth in productivity and international prices
- All other sectors negotiate afterwards, using the settlement in the exposed industry as a norm

Collaboration, Trust and Equality

- Success by working together
 - Centralized wage bargaining (LO – NHO)
 - Differences are small
 - Relative high wages for those without/with lower education
 - Relative low wages for executive's
 - Sharing profits
 - There is generally a high level of trust between the negotiating parties, and in the economy in general

Trust...

- High degree of trust
 - JD survey asked in an international survey: "...can most people be trusted..."
 - Norway are rated highest, with Sweden the closest
 - Reader's Digest: Ten vallets (\$50)
 - Mexico (21), USA (67), Norway (100)
 - Effects and consequences of having trust to people
 - You are expected to keep your promises and tell the truth
 - People have trust in salesmen,
 - Fewer written contracts or law suits
 - No reason to spend time on
 - Verbal agreements have the same legally status as written contracts
 - A larger part of the public pays taxes when they trust the government to spend it wisely



Challenges to the «Norwegian model» of wage determination

- Oil industry has lived its own life with rapid wage growth. Hard for non-oil related industry to keep their employees
- A large, and still increasing, number of academics in the public sector push the wage level there up
- Immigration to Norway, primarily from Eastern Europe, has led to downward pressure on wages in traditional industry, construction and other service industries

Summary

Summary

- Resources have been an essential ingredient for the economic development in Norway the last 40 years
- But a well-functioning welfare system and labor market have also been important
- One remarkable thing about Norwegian politicians is that they have managed to save so much of the oil revenue. Spending rule limits the use of «oil money»
- Housing market has been booming. Is there a bubble on the horizon?
- Collective wage setting still rules the day, but for how long?

The Luckiest Nation on Earth?

- Although international comparisons may overstate how «great» the Norwegian economy is, it is in a good position. Maybe Norway is in fact the luckiest nation on earth, at least when it comes to its economy?
- Nice and friendly neighbors
 - Industrial countries, peaceful and similar culture and language
- Rich neighbors
 - Improves the possibilities for trade
- Resource endowment
 - Fisheries, black gold and electricity
- No long standing conflicts or disruptions
 - Did not participate in WW1.
 - Was barely affected by WW2 compared to most European countries