

## Oil cloudiness

### General Information



<b>GDP</b>	USD499.667bn (World ranking 23, World Bank 2012)
<b>Population</b>	5.02 million (World ranking 117, World Bank 2012)
<b>Form of state</b>	Constitutional Monarchy
<b>Head of government</b>	Erna SOLBERG
<b>Next elections</b>	2017, legislative



### Strengths

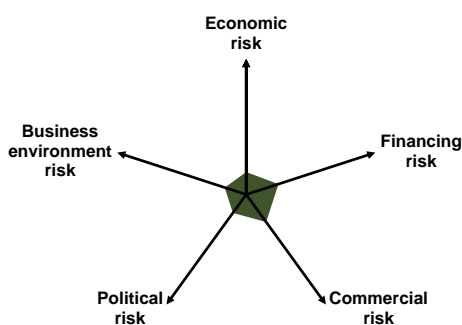
- Solid banking system
- Significant natural resources
- Strong business environment
- Second highest per capita income in Europe after Luxembourg
- Highly skilled and educated workforce

### Weaknesses

- Very high household debt burden
- Loss in competitiveness
- High dependency on oil prices
- Low diversification of the economy

### Country Rating

**AA1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United Kingdom	23% 1	16% Sweden
Germany	10% 2	13% Germany
Belgium	10% 3	8% China
Sweden	8% 4	7% Denmark
Netherlands	7% 5	7% United Kingdom

By product (% of total)

Exports	Rank	Imports
Crude Oil	38% 1	6% Cars And Cycles
Natural Gas	26% 2	4% Refined Petroleum Products
Refined Petroleum Products	6% 3	4% Miscellaneous Hardware
Meat	5% 4	4% Non Ferrous Ores
Non Ferrous Metals	4% 5	4% Electrical Apparatus

Source: Chelem (2012)

## Economic Overview

### Main downside risks come from the fall in oil prices

GDP growth has grown by 3% on average over the past decade thanks to the rise in oil prices and to the rise of households' wealth on the back of rising property prices. Thus, Norway has been one of the strongest growing economies of the developed ones over the past decade. However, the pace of GDP growth has been halved since 2011, growing by only 1.5% on average mainly given the fall in the oil sector output. Capital spending in the energy sector fell recently after several years of record-high activity and this has been visible in the level of total petroleum production (see Chart 1). Prospects for energy investment in 2015 remain on the downside as suggested by the investment survey. Lower oil prices since mid-2014, expected to remain below 100 USD/barrel until H2-2016 will hold back exports since 70% of exports are energy linked. Overall, we expect GDP growth to slow down to 1.7% in 2015 after +2.0% in 2014 and to gain pace somewhat in 2016 (see Table 1).

### Solid consumer spending ahead supported by real wage gains

Inflation has trended lower since August 2013 and stands at 1.9% y/y in November, below the Central Bank official target of 2.5%. Real purchasing power of households is supported by lower inflation (see Chart 2) and solidly rising wages. Consumer spending should prove relatively strong on the back of low unemployment that will remain supported by the expanding labor force thanks to foreign workers, high savings and house prices at historically high levels that has increased households' wealth. Higher public transfers would also be supportive for household consumption. However, households have rapidly accumulated debt in recent years with household debt at record high levels of around 220% of disposable income. The policy rate has been cut by -25bp on December 11 (to 1.25%) while the consensus was expected a status quo at 1.5%. Note that 1.5% was a record low level last April 2012. The cut is supportive for consumer spending given that loans to consumers that are mainly based on floating interest rate. We expect inflation to remain around 2% on average in 2015 which provides potential for further rate cuts.

### Room of manoeuvre for public spending increase

The government has enough leeway to support the Norwegian economy under the existing budget rules. The budget surplus is foreseen to remain highly comfortable in the coming years while public debt as a percentage of GDP remains low compared to other European countries. Further, the oil fund still has huge reserves of USD850bn and the government has recently announced that they will use USD23bn (NOK164bn) for additional spending in 2015 while increasing the 2014 spending by +1% to USD20bn (NOK142bn) which is in line with rule of not spending more than 3% of the value of the Fund per year. The governing coalition also announced tax cuts of USD1.3bn (NOK8.3bn) of which wealth tax cut to 0.75% from 1% and corporate tax cut from 28% to 27%.

Table 1 Key economic forecasts

Norway	share	2013	2014	2015	2016
<b>GDP</b>	100%	0.8	2.1	1.7	2.0
<b>Consumer Spending</b>	40%	2.2	1.8	1.9	2.2
<b>Public Spending</b>	2%	1.7	3.2	2.2	2.2
<b>Investment</b>	22%	6.9	1.3	0.9	1.7
<b>Stocks</b>	*	4%	0.4	0.6	0.5
<b>Exports</b>	4%	-3.0	0.4	0.7	1.0
<b>Imports</b>	28%	4.1	1.2	1.9	2.2
<b>Net exports</b>	*	13%	-2.4	-0.2	-0.2
<b>Current account</b>	**	334	339	307	312
<i>Current account (% of GDP)</i>		10.9	10.8	9.5	9.2
<b>Employment</b>		0.7	1.0	1.1	1.3
<b>Unemployment rate</b>		3.5	3.5	3.5	3.4
<b>Wages</b>		3.6	2.7	2.7	3.2
<b>Inflation</b>		2.1	1.9	2.0	2.2
<b>General government balance</b>	**	338	333	324	321
<i>General government balance (% of GDP)</i>		11.0	10.6	10.0	9.5
<b>Public debt (% of GDP)</b>		29.7	29.0	29.0	29.0
<b>Nominal GDP</b>	**	3 069	3 146	3 238	3 376

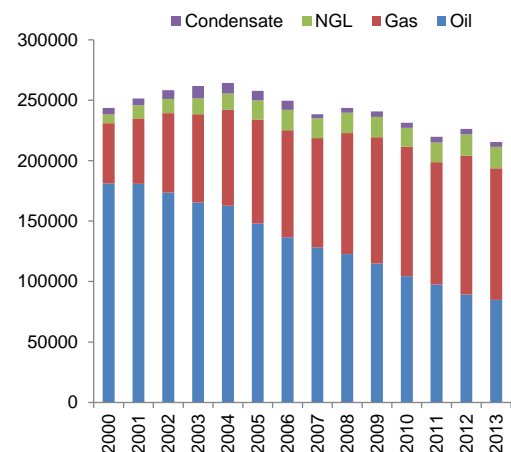
Change over the period, unless otherwise indicated:

\*contribution to GDP growth

\*\*NOK bn

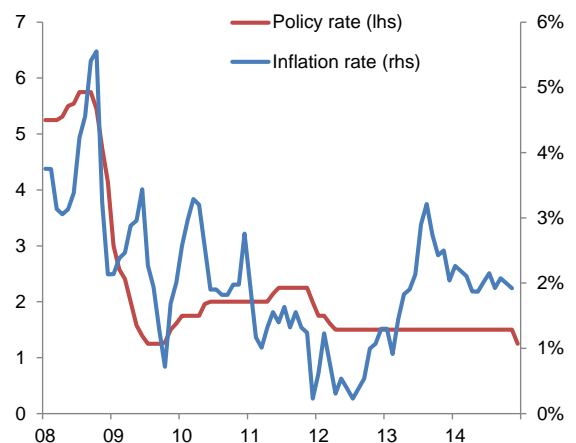
Sources: National sources, IHS, EulerHermes

Chart 1 Total petroleum production (1 000 Sm3)



Sources: Statistics Norway, EulerHermes

Chart 2 Monetary policy indicators



Sources: National sources, IHS, EulerHermes

During its 4-year mandate started in 2013, the government also supports a reduction of the country's dependence on the oil sector, additional investments in infrastructure (USD17bn over the next 5 years) and curtailing immigration.

### Business insolvencies remain close to 2009 highs

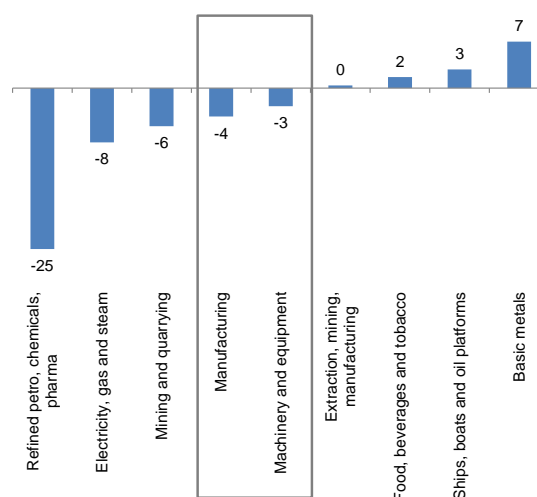
Business insolvencies are expected to fall in 2015 (-3% to 4,700 cases) after 2 consecutive years of rises. However, they remain 65% above the 2007 level and the downside correction has been very modest since they continue to stand close to 2009 high.

Unfavourable unit labor cost developments on the back of strong wage rises and krone appreciation are likely to continue to hurt firms' external competitiveness. Although the krone has somewhat lost ground against the euro since July on the back of a more dovish monetary stance of the Norges Bank we expect this downside trend to moderate given the strong current account surplus and good fundamentals. As a result of weakening competitiveness coupled with softer economic prospects and slowing prices turnovers are on the downside for a majority of sectors (see Chart 3). Credit to non-financial corporations is slowing down (see Chart 4) given the weak investment growth.

### Current account surplus is softening quite fast, but remains one of the highest in Europe

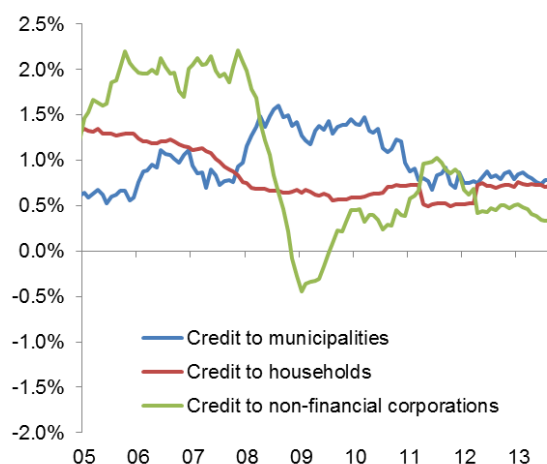
Although the outlook for exports has deteriorated given the fall in oil prices, the current account surplus will still remain large. Indeed, Norway would continue to enjoy solid demand for hydrocarbons (7<sup>th</sup> world biggest exporter) and electricity that would support the current account surplus, expected to reach +9.5% of GDP in 2015 and +9.2% of GDP in 2016 – see Table 1. This is undeniably far below the +13% average between 2007 and 2013, but the external position remains largely comfortable.

Chart 3 Turnovers by sector, Sept 2014 vs Sept 2013



Sources: National sources, IHS, Euler Hermes

Chart 4 Credit to private sector by agent, y/y



Source: Norway Statistical Institute (SSB), Euler Hermes forecasts

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