Euler Hermes Economic Research

Country Report

Norway

Oil prices not high enough to bring back substantial growth

General Information

GDP	USD386.578bn (World ranking 28, World Bank 2015)
Population	5.2mn (World ranking 118, World Bank 2015)
Form of state	Constitutional Monarchy
Head of government	Erna SOLDBERG
Next elections	September 2017, legislative

Strengths

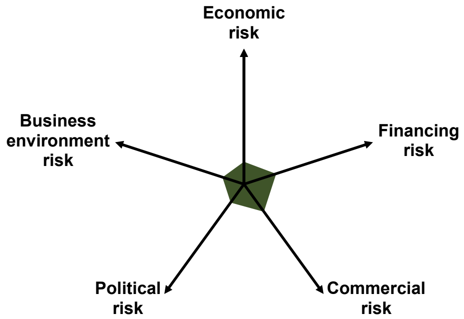
- Full integration in the EU's internal market and free travel zone. Member of the WTO and the OECD
- Strong business environment supported by a wide political consensus
- Second-highest per capita income in Europe after Luxembourg and fourth globally
- Highly skilled and educated workforce
- Profitable banking system and financial stability
- Robust fiscal framework and ample support by the Government Pension Fund Global

Weaknesses

- Persistently low energy prices
- Structurally weak growth in advanced economies
- Brexit impact: the UK is the first export market for Norway
- Low diversification of the economy
- Very high household debt level (225%)

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United Kingdom	19%	1	14%	Sweden
Netherlands	13%	2	12%	Germany
Germany	10%	3	9%	China
France	9%	4	7%	Denmark
Sweden	9%	5	7%	United Kingdom

By product (% of total)

Exports		Rank		Imports
Natural Gas	26%	1	7%	Ships
Crude Oil	26%	2	6%	Cars And Cycles
Meat	8%	3	4%	Miscellaneous Hardware
Refined Petroleum Products	5%	4	4%	Electrical Apparatus
Non Ferrous Metals	5%	5	3%	Non Ferrous Ores

Source: Chelem (2015)

The Norwegian economy has bottomed out

Norwegian GDP growth continued to lose momentum in 2016. At a humble yearly figure of +0.9%, growth was down by 0.7pp from the previous year and the lowest since 2010. Q2 and Q3 were the worst as a contraction was recorded (-0.1% and -0.6% q/q, respectively).

As 28% of GDP relies on the oil & shipment industry and more than 60% of the Norwegian exports are oil-related, the plummet in global energy prices hit the economy in full force.

The Brent price fell by -16% in 2016 reaching an average price of 45 USD/barrel, after hitting rock bottom with 31.5 USD/barrel in January.

In addition, the continued weakness of global demand and the recent real exchange-rate appreciation have weighed on Norwegian real exports, down -1.3% over the year.

Prospects are more positive for the next years. Alongside a recovery in the world economy (global GDP growth up +2.9%), oil prices are set to go up. Euler Hermes forecasts the Brent price to increase to 57 USD/barrel on average in 2017 and 59 USD/barrel in 2018.

Thus, Norway should see a rebound in GDP growth to +1.5% in 2017 and +1.8% in 2018, in line with the long-term average.

Looking forward, the main risks remain the possibility of another oil price shock as well as the export reliance, especially on the UK (19% of total exports) in the context of the Brexit and the loss in purchasing power in the UK.

The private sector has paid the price

The manufacturing sector has taken a hit from the fall in oil prices with turnover down -7% in 2016. This compares to +0.4% for the EU as a whole (see Figure 3). Profits for non-financial corporations have also diverged from the EU trend: -2pp in 2016 vs +0.1pp in the EU.

Metal and Construction, along with the oil sector, contributed most to major insolvencies. The overall figure was up +2% in 2016. Euler Hermes expects the number of insolvencies to remain unchanged in 2017.

Household consumption growth also proved less buoyant (+1.5%), the lowest since the financial crisis. Indeed, as inflation rose faster than wages, households' purchasing power diminished.

To maintain their consumption level, consumers burnt through their savings. The savings ratio was down from 15.6% of disposable income in 2015 to 12.8% in 2016 (see Figure 4).

Households' debt remains at a high 225% of net disposable income, ranking 4th of all OECD countries. Going forward, private consumption should recover gradually: +1.9% in 2017 and +2.1% in 2018 (see Figure 1).

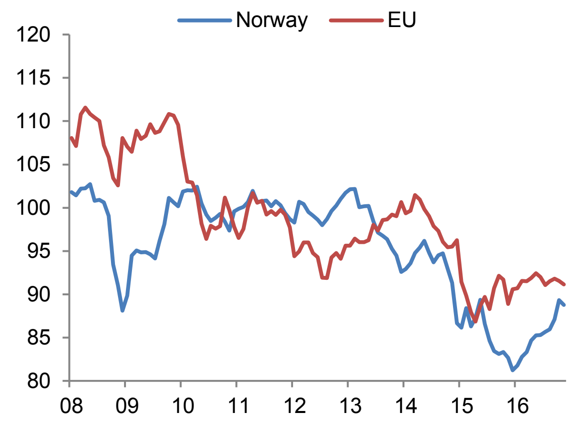
Figure 1 - Key economic forecasts

Norway		share	2015	2016	2017	2018
GDP		100%	1.6	0.9	1.5	1.8
Consumer Spending		41%	2.1	1.5	1.9	2.1
Public Spending		22%	2.0	2.2	1.8	1.9
Investment		22%	-3.8	0.3	2.2	2.7
Stocks	*	5%	0.1	0.4	-0.2	0.0
Exports		40%	3.9	-1.3	0.9	2.2
Imports		30%	1.5	0.3	1.2	3.1
Net exports	*	10%	1.1	-0.6	0.0	-0.1
Current account	**		270	153	173	183
Current account (% of GDP)			*8.7*	*4.9*	*5.4*	*5.5*
Employment			0.5	-0.1	0.4	1.1
Unemployment rate			4.4	4.7	4.5	4.4
Wages			2.6	3.2	2.9	3.7
Inflation			2.3	3.5	1.9	2.1
General government balance	**		265	170	92	103
General government balance (% of GDP)			*8.5*	*5.5*	*2.8*	*3.1*
Public debt (% of GDP)			*27.9*	*25.2*	*22.8*	*20.9*
Nominal GDP	**		3 118	3 104	3 233	3 363

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**NOK bn

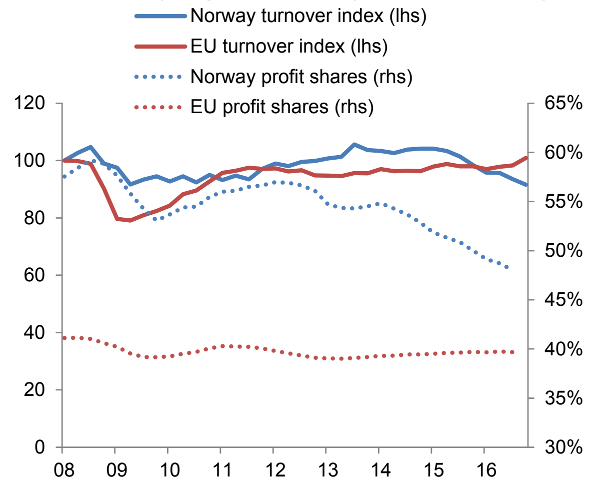
Sources: National statistics, IHS, Euler Hermes

Figure 2 - Real effective exchange rate (REER) of Norway and the EU



Sources: IHS, Euler Hermes

Figure 3 – Turnover in manufacturing sector index (Q1 2008 = 100) vs profit shares (% of value added)



Sources: Eurostat, Euler Hermes

Last review: 2017-03-08
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A supportive macroeconomic policy mix

To counter the negative effects of the oil shock and declining exports, Norges Bank eased its key interest rate by -0.25bp to +0.5% in March 2016 following a -0.6bp cut in 2015.

Combined with the effects of exchange-rate imported inflation, domestic consumer prices rose by +3.5% in 2016, 100bp over the 2.5% target of Norges bank.

The sustained low-interest rates have fueled a housing boom, pushed up residential investment and housing wealth. Norwegians still enjoy the fourth-highest GNI per capita in the world (World Bank data).

Yet this prevented Norges Bank from adopting a more accommodative monetary policy, especially as inflation is expected to crawl up toward the 2.5% target rate in 2017.

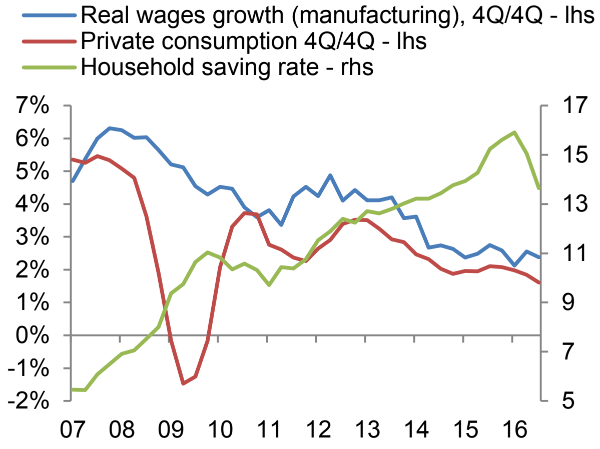
The fiscal policy has been the main public instrument to counter the oil shock. The government drew on its significant fiscal surplus to stimulate activity.

Tax cuts for corporates and labor market activation programs were implemented. The government balance declined to +3% of GDP, against +5.5% in 2015.

These expansionary measures are set to be further pursued, albeit at a lower scale. The budget will implies the government will continue to withdraw funds from the national petroleum fund (the Government Pension Fund Global or GPFG).

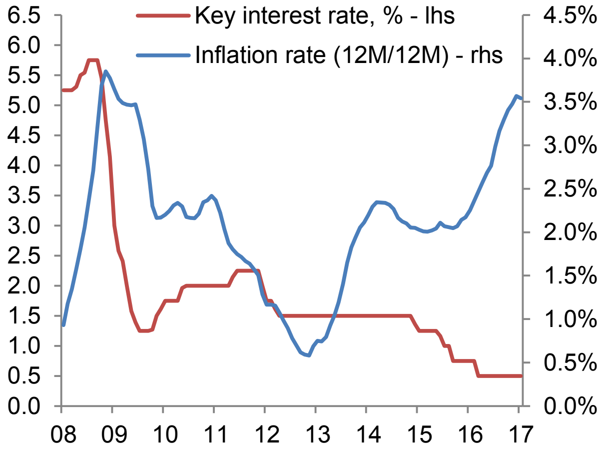
In the meantime, the government's decision to reorient investments toward renewables will translate into potential tax increase for diesels and for the CPFG to opt out from coal-related assets.

Figure 4 - Private consumption vs. real wages growth and household saving rate



Sources: National statistics, IHS, Euler Hermes

Figure 5 - Key interest rate vs. inflation rate



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