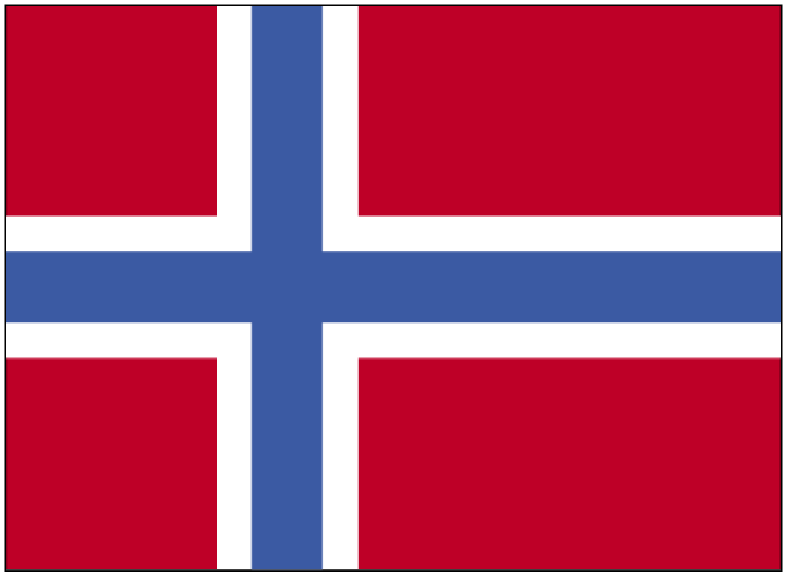
Rabobank

Country report

NORWAY



CRR advice:

The economic outlook for the Norwegian economy is solid. As there have been significant fiscal and monetary stimulus measures during the crisis, it's now time for the government to step back. Although public finances are in a very good state, politicians are determined to stick to the 4%-deficit rule, which stipulates that the non-oil structural government deficit should be around 4% of the value of the Government Pension Fund Global (GPFG). Besides that, the Norwegian economy is characterized by very strong fundamentals.

Things to watch:

- The rising old-dependency ratio (ageing) will put pressure on future public spending
- Relatively high level of household (mortgage) debt at floating interest rates
- Export growth relatively muted due to slow recovery in main trading partners and strong krone

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Norway

National facts		Social and governance indicators	rank / total
Type of government	Constitutional monarchy	Human Development Index (rank)	1 / 169
Capital	Oslo	Ease of doing business (rank)	8 / 183
Surface area (thousand sq km)	304.3	Economic freedom index (rank)	30 / 179
Population (millions)	4.9	Corruption perceptions index (rank)	10 / 178
Main languages	Norwegian	Press freedom index (rank)	1 / 178
		Gini index (income distribution)	25.8
Main religions	Church of Norway (85.7%)	Population below $1.25 per day (PPP)	N/A
	Other Christian (2.4%)		
	Muslim (1.8%)		
Head of State (president)	King Harald V		
Head of Government (prime-minister)	Jens Stoltenberg		
Monetary unit	NOK		

Economy		2010
Economic size	*bn USD*	*% world total*
Nominal GDP	420	0.67
Nominal GDP at PPP	275	0.37
Export value of goods and services	173	0.92
IMF quotum (in mln SDR)	N/A	N/A
Economic structure	*2010*	*5-year av.*
Real GDP growth	-0.2	1.4
Agriculture (% of GDP)	2	2
Industry (% of GDP)	40	42
Services (% of GDP)	58	56
Standards of living	*USD*	*% world av.*
Nominal GDP per head	85401	869
Nominal GDP per head at PPP	55917	479
Real GDP per head	63969	799

Foreign trade			2009
Main export partners (%)		*Main import partners (%)*	
UK	24	Sweden	14
Germany	13	Germany	13
Netherlands	11	China	8
France	9	Denmark	7

Main export products (%)	
Mineral fuels, lubricants and related materials (%)	65
Machinery and road vehicles (% share)	11
Manufactured goods (% share)	8
Food and beverages (% share)	6
Main import products (%)	
Machinery and transport equipment (% share)	40
Manufactured goods (% share)	15
Chemical and mineral products (% share)	10
Food and beverages (% share)	7
Openness of the economy	
Export value of G&S (% of GDP)	42
Import value of G&S (% of GDP)	28
Inward FDI (% of GDP)	3.0

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Full report:

The Norwegian economy was not hit hard by the recent financial crisis in comparison to most other industrialized countries (GDP fell by 1.4% y-o-y in 2009). Sound public finances allowed to keep the recession limited with several stimulus measures. In 2010 the economy as a whole expanded by 0.4% y-o-y, according to the National Statistics Office, but the slow increase was mainly the effect of a slowdown in oil and gas extraction. The Norwegian mainland economy experienced a moderate recovery of 2.2% y-o-y. The recovery was mainly driven by government consumption and private consumption, while exports and private investments were still decreasing.

The growth outlook for the Norwegian economy is quite stable (we foresee a slightly higher GDP growth for the economy as a whole than the EIU forecast of 1.5% y-o-y in 2011). We expect mainland GDP to grow around 3% y-o-y this year. The government plans to start consolidation measures from 2011 onwards and will contribute less to growth. High wage growth (unemployment is very low, 3.4%) and moderate inflation enable households to continue to increase private consumption at a solid pace. The Norwegian export sector experienced only a limited slowdown during the recession, but it doesn’t show signs of robust growth going forward. Export growth will remain limited due to a bumpy recovery in some of Norway’s main trading partners (e.g. UK) and because of the recent appreciation of the Norwegian krone against the euro. Finally, based on improving business sentiment, private investment (-10.2% y-o-y in 2010) is expected to recover in the coming years which will push economic growth upwards. In particular, the production outlook for consumer goods is very positive, which is a consequence of strong domestic demand. As a result of the economic recovery, job creation might bring down unemployment even further, but this will only arise gradually.

The large oil and gas resources (many of which are state-owned) make the Norwegian government financially very healthy (net public financial assets amount to 125%-GDP). These resources enabled the government to play an active role during the recent recession. These actions reduced the government budget from a surplus of 19.3%-GDP in 2008 to 9.0%-GDP in 2010. Regarding the government budget the key anchor (since 2001) is the rule which stipulates that the non-oil structural government deficit should be around 4% of the value of the Government Pension Fund Global (GPFG). This policy is followed to ensure revenues from the exploitation of non-renewable resources for future generations as on average only the nominal return on the invested proceeds is being spent in the budget. As a result of the stimulating policy, in 2009 and 2010 (for the first time since 2001) the non-oil structural government deficit exceeded the 4%-path significantly. The current minister of finance recently stated that the government plans to bring back this deficit as quickly as possible to levels below 4%, according to the policy rule. If the structural non-oil deficit were to be cut by 1%-GDP per year, the return to the path could be achieved by 2013 or earlier. Although there is no great necessity to reduce fiscal spending in the short term, in the medium and long term aging forms an important challenge. The fraction of elderly over the potential labour force is rapidly increasing until 2050, more or less at the same pace as the European average. In 2009 the first step of a pension reform was adopted to reduce the incentives to retire early, however the completion of this reform should be established as soon as possible. The current retirement age in Norway in 67, but from the age of 62 onwards there exist possibilities to receive a fraction of the full pension entitlements

Next to the stimulating fiscal policy, Norway's central bank decreased the key policy rate to 1.25% during the crisis. During 2009 and 2010 policymakers have increased this rate already three times to 2%. With inflation (1.2% y-o-y) currently still below target (2.5%) and only moderate economic recovery, we do not expect further rate hikes until the first half of 2011. In the near future fiscal policy is preferred over monetary policy as larger interest rate differentials will lead to an increase of foreign capital inflow and to a further increase of the Norwegian krone. After a severe depreciation of the krone (against the euro) in the beginning of the crisis, the krone has appreciated strongly since 2009. Despite this fact, it is expected that the central bank will again increase interest rates gradually from the second half of 2011 onwards.

In contrast to the strong public finances, the private sector is more indebted. Norwegian firms are relatively healthy (net debt is around 79%-GDP) partly supported by structural significant trade surpluses. However, households do have a relatively high debt level. The ratio of housing debt alone is 77%-GDP, which is substantially above the European average. High loan-to-value ratios not only contribute to the danger of an overvalued housing market, but the fact that many mortgages have floating interest rates (around 95% of total household loans) makes the household sector vulnerable to swings in interest rates. However, the financial and economic risk of this high debt level is modest as the financial sector is generally healthy and the overall mortgage default rate is rather low amid the favourable economic backdrop.

Norway

Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
Key country risk indicators							
GDP (% real change pa)	2.3	2.7	0.8	-1.4	-0.2	1.5	2.1
Consumer prices (average % change pa)	2.3	0.8	3.8	2.1	2.5	2.4	2.2
Current account balance (% of GDP)	17.3	15.6	17.9	13.2	12.5	12.9	11.5
Economic growth							
GDP (% real change pa)	2.3	2.7	0.8	-1.4	-0.2	1.5	2.1
Gross fixed investment (% real change pa)	11.7	12.5	2.0	-7.4	-10.2	3.0	2.7
Private consumption (real % change pa)	4.8	5.4	1.6	0.2	3.3	2.0	2.4
Government consumption (% real change pa)	1.9	3.0	4.1	4.7	3.1	2.3	2.0
Exports of G&S (% real change pa)	0.0	2.3	1.0	-4.0	-1.8	2.1	2.1
Imports of G&S (% real change pa)	8.4	8.6	4.3	-11.4	8.7	2.8	4.2
Economic policy							
Budget balance (% of GDP)	18.5	17.7	19.3	9.9	9.0	9.4	10.0
Public debt (% of GDP)	61	59	57	49	49	48	50
Money market interest rate (%)	3.1	5.0	6.2	2.5	2.5	3.3	4.5
M2 growth (% change pa)	14	17	4	2	5	6	4
Consumer prices (average % change pa)	2.3	0.8	3.8	2.1	2.5	2.4	2.2
Exchange rate LCU to USD (average)	6.4	5.9	5.6	6.3	6.0	6.3	6.5
Recorded unemployment (%)	3.5	2.5	2.6	3.2	3.6	3.3	3.0
Balance of payments (mln USD)							
Current account balance	58323	60460	80088	50123	52500	55700	49600
Trade balance	59857	60272	86473	54405	60500	65700	60300
Export value of goods	122789	137298	173598	121929	132500	142000	139300
Import value of goods	62933	77026	87126	67525	71970	76320	78950
Services balance	1371	833	233	1786	500	-300	-600
Income balance	-623	2001	-3148	-1660	-3500	-4500	-5100
Transfer balance	-2282	-2647	-3471	-4409	-5000	-5100	-5100
Net direct investment flows	-14552	-8713	-16392	-15668	-6644	-10340	-10450
External position (mln USD)							
International investment position	203700	226157	219150	324445	N/A	N/A	N/A
Total assets	794790	1012760	916524	1060110	N/A	N/A	N/A
Total liabilities	591090	786603	697374	735665	N/A	N/A	N/A
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	17.8	15.6	19.4	14.4	14.4	15.2	13.9
Current account balance (% of GDP)	17.3	15.6	17.9	13.2	12.5	12.9	11.5
Inward FDI (% of GDP)	2.0	1.0	1.6	3.0	1.9	1.6	1.5
International investment position (% of GDP)	60.4	58.1	48.0	84.2	N/A	N/A	N/A

Source: EIU

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