

Arne Jon Isachsen
BI Norwegian Business School
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The winner's curse - what does the oil money do with us?

David Landes: "Easy money is bad for you. It represents short-run gain that will be paid for in immediate distortions and later regrets."

The Government Petroleum Fund – now The Government Pension Fund Global (GPF) – has been surprisingly successful.

Why surprisingly? Because the internal fight of vested interests following discovery of oil, has been modest. White Paper to the Storting, number 25, 1973-74: The oil belongs to the people.

Why this modesty? Because of a strong state with legitimate power

- The Government appropriates the bulk of the oil rent (about 80 %)
- Succeeding in not spending it all
- OK management of the fund
- The model is accepted by people at large - legitimate

How come?

- Clever and honest civil servants
- Responsible politicians have carried the day
- And employers as well as employees being concerned with macro effects

BUT: All the time clever people come up with ideas to benefit their own business, coached in terms of the common good.

Bank and finance aggressive here, cf. Report of April 2015.

Good and suitable institutions very important.

EACH DAY – about 100 million NEW dollars to be invested.

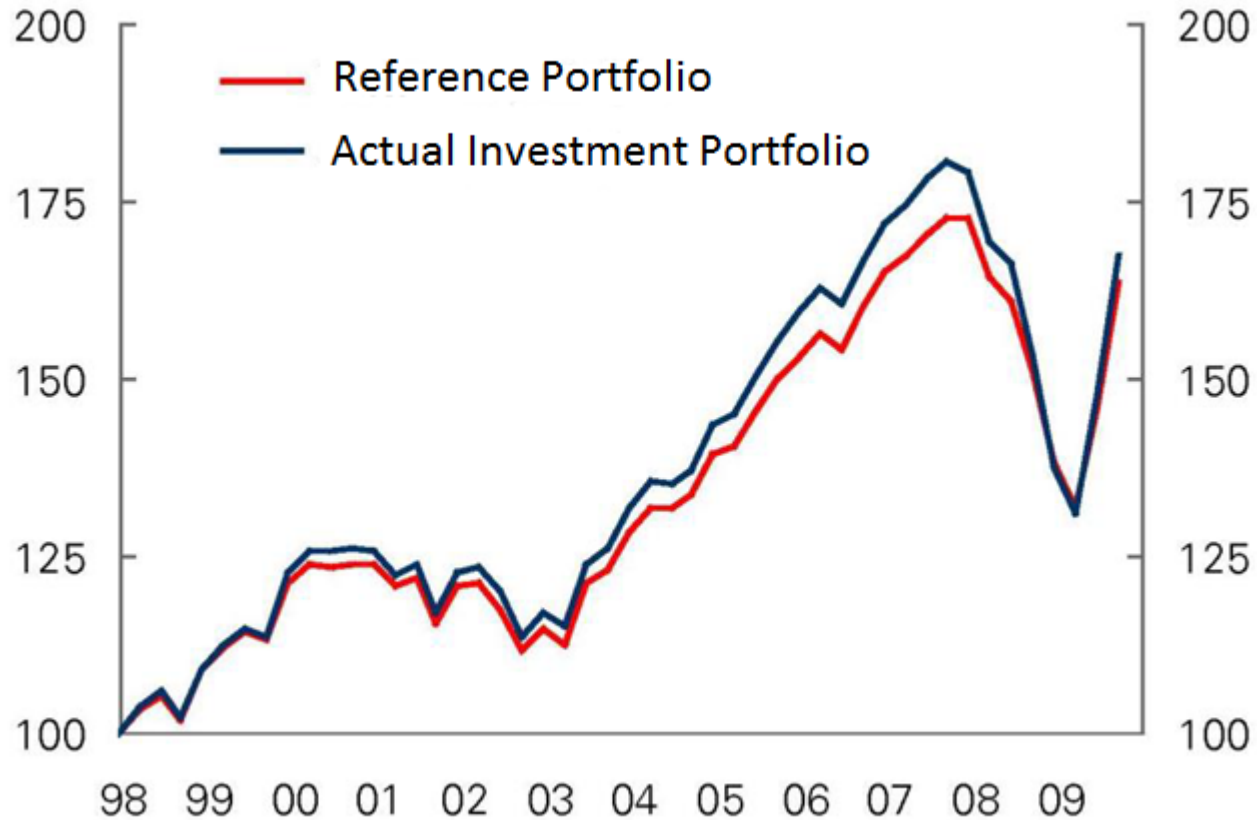
All the money is invested abroad. Alan Greenspan did not catch this idea, when recommending tax reduction to Congress in 2001.

Government Petroleum Fund in the beginning – only foreign bonds.

Then, 40 % in foreign stocks and 60 % in foreign bonds

2007: Reversal, 60 % in stocks and 40 % in bonds

2010: Real estate new asset class. Aiming for 5 %, by taking bonds down to 35 %.



2008 – GPFNG lost 633 bn. NOK of which 70 bn through "active management". Took "tale risk", perhaps without really knowing or understanding. When interest differentials between government bonds and commercial bonds stay put, "tracking error" does not pick up the risk.

Accumulated excess returns over ten years evaporated.

Professor Andrew Ang to a Norwegian blogger:

" ... the rolling analysis shows that a large part of the fund's active losses could have been anticipated because of the large factor exposures computed ex ante."

Ex ante are the crucial two words here.

- Oil production – learning the trade ourselves. Statoil.
- Similar strategy with the money – Government Petroleum Fund established.
- Investment in real estate next? Target of 5 % in this asset class. May well be, say, 20 %.

Approaching 3 % of Europe's stocks. And more than one per cent on a global basis. Politically – is there a limit?

More in real estate? What kinds of real estate? Concerned about ownership rights in the long term.

Two pillars

- The Budgetary Rule – only 4 % of the fund on the budget
- NBIM with monopoly on management.
 - FIN is the owner
 - NBIM is the fund manager

Is the owner sometimes overruled by the manager?

Political discussions continuously.

Left and Right must be "paid off".

Green technology, Ethical Council, Companies out of the list,
Responsible investments, to the liking of the left.

Norfund – that invests in emerging markets, to the liking of the right.

Boeing and Walmart taken out. Not to the liking of the US ambassador.

Mantra: "The investment strategy is based on achieving the highest international purchasing power from the capital in the fund, with a moderate level of risk."

Annual report to the Storting about the activities of FIN and NBIM. Have they adhered to the rules?

- Solid piece of work.
- Not easily accessible to the public at large.

Norges Bank Watch as a model for FIN/NBIM Watch?

NB Watch – independent evaluation of monetary policy.

Been around for 15 years.

- Report presented in public seminar
- Commented on by the Governor or Deputy Governor
- Followed by an open discussion

Should the The Supervisory Council of Norges Bank take action here, seeing to FIN/NBIM Watch?

I think it should. Would improve legitimacy.

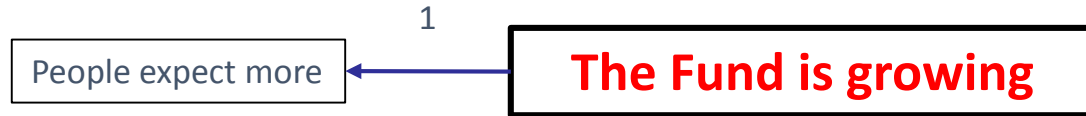
What to do with the "oil money" – the topic of many seminars.

Equally important: What does the oil money (resource rent) do to us?

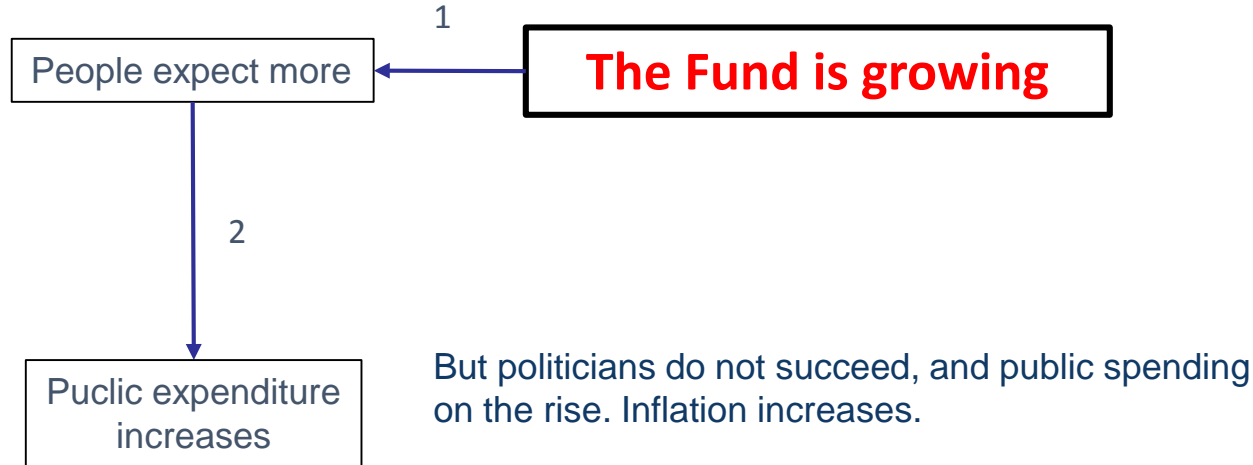
- Labor market participation rates are on the decline
- Expectations and demands on the rise
- "This is not acceptable in the world's richest country ..."

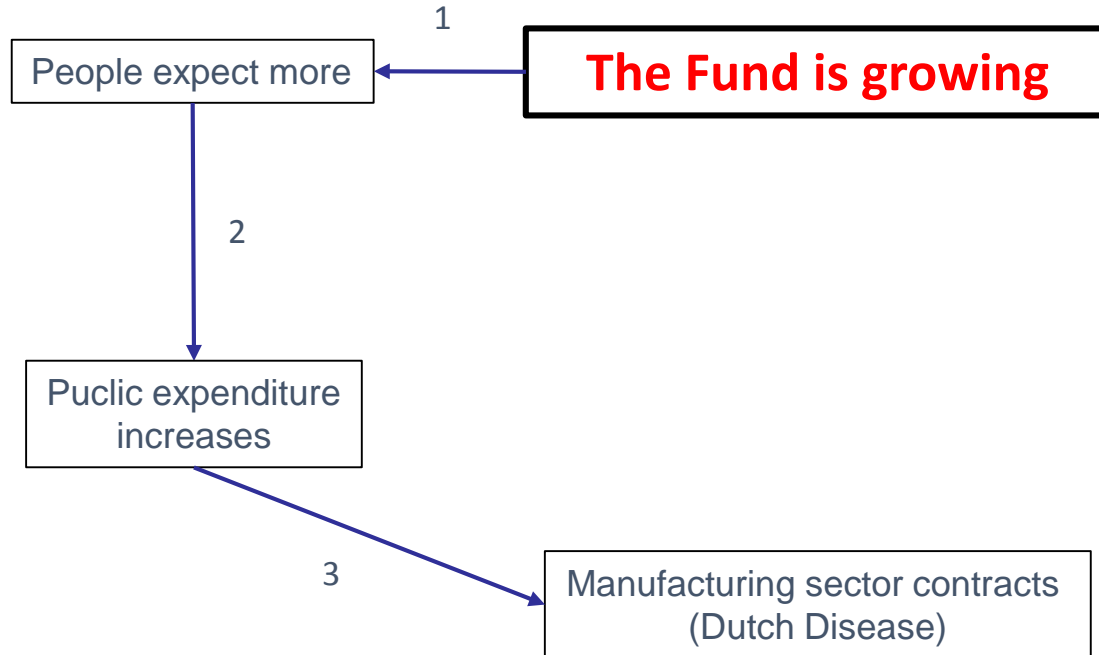
Criteria for success of the GPFM – that people are not so much concerned about it. That they go about with their daily work.

The Fund is growing

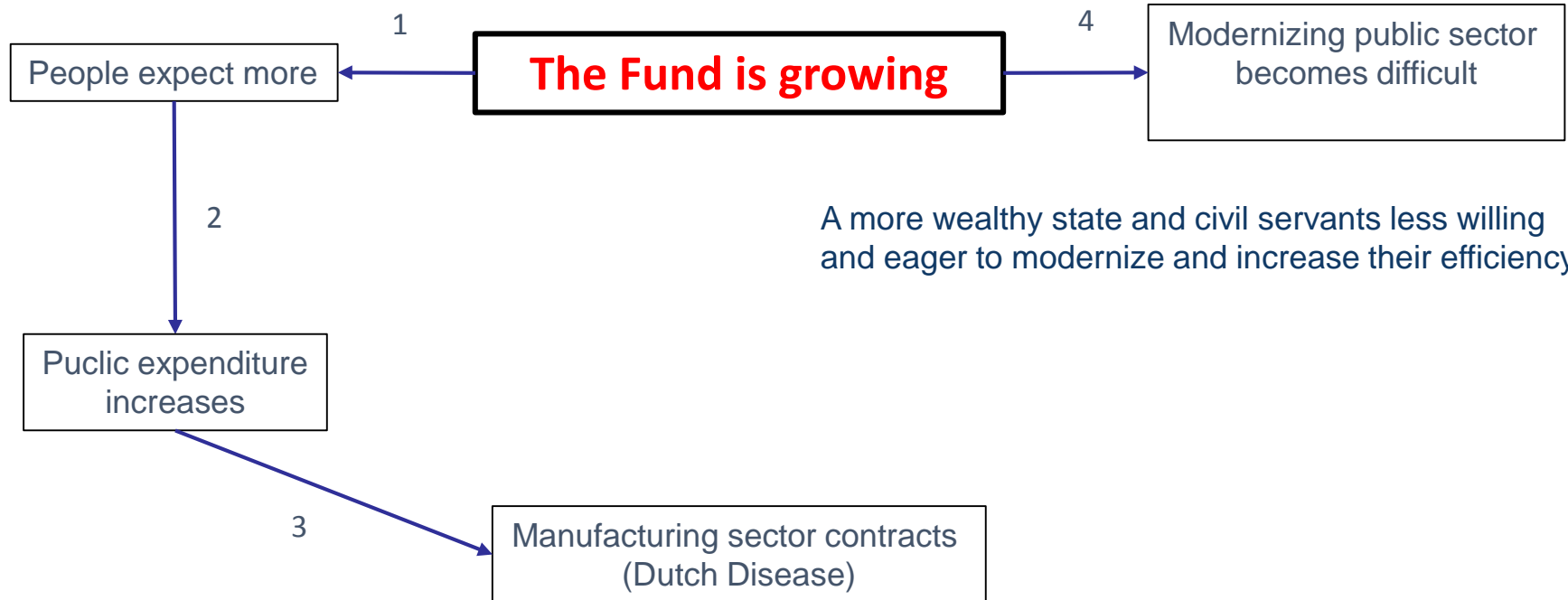


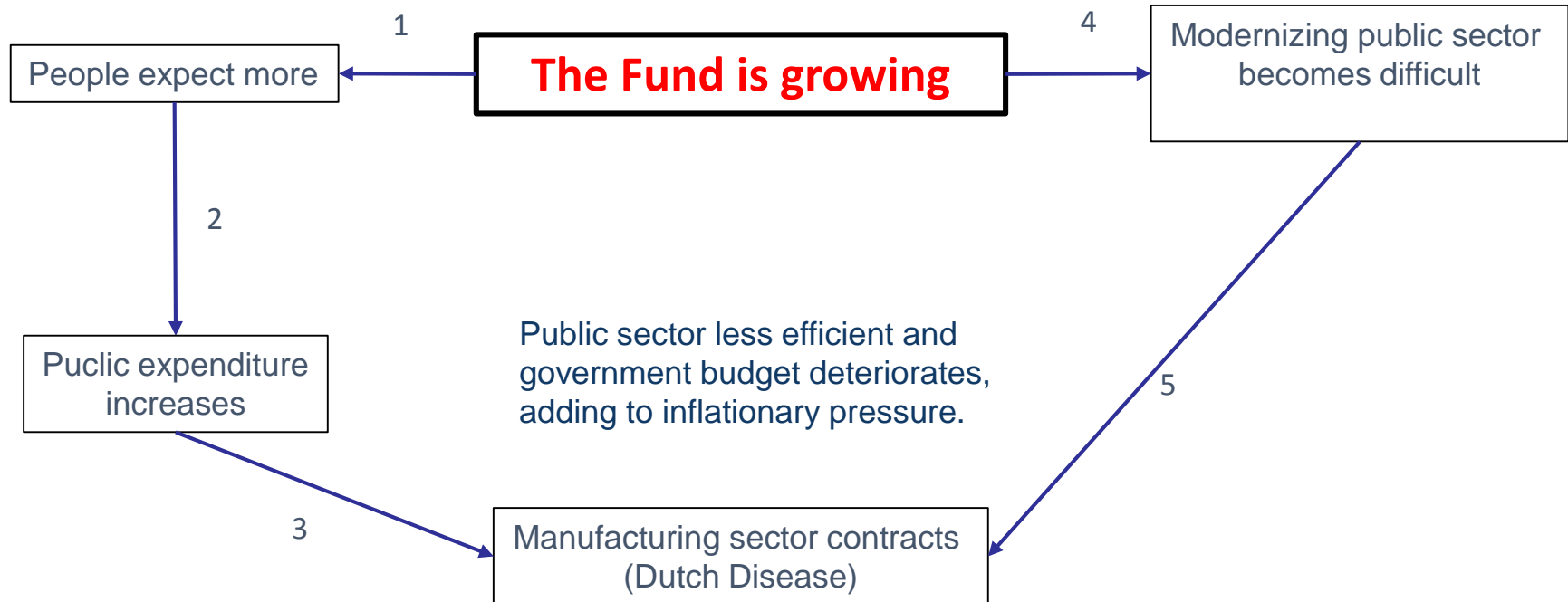
The Fund is growing, and people come to expect more. If not delivered, welfare reducing. Important to keep expectations at reasonable levels.

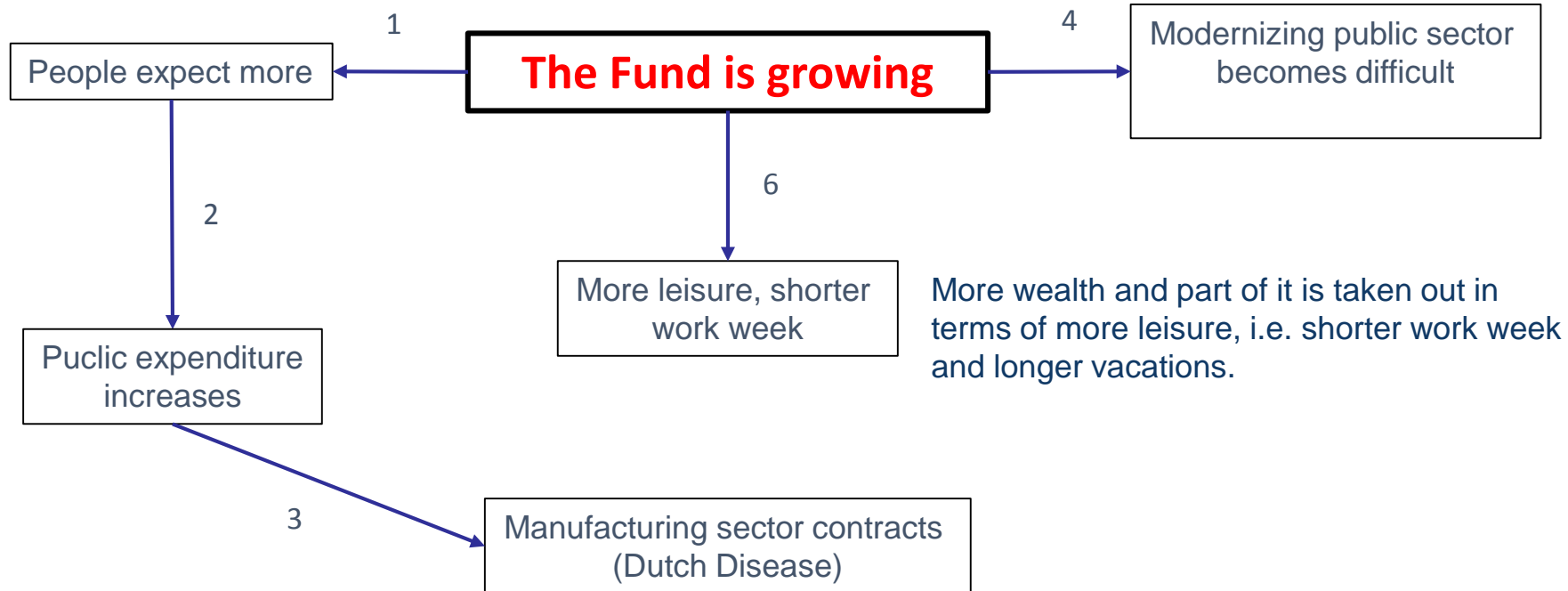


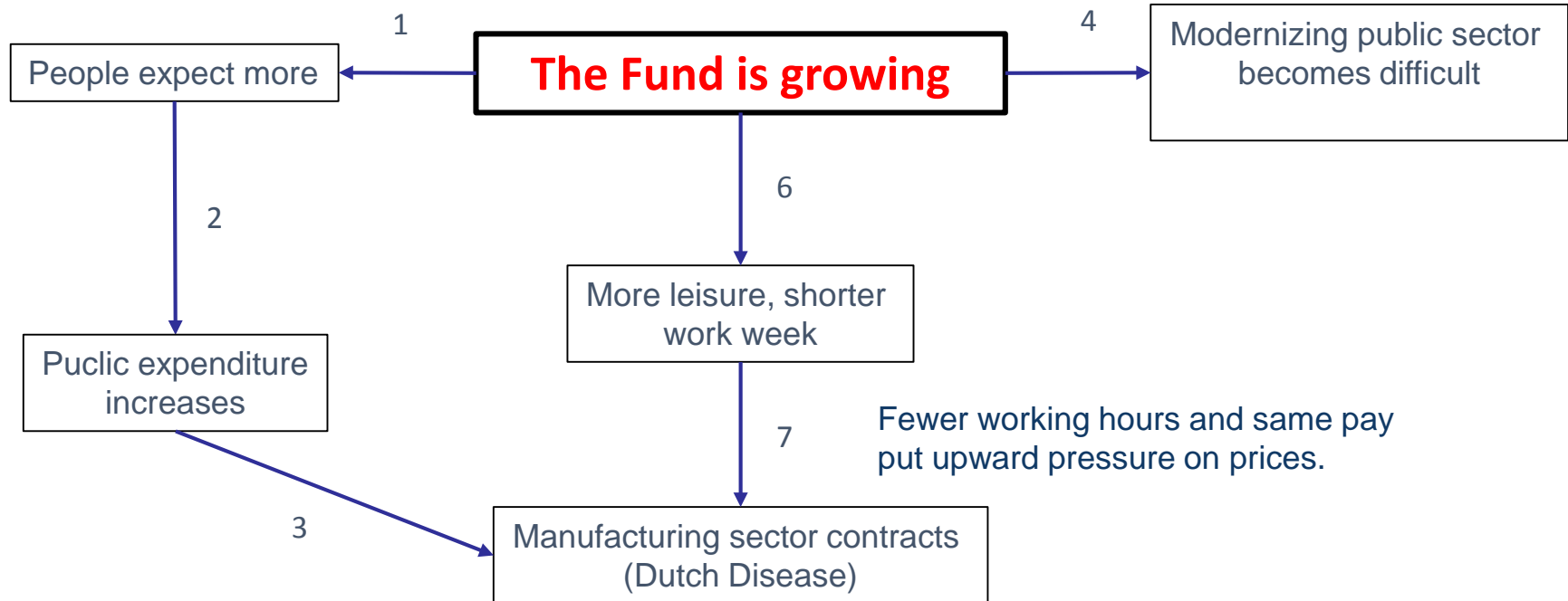


Competitiveness is hurt as inflation picks up, and manufacturing sector feels the heat.





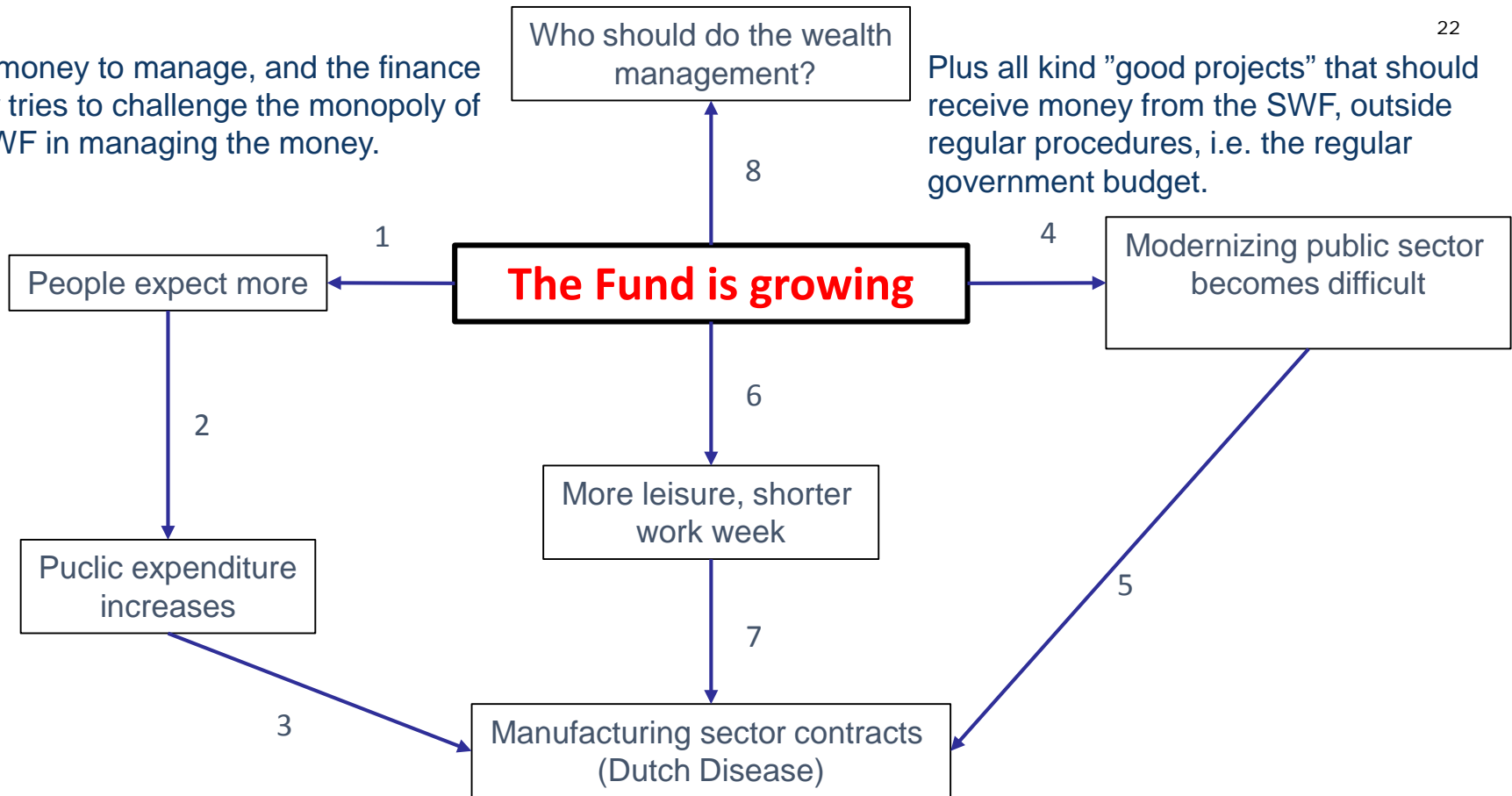




More money to manage, and the finance sector tries to challenge the monopoly of the SWF in managing the money.

Who should do the wealth management?

Plus all kind "good projects" that should receive money from the SWF, outside regular procedures, i.e. the regular government budget.



Is the Norwegian experience of any relevance to Ghana?

Institutions matter a lot

- Inclusive rather than extractive institutions and policies are likely to deliver long-run growth as well as political stability
- Which means that people at large benefit and as such support the institutions and the policies

Transparency matters too – that people have information and insights about what is going on.

Accountability the third leg – that decisionmakers are accountable for their decisions in a transparent and fair way.



Norway

Population

5,1 million

Area

381 178 km²

Independence

1905



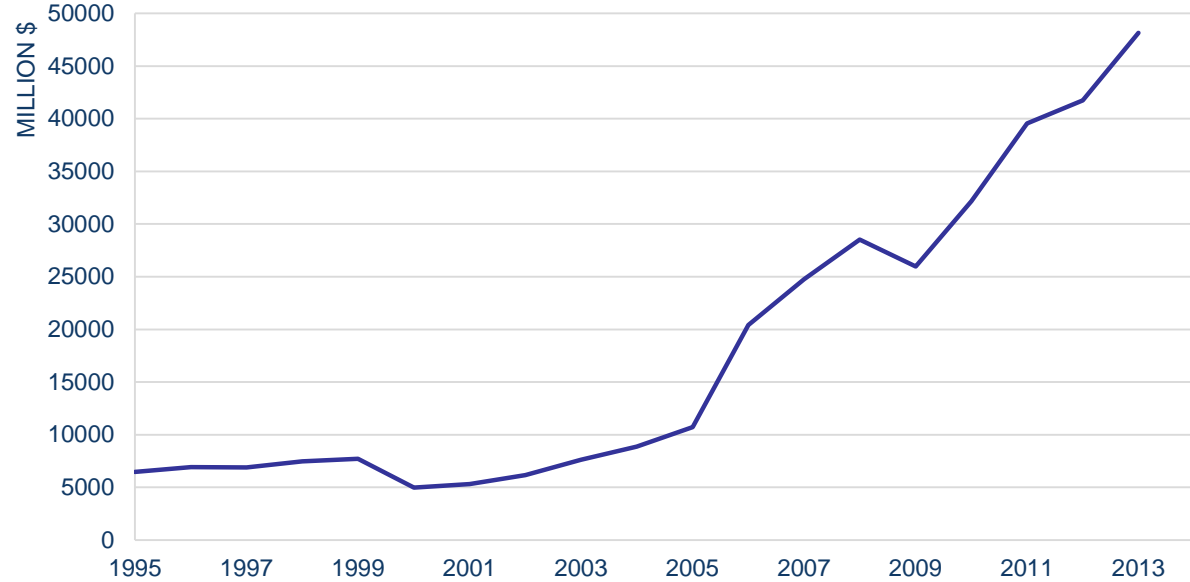
Ghana

25,9 million

238 535 km²

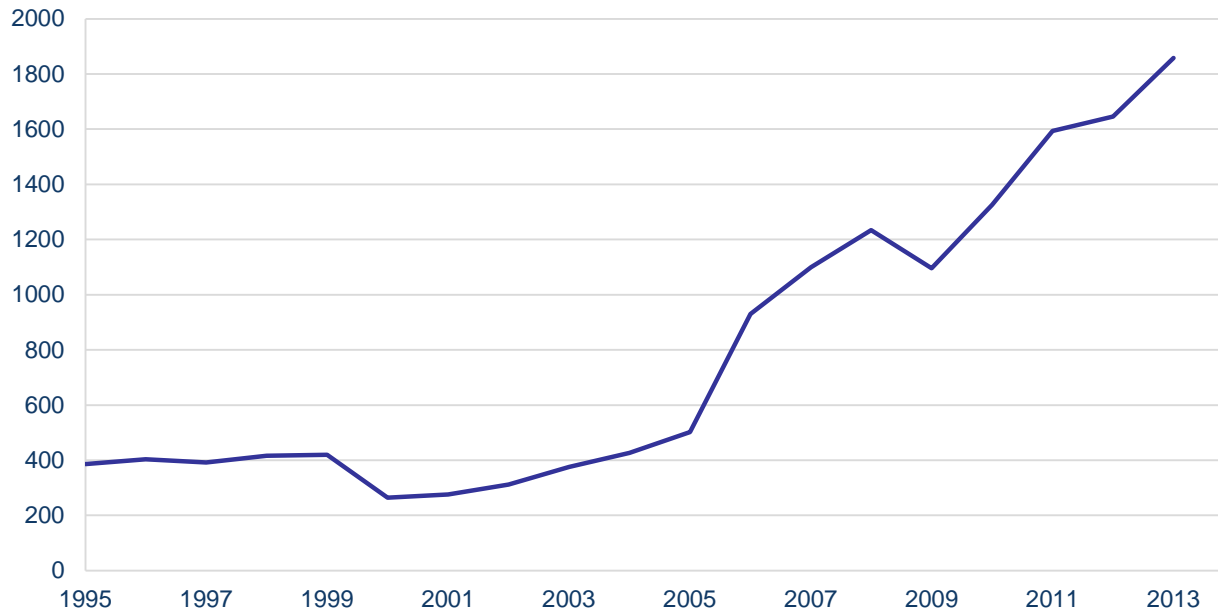
1957

GDP GHANA



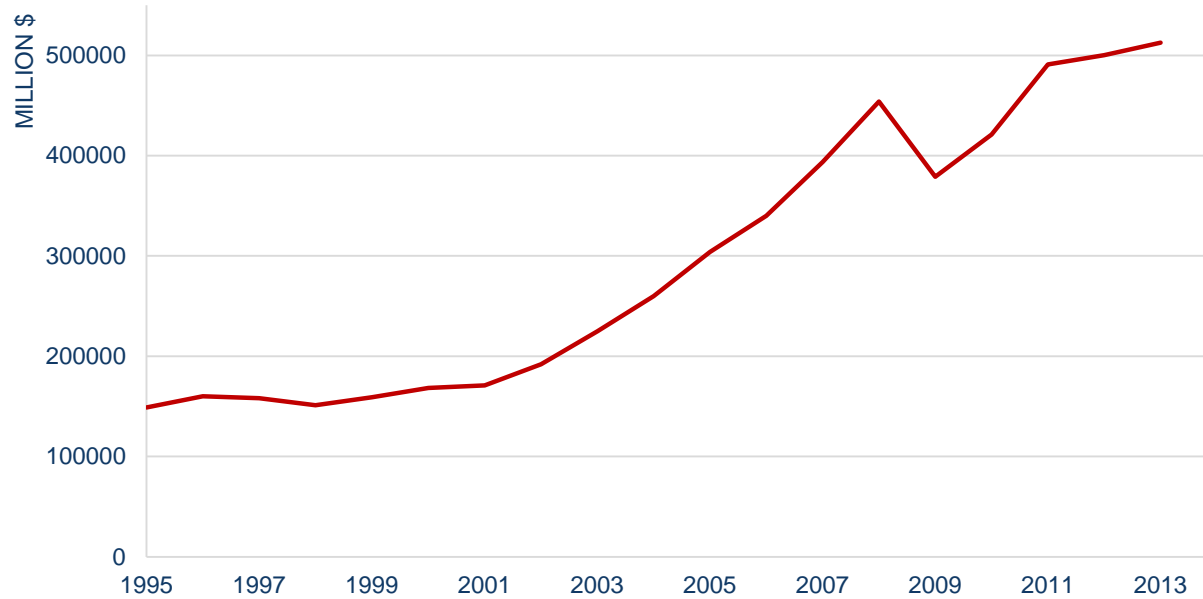
Source: World Bank

GDP PER CAPITA GHANA



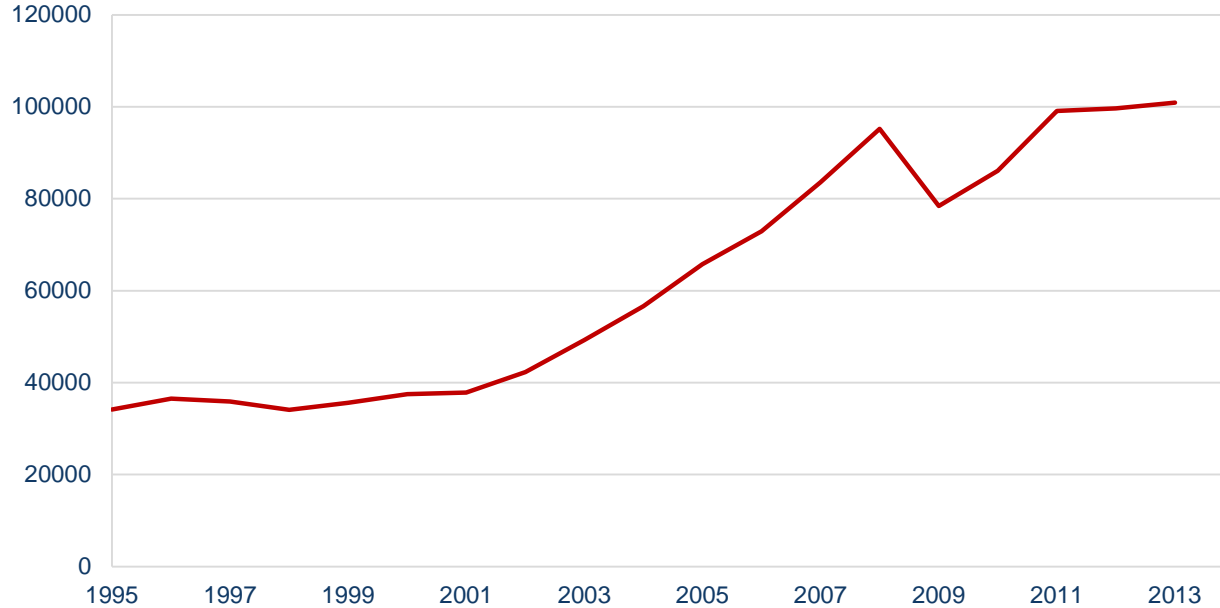
Source: World Bank

GDP NORWAY



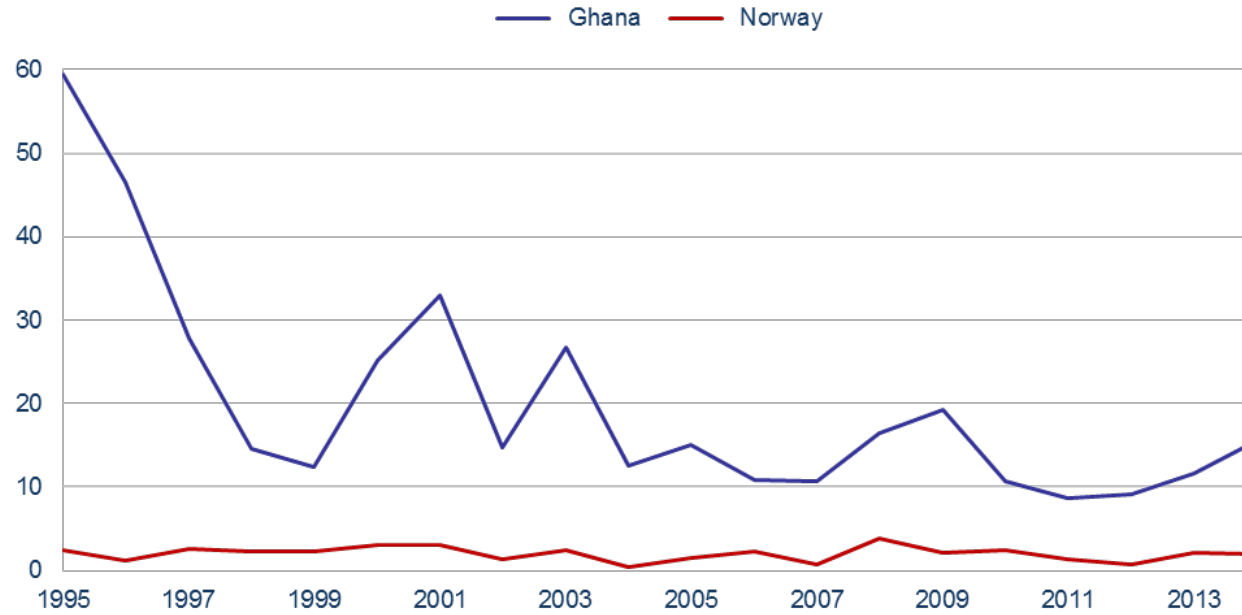
Source: World Bank

GDP PER CAPITA NORWAY



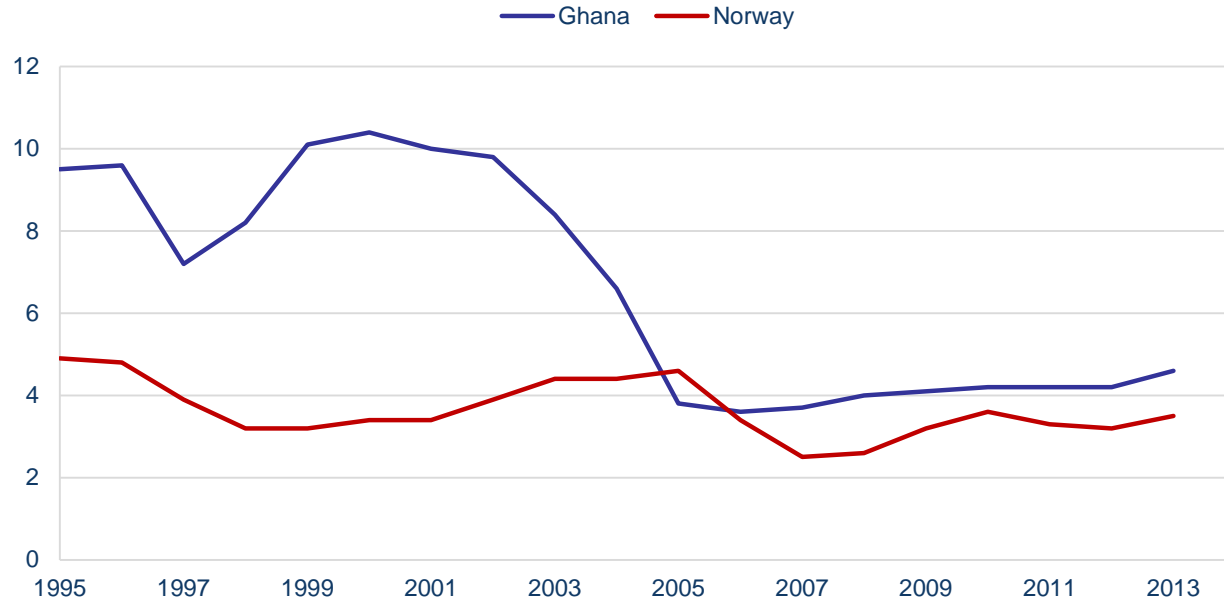
Source: World Bank

INFLATION



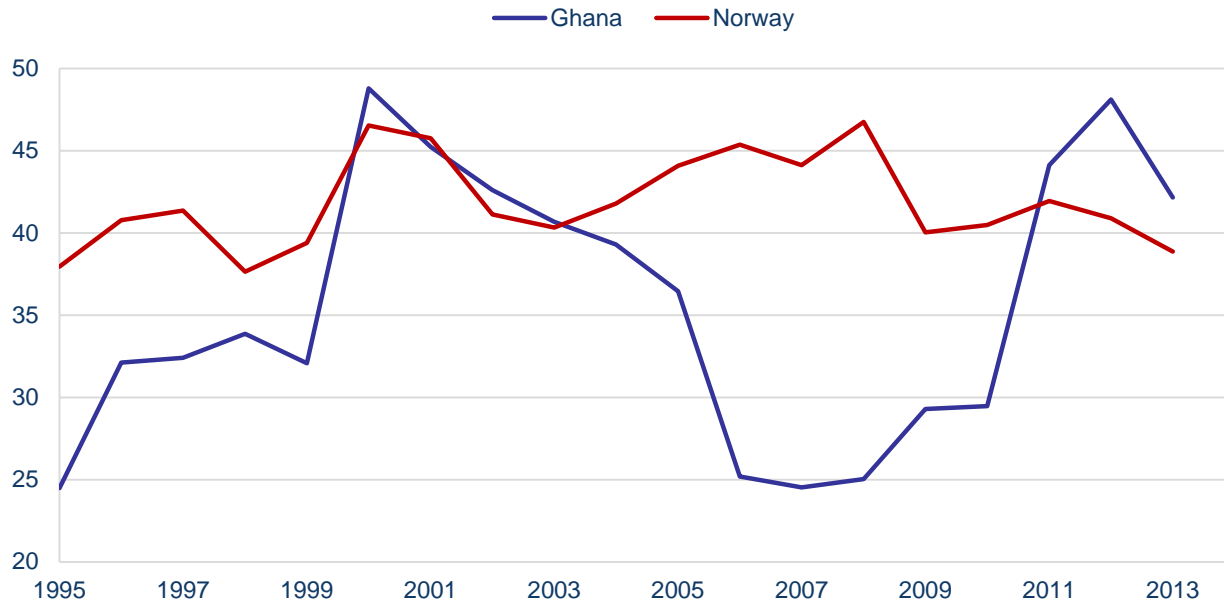
Source: World Bank

UNEMPLOYMENT



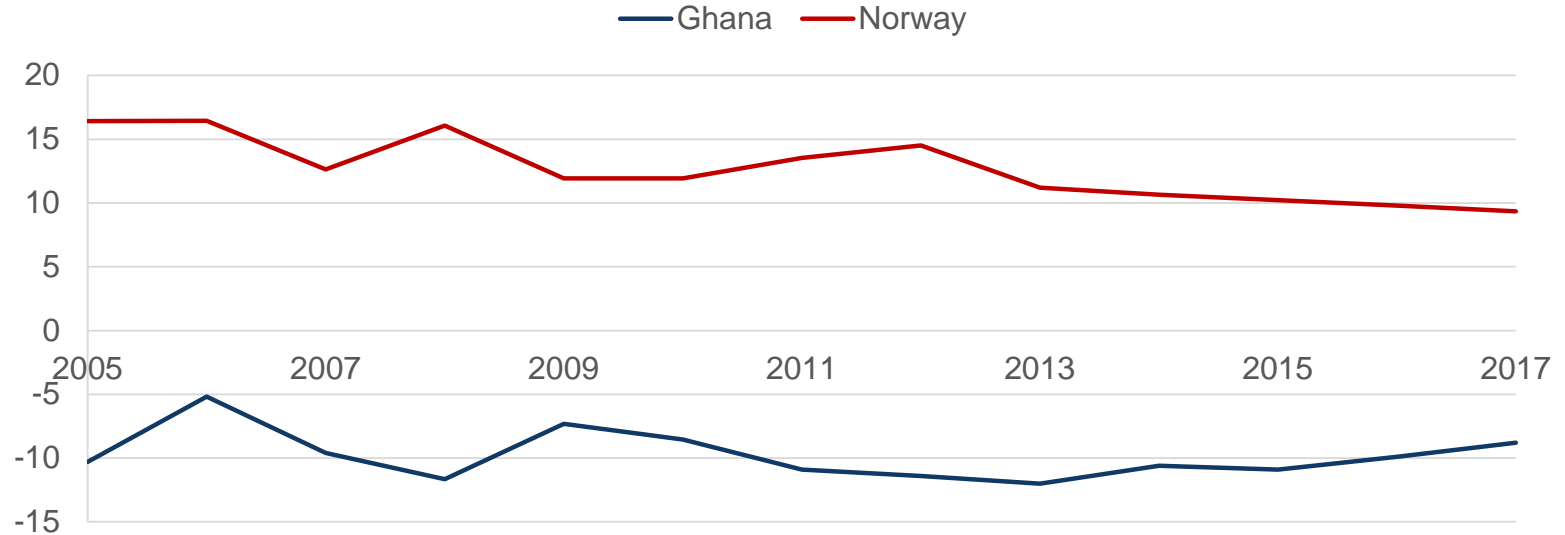
Source: World Bank

EXPORTS (% GDP)



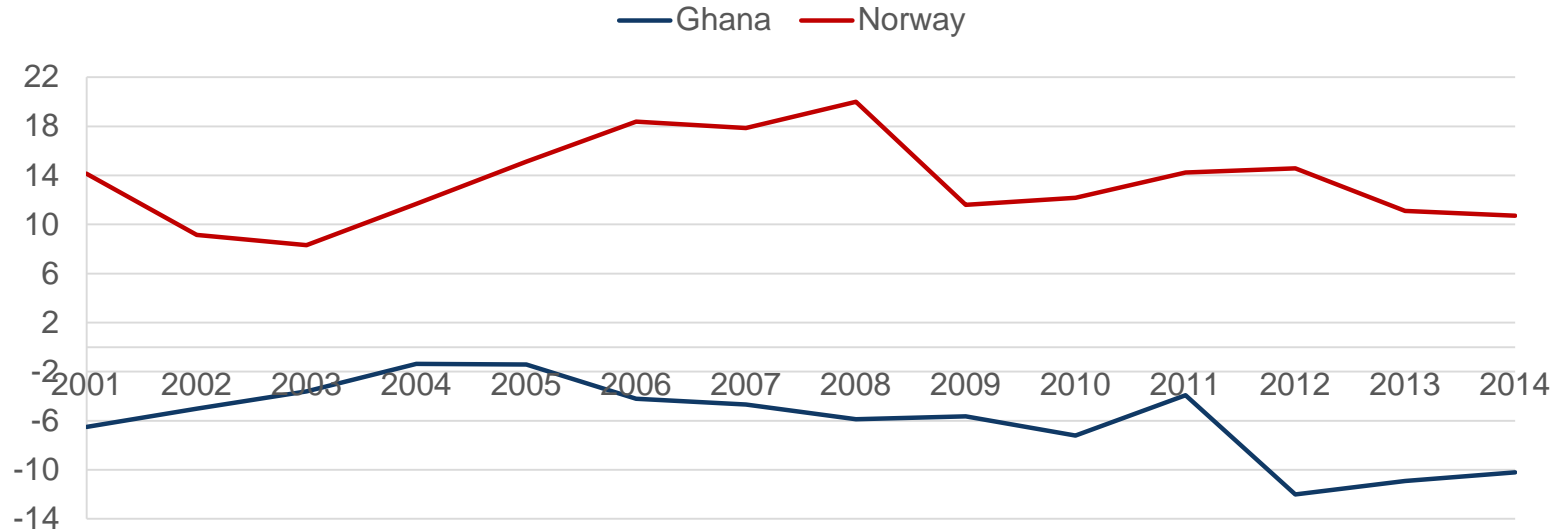
Source: World Bank

CURRENT ACCOUNT (% GDP)



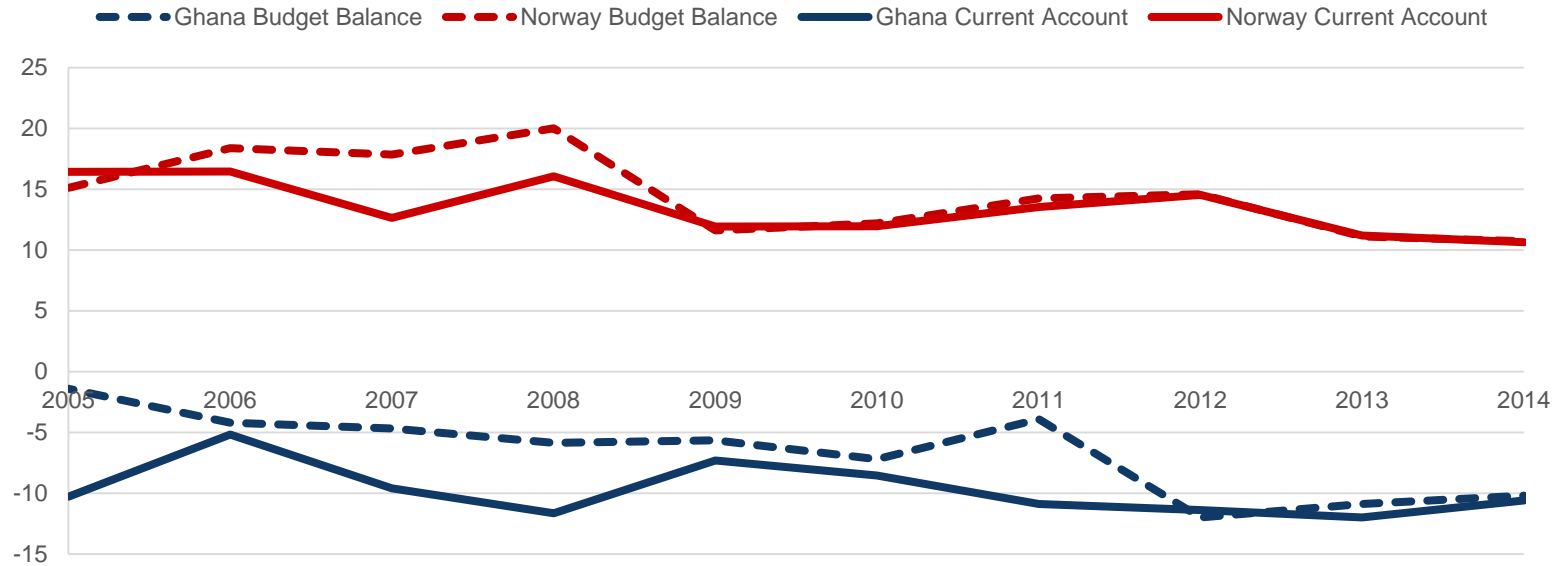
Source: World Bank and CIA

GOVERNMENT BUDGET BALANCE (% OF GDP)



Source: World Bank

BUDGET BALANCE AND CURRENT ACCOUNT (% GDP)

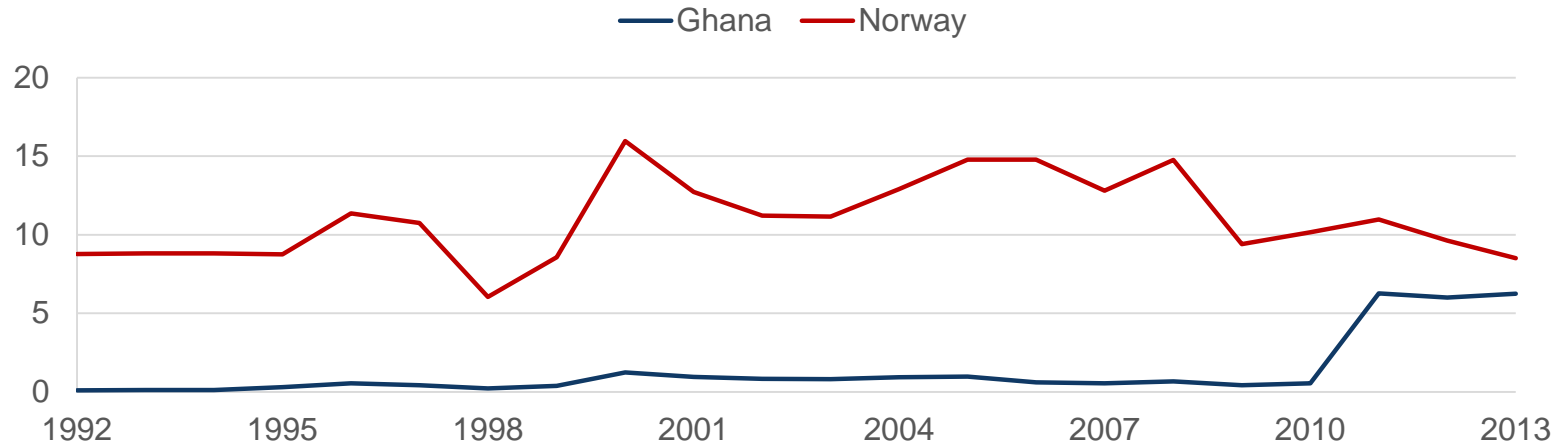


Norway has surplus on the government budget.
That surplus is invested abroad, i.e. by the Pension Fund.
Private sector saves about as much as it invests.

In Ghana the government runs deficits.
So the government has to borrow.
Private sector saves about as much as it invests.

Ghana needs to have a surplus on the government budget in order to
establish a Sovereign Wealth Fund (SWF).

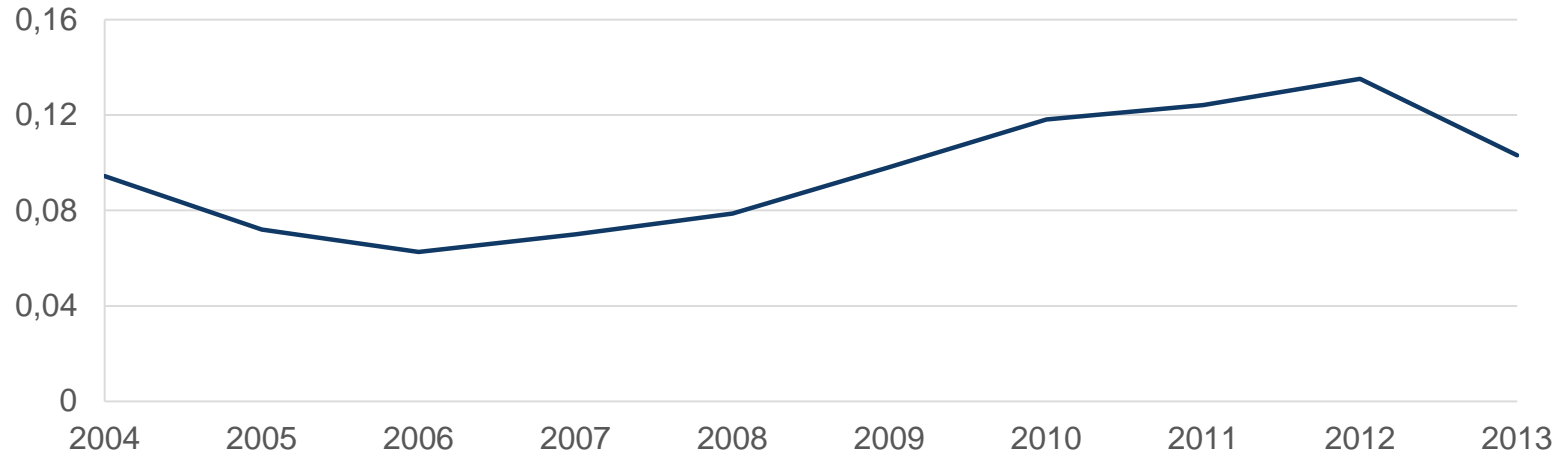
OIL RENTS (% GDP)



Source: World Bank



GOLD EXPORTS (% GDP)



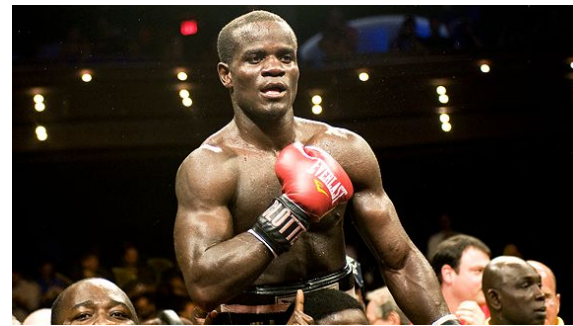
Source: Datastream



Axel Lund Svindal



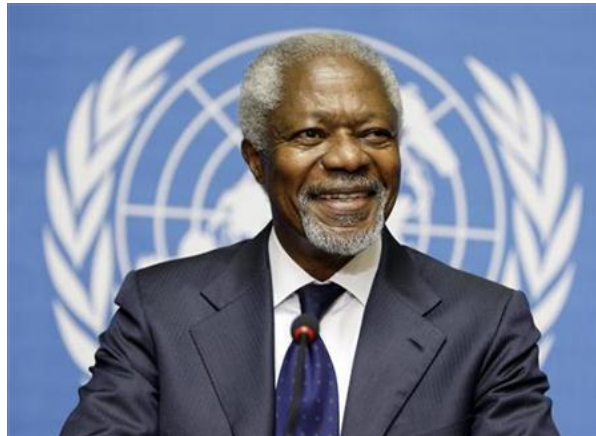
Kwame Nkrumah-Acheampong



Joshua Clottey



Trygve Lie – UN's first Secretary-General (1946-1952)



Kofi Annan – UN's seventh Secretary-General (1997-2006)



Ghana national U-20 football team, *Black Satellites*, winner of the 2009 FIFA U-20 World Cup.