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Low oil prices – Challenges for Norway

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

Low oil prices – Challenges for Norway

Brent Crude	$51.42 on 12 October 2015
	$27.82 on 20 January 2016, i.e. down 46 %
But then,	$44.68 on 12 April – almost back to its level half a year ago

So, why worry?

(See Hilde Bjørnland and Leif Anders Thorsrud, “Hva skjer når oljeprisen faller?”, *Samfunnsøkonomen* nr. 2, 2015, http://home.bi.no/a0310125/BT_Samfunns%C3%B8konomen2_2015.pdf

1. Lower oil prices and the business cycle
2. The effects of lower oil prices on Mainland economy
3. The effects of lower oil prices on the government’s income and expenditures
4. Some other issues

J. K. Galbraith: “Economists don’t forecast because they know; they forecast because they’re asked.”

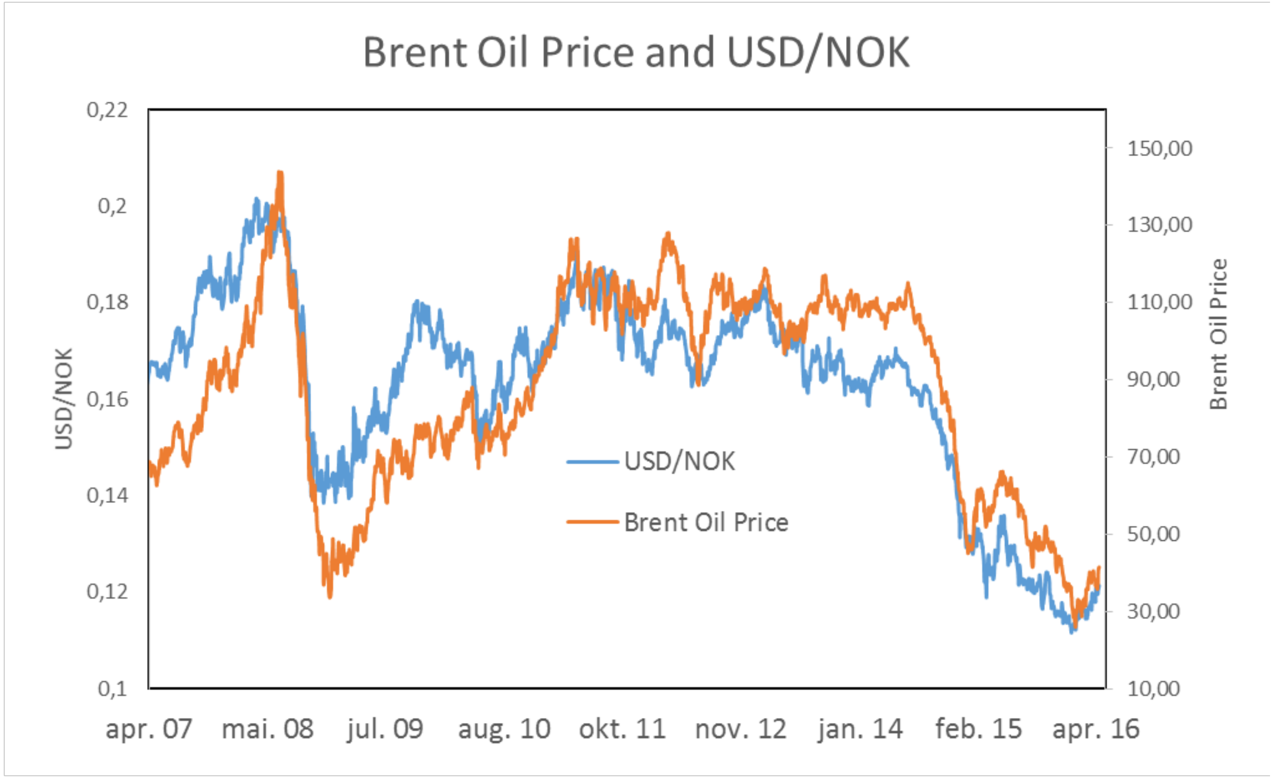
1. Lower oil prices and the business cycle

- Demand side that makes for lower oil prices – bad news
- Supply side that makes for lower oil prices – less of a problem, rest of the world buying other stuff from Norway.

Demand is stagnating;
IMF takes down forecast on global growth from 3.4 % to 3.2 %.

... and supply has been increasing, e.g. shale oil production in the USA

Irrespectively of the cause of declining oil prices, the international value of the NOK is quite sensitive. Which is very helpful. Indeed.



Brent Oil Price and USD/NOK
0,22
0,2
0,18
0,16
0,14
0,12
0,1
USD/NOK
150,00
130,00
110,00
90,00
70,00
50,00
30,00
10,00
Brent Oil Price
USD/NOK
Brent Oil Price
apr. 07
mai. 08
jul. 09
aug. 10
okt. 11
nov. 12
jan. 14
feb. 15
apr. 16

2. The effects of lower oil prices on Mainland economy

- Oil sector and related activities Mainland, 9 % of employment
- Oil sector, 17 % of GDP
- Oil sector, 25 % of Government revenues

- Petroleum engineers can usefully be employed in other sectors.
- Lower exchange rate facilitates structural changes.

3. The effects of lower oil prices on the government's income and expenditures

Oil fund is now more than 250 % of annual Mainland GDP.
(2.600 bn NOK / 7.200 bn NOK)

Allowed to spend 4 % of the fund annually.

This year 10 % of GDP available, free of charge, no domestic taxes

Early 2000, 2 % of GDP.

Not surprisingly, wages and income have increased nicely over the last decade.

Lower oil price and the effect will be slowing down *the growth rate* of public provisions.

Labor migration will decline, i.e. automatic stabilization.

4. Some other issues

Policy of “hands on” very useful

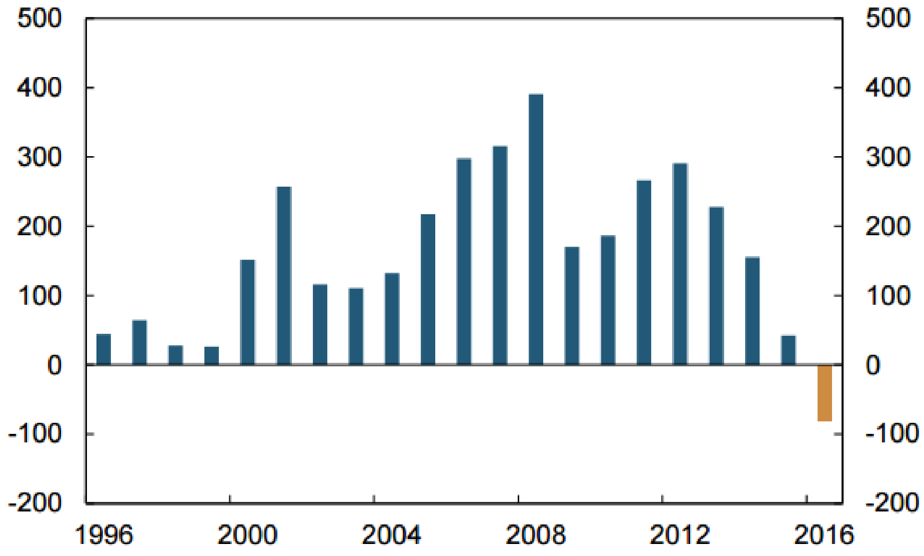
- Learn the trade ourselves of finding and extracting oil (Statoil)
- Learn the trade ourselves of supply services etc.
- Able to design proper rules for taxing oil companies,
  80 % of the oil rent, i.e. the excess profit accrues to the government
- Learn the trade ourselves of managing the wealth
  (Oil fund run by Norges Bank)

- Broad agreement politically on oil policies
- The wealth belongs to the people – and future generations
- Honest and able civil servants, no corruption to speak of

Oil is high-tech, to some degree.
Spillover effects to the rest of the economy.

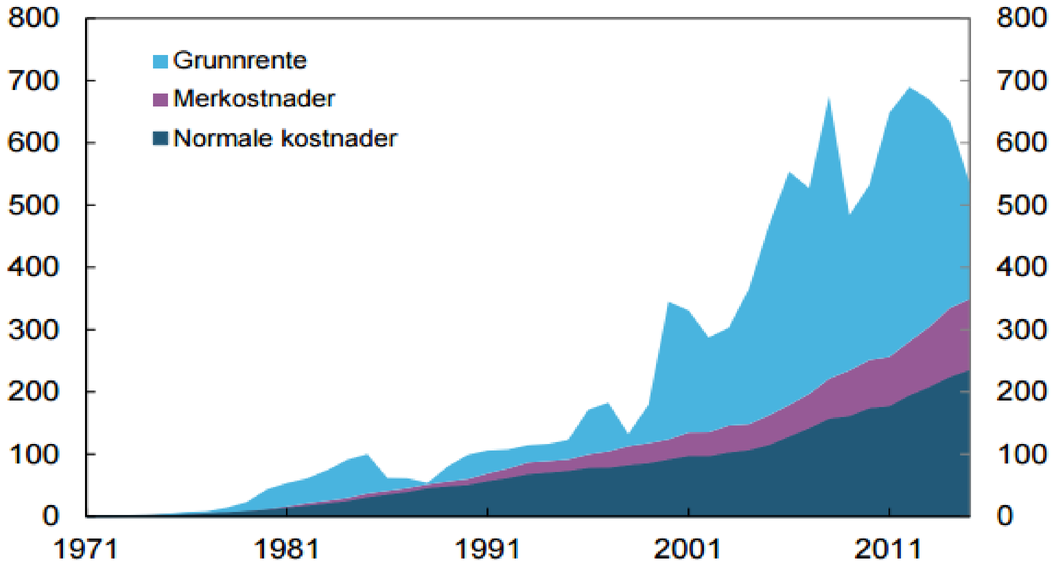
The Norwegian economy is fairly robust to lower oil prices.

Net inflow to The Government Pension Fund (billion NOK)



Kilder: Finansdepartementet og Norges Bank

Revenues from petroleum (billion NOK)



1) Grunnrenten er bruttoproduksjonsverdi fratrukket alle kostnader. Normalavkastning til kapitalen er inkludert i kostnadene. Merkostnader er prisvekst på innsatsfaktorer i petroleumsektoren utover tilsvarende prisvekst i Fastlands-Norge.
Kilder: Statistisk sentralbyrå og Norges Bank