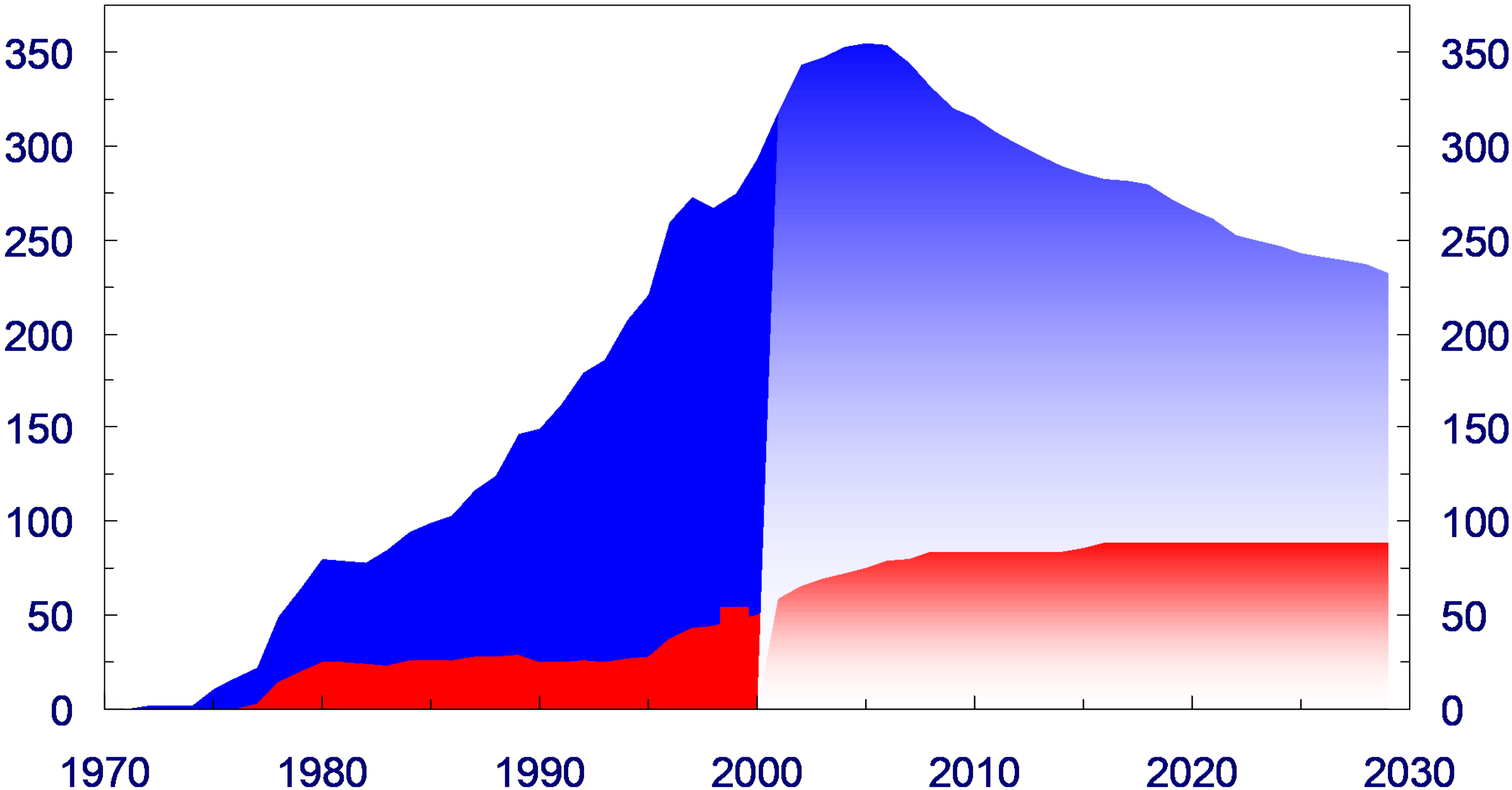
# Experiences and future challenges for a small oil-producing country

Presentation at the workshop “Exchange rate strategies for developed open economies in the new millenium”, Reserve Bank of New Zealand, 19 February 2002

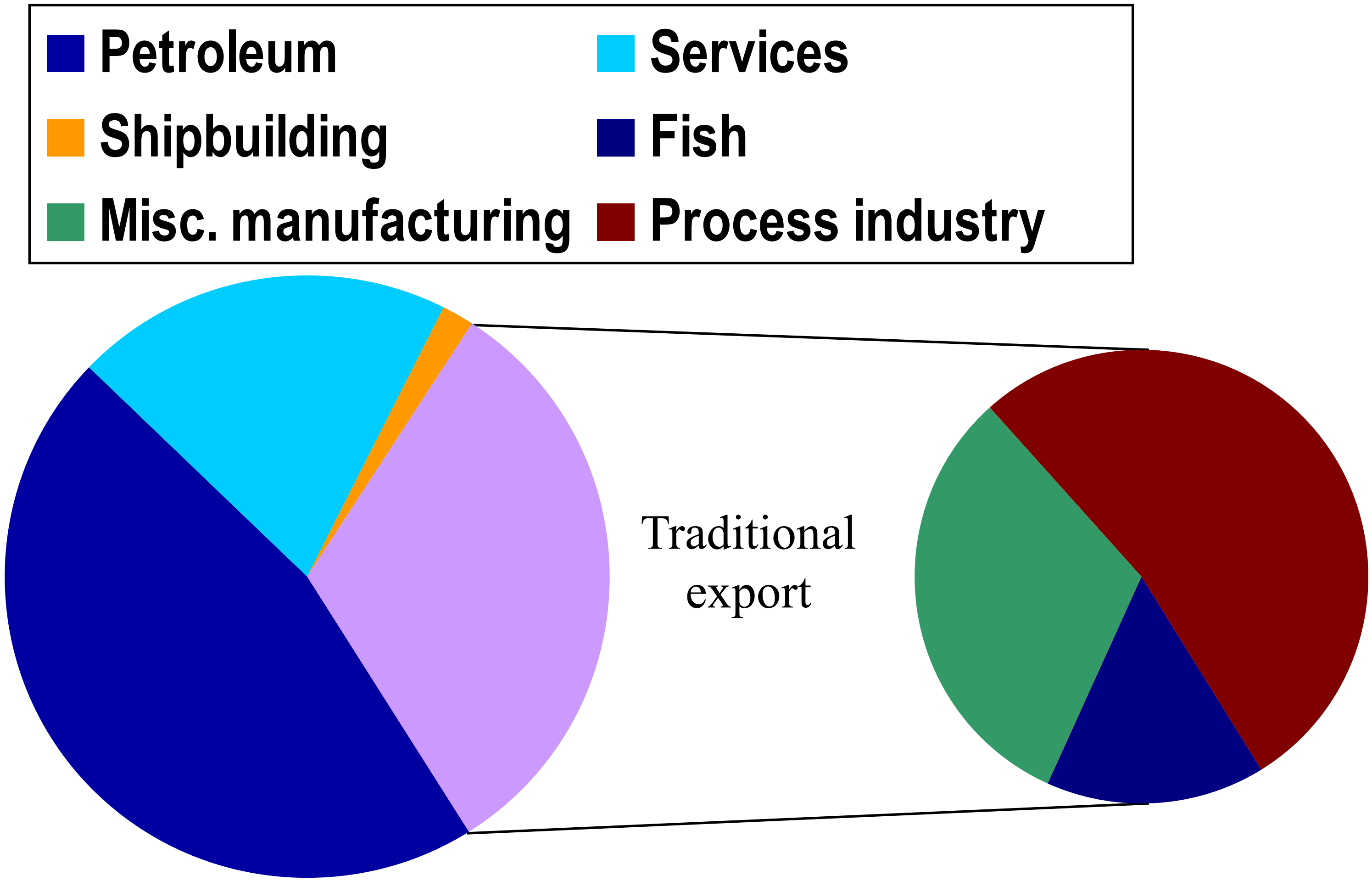
Ingvild Svendsen
Monetary Policy Department
Norges Bank

# Petroleum production on the Norwegian continental shelf. In millions of $Sm^3$ o.e.



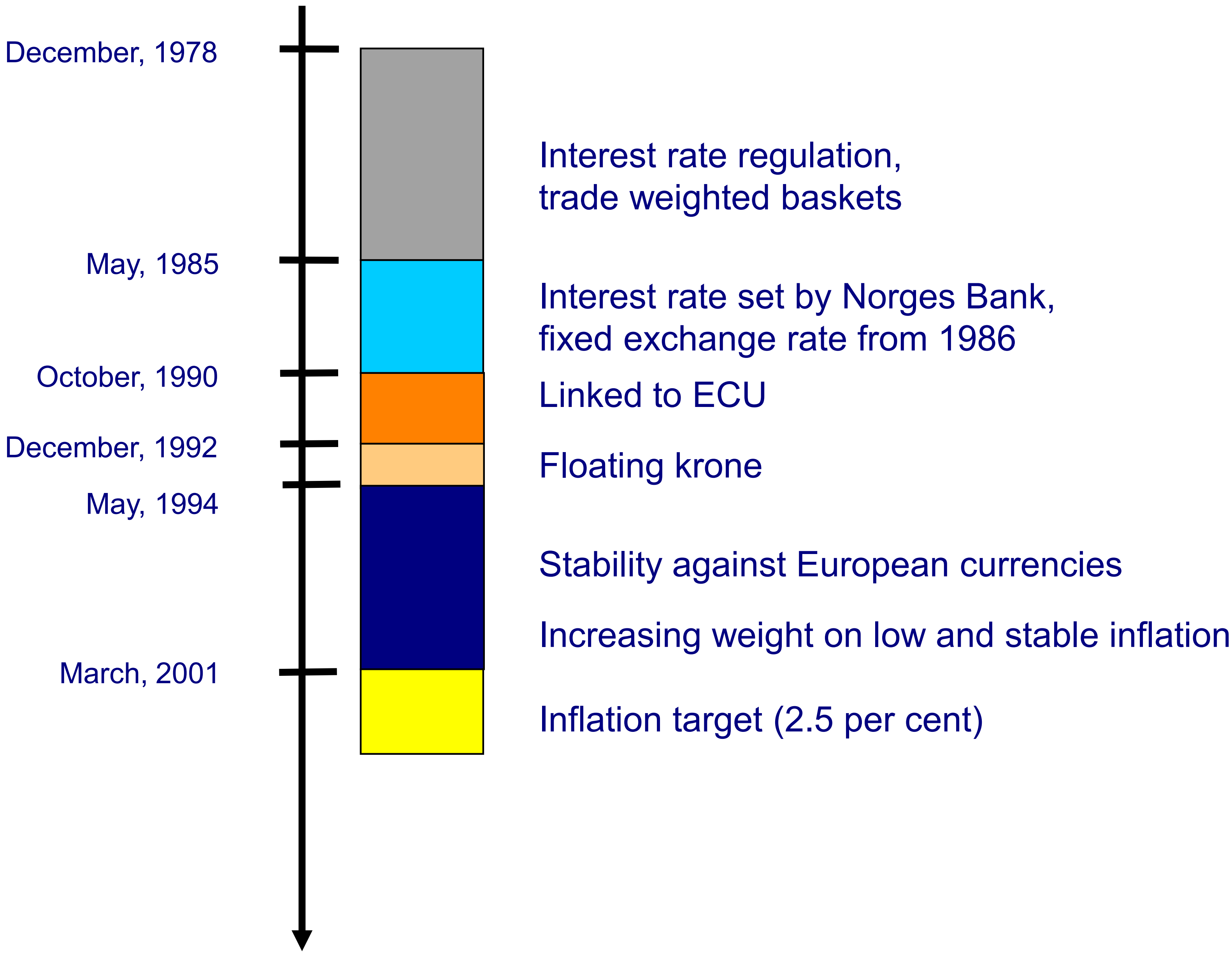

Source: Ministry of Finance (Long Term Programme 2002-2005)

# Total export from Norway, 2000



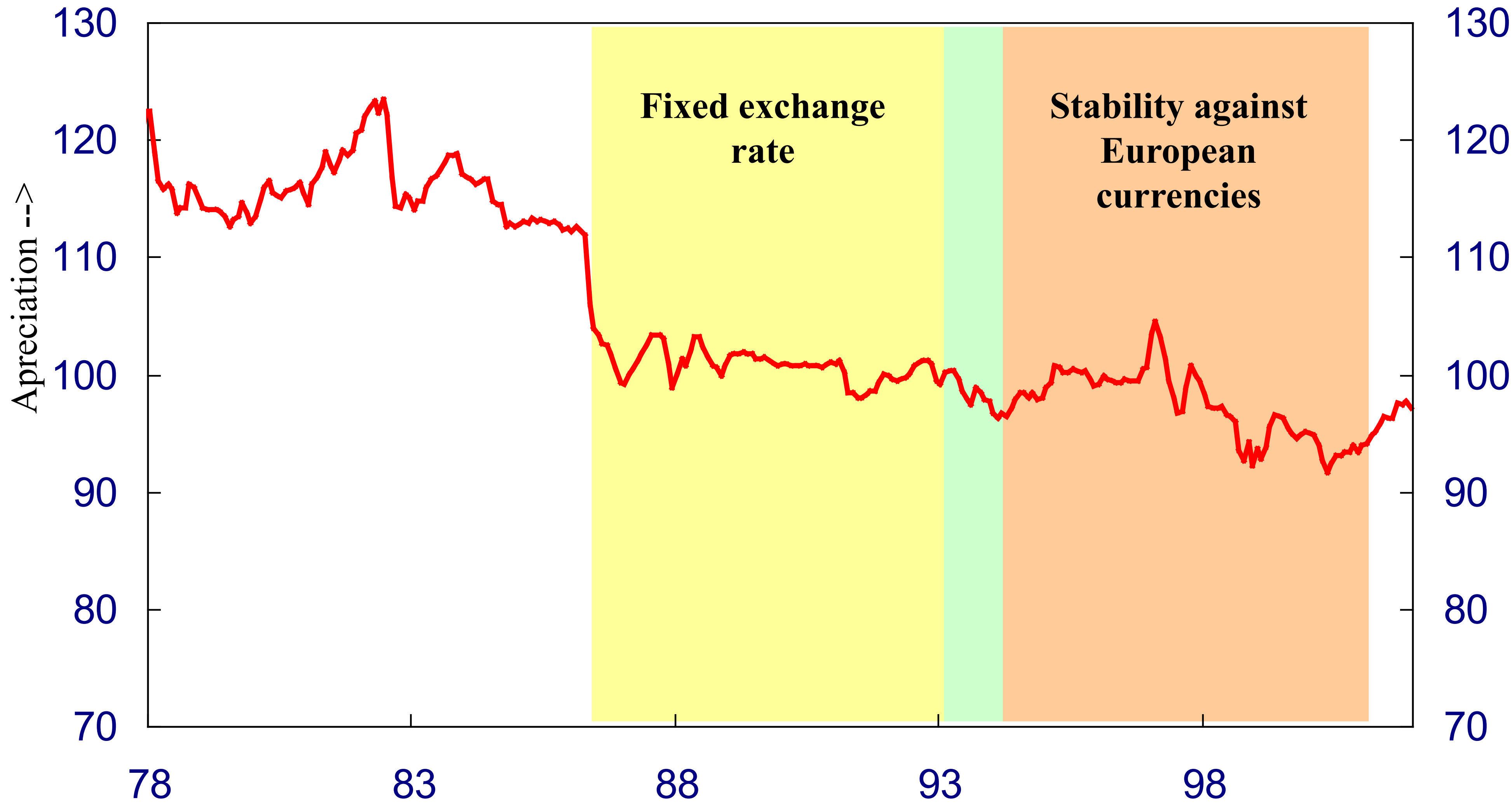

Source: Statistics Norway

# Exchange rate regimes in Norway



# Nominal effective exchange rate. Norway

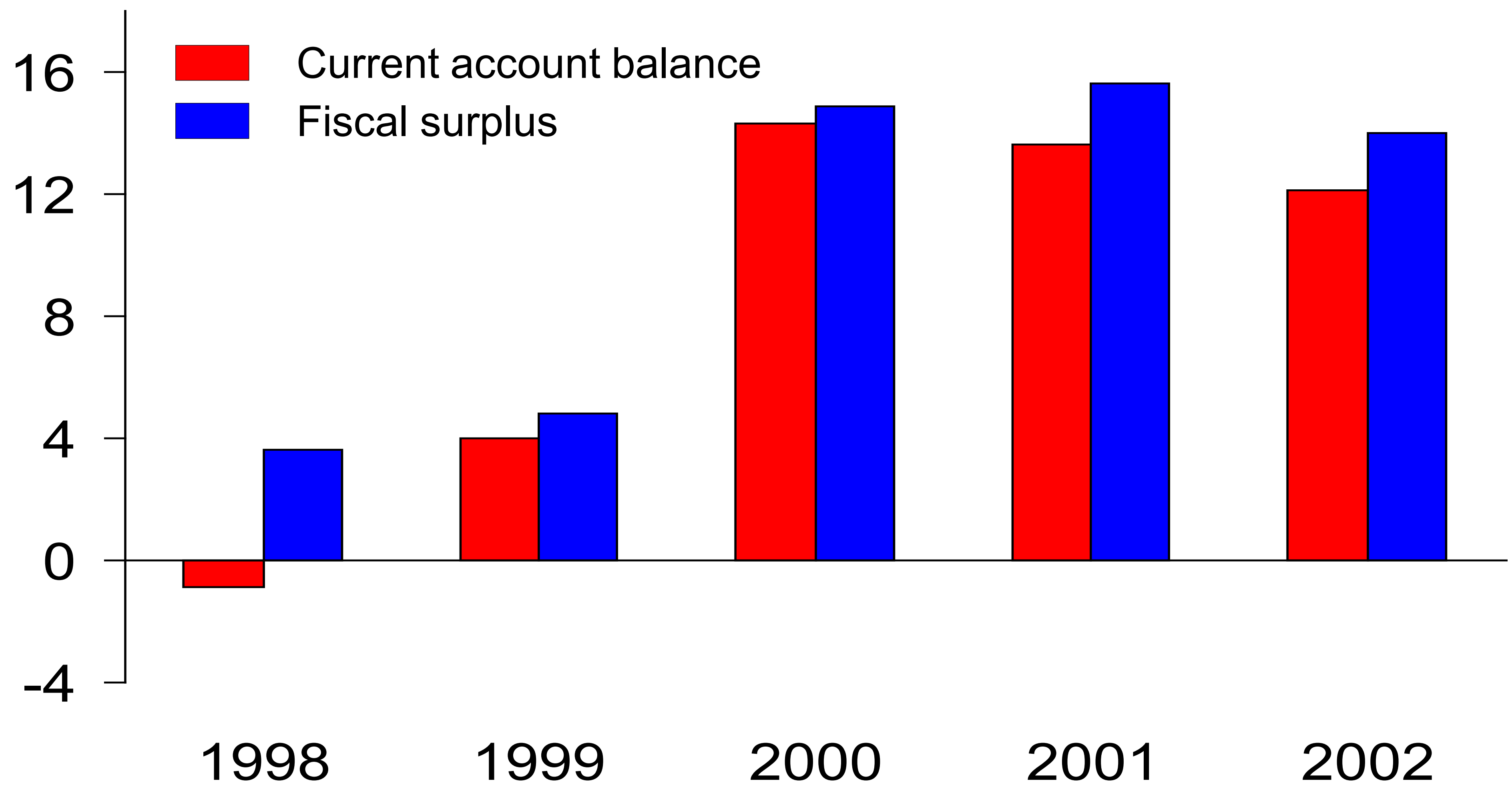
## 1990 = 100. Månedstall. 1970-2001




Sources: Norges Bank and Datastream

# A twin surplus

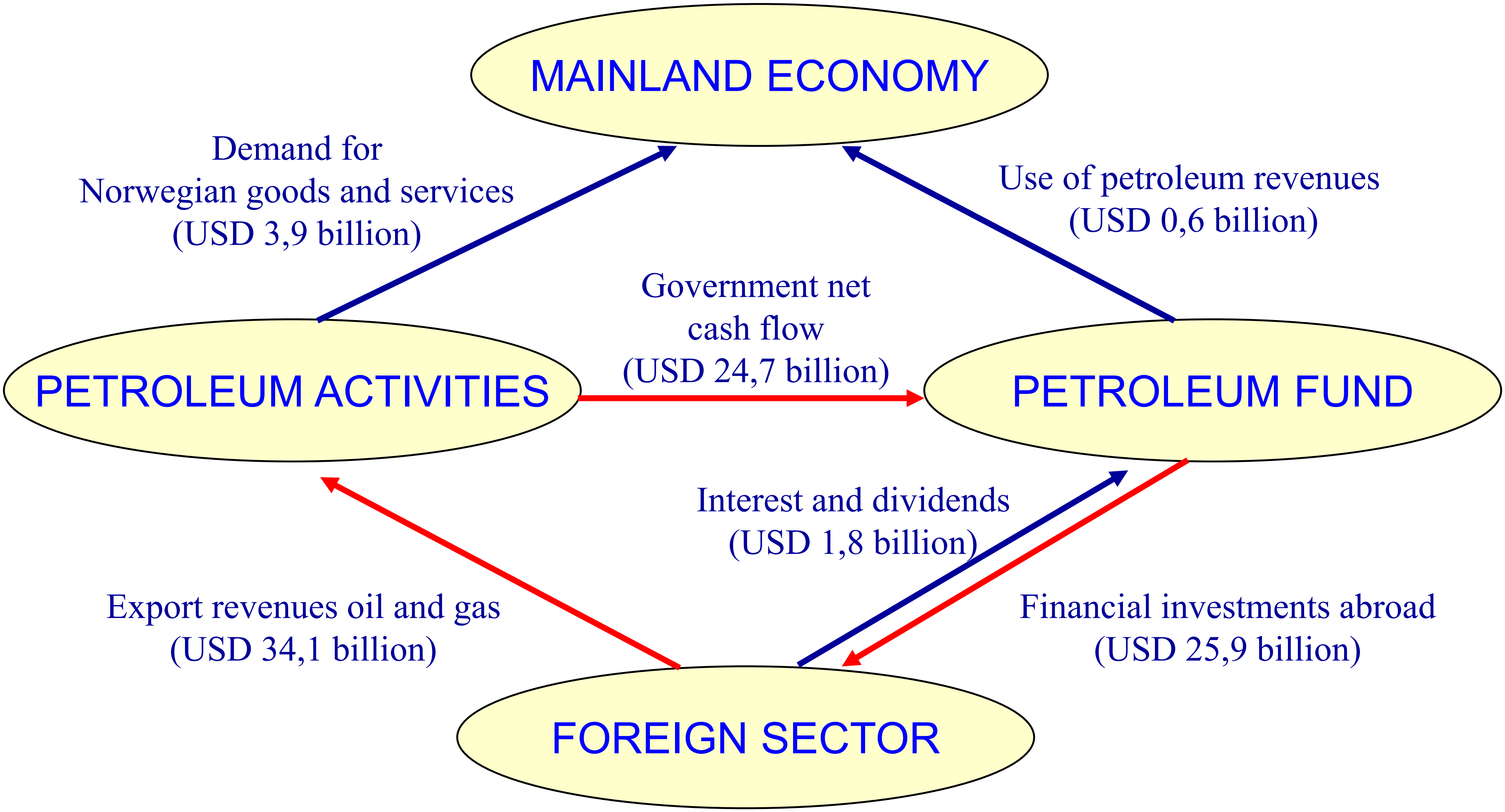
per cent of GDP



# The Norwegian Government Petroleum Fund (1990-)

- Objective: To manage assets and distribute wealth between generations
- To serve as a buffer against terms of trade shocks
- Transfers the amount necessary to produce a balanced government budget
- Invests the surplus entirely in foreign markets
- Managed by Norges Bank

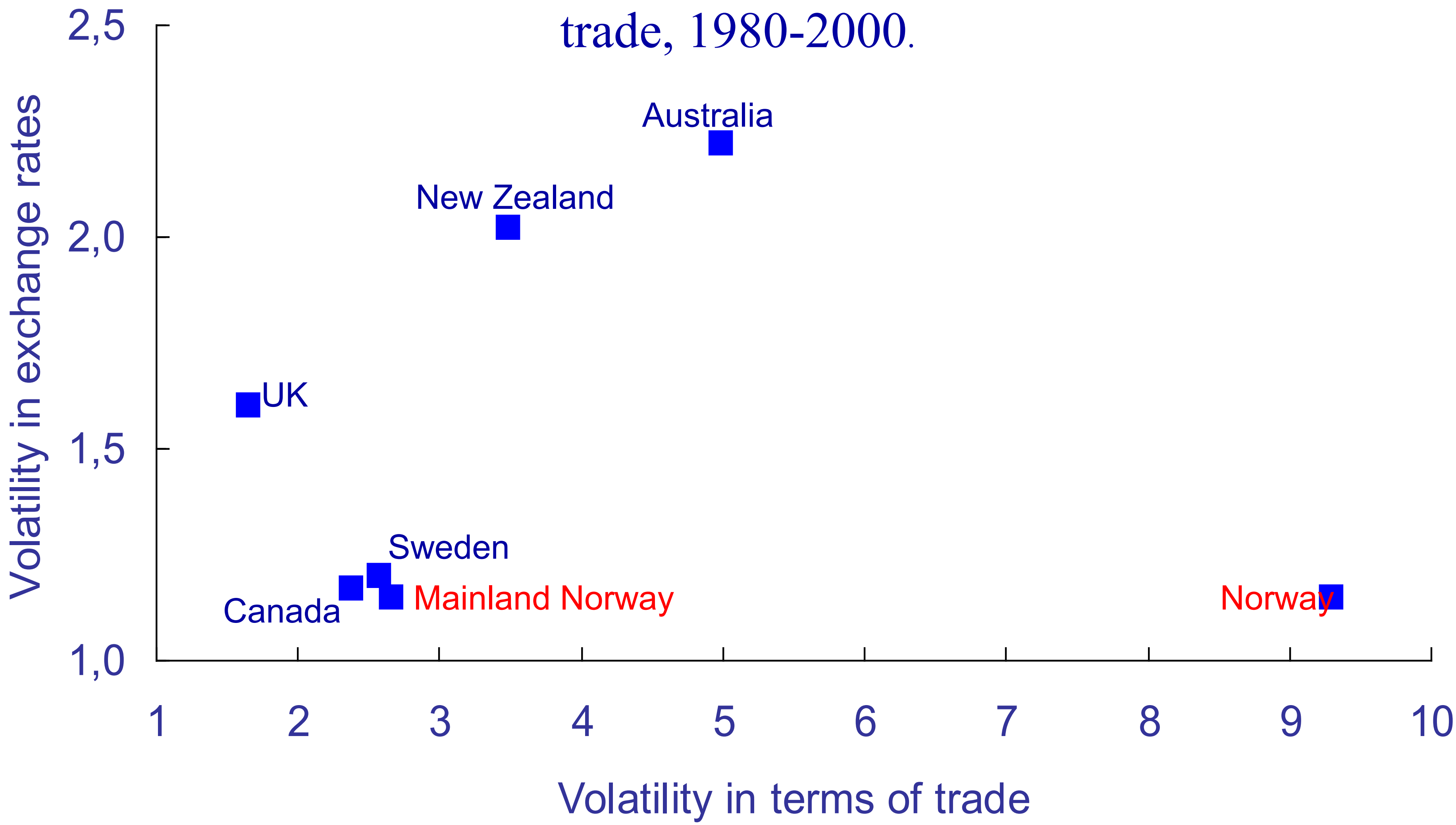
# Petroleum activities in 2001




Source: Ministry of Finance (RNB2001)

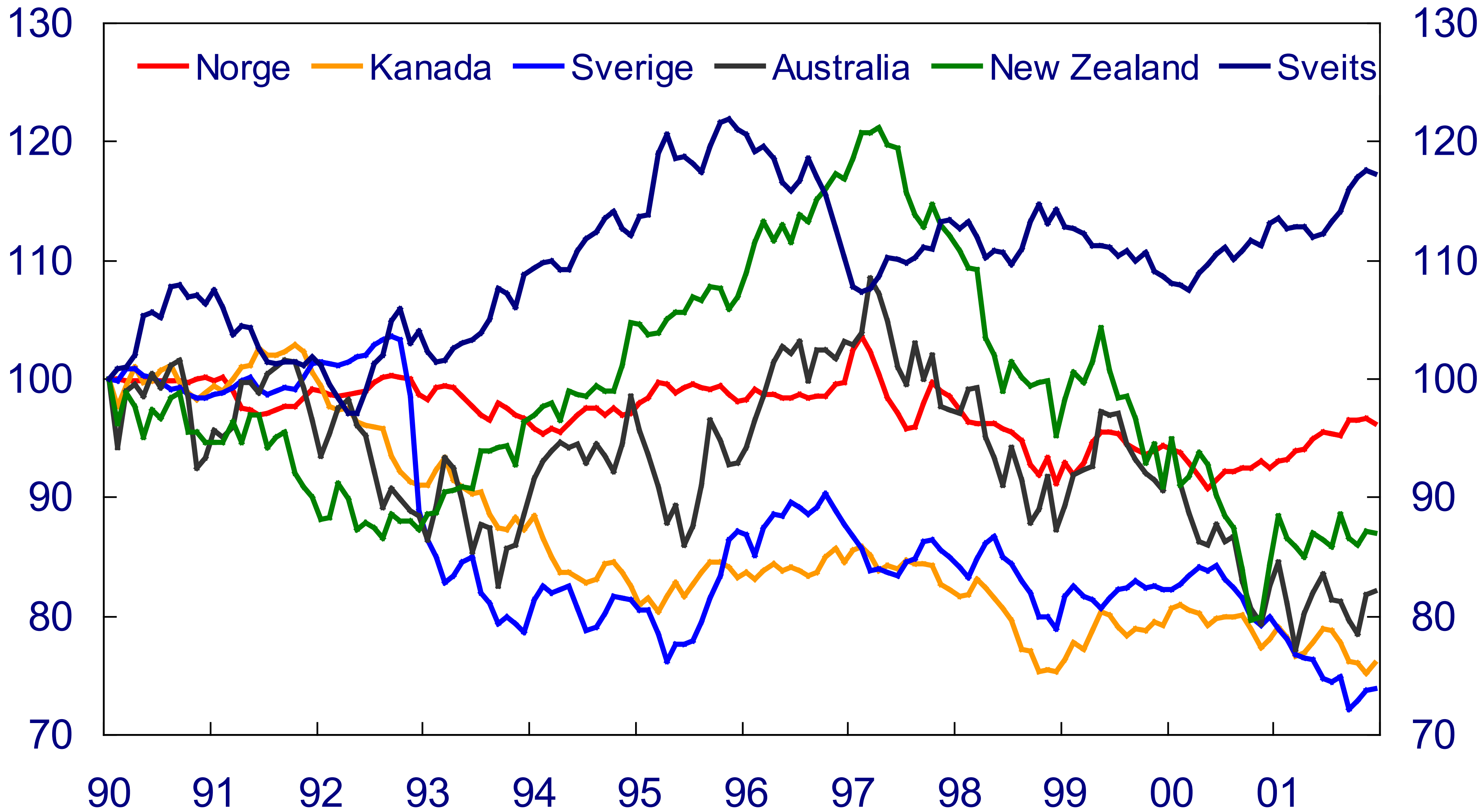
# Volatility in terms of trade and exchange rates.

St. deviation (per cent) of monthly changes in exchange rates, 1997-2000, and st. deviation (per cent) of annual changes in terms of trade, 1980-2000.



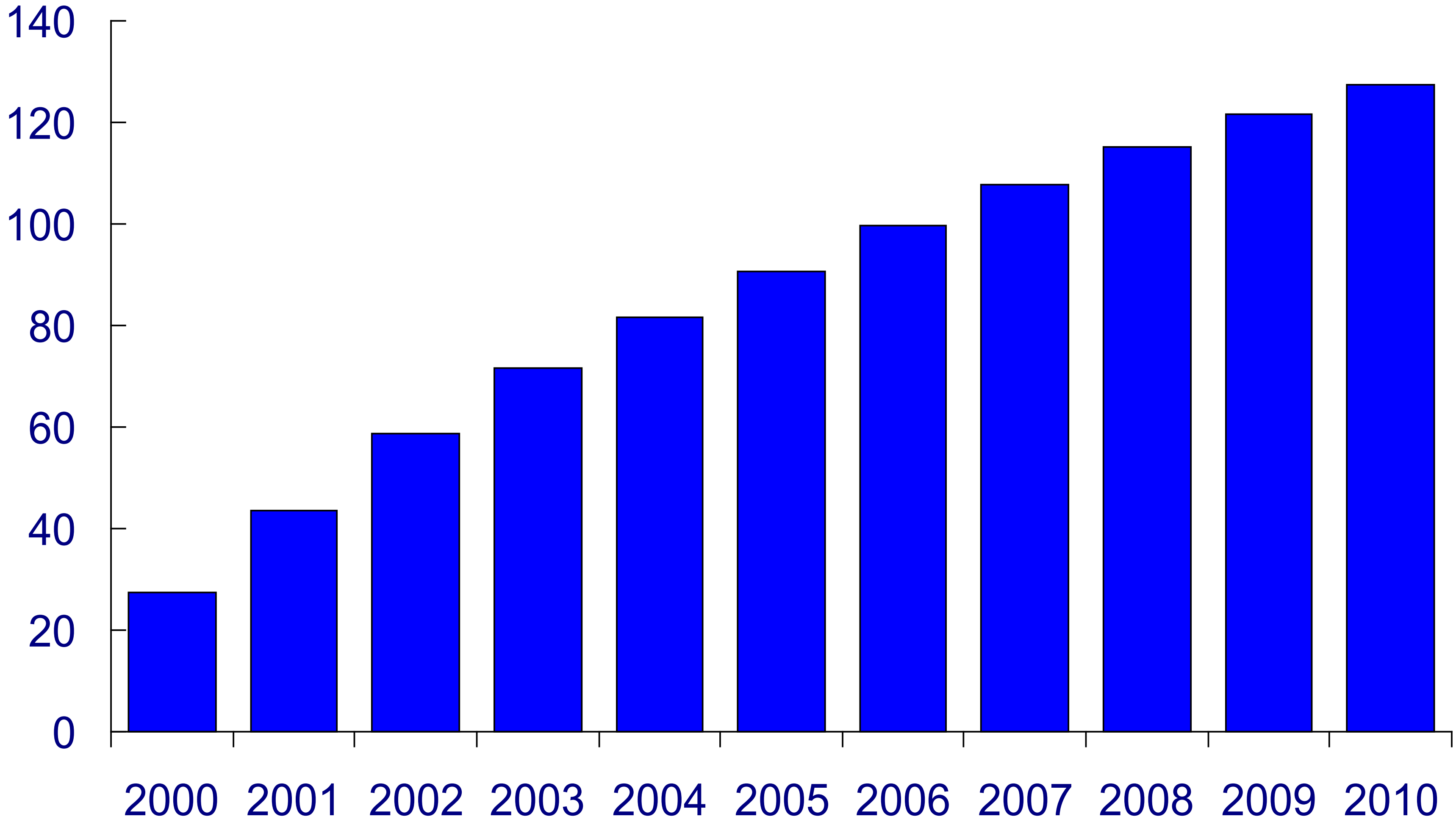

Sources: Eco Win and OECD

# Nominal effective exchange rate
## - stability in the medium term




Sources: Norges Bank and Datastream

# Government Petroleum Fund Capital in per cent of GDP




Source: Ministry of Finance

## The Government's Long-Term Programme 2002-2005

# New guidelines for economic policy

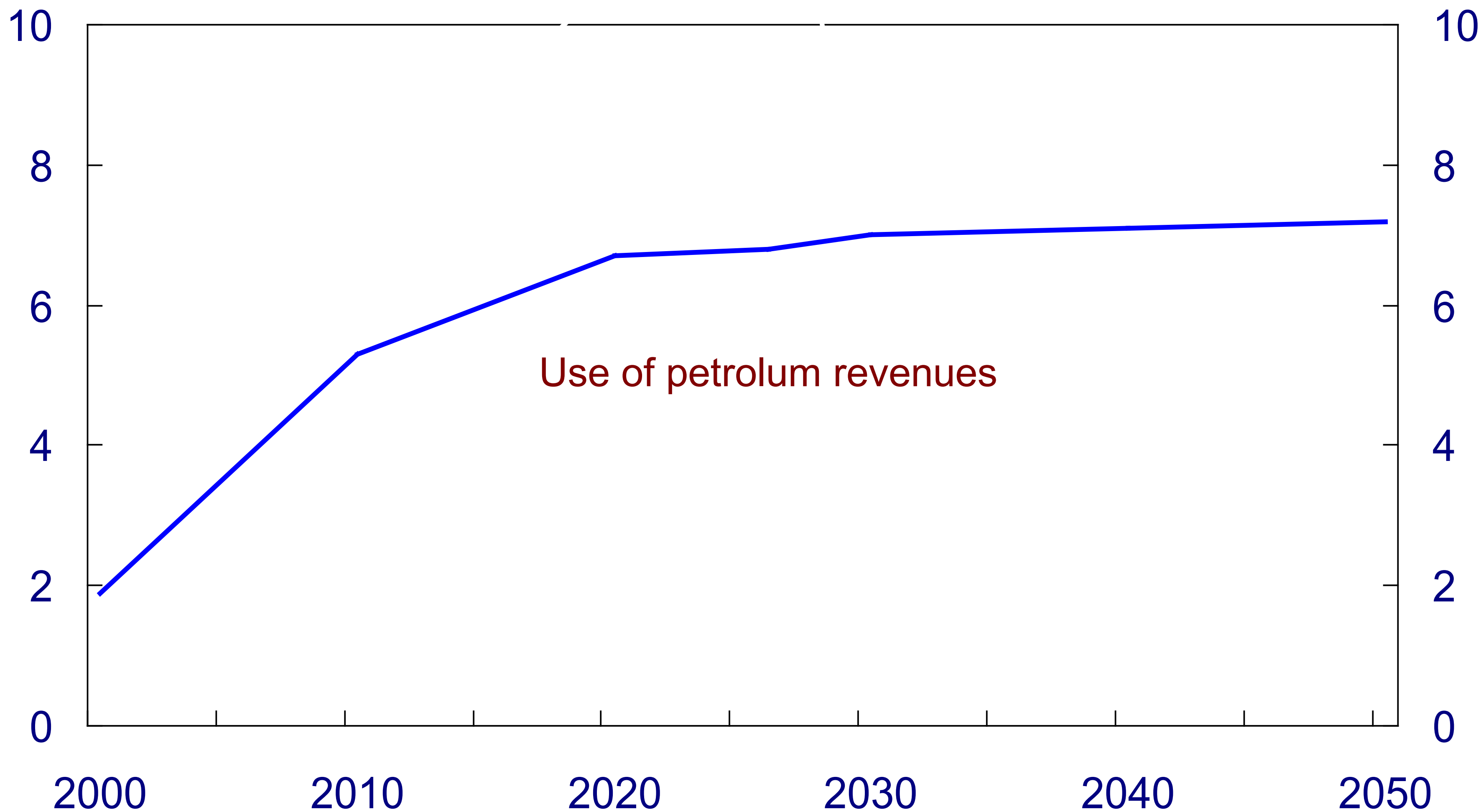
- Fiscal policy:
  - new rule for the use of petroleum revenues:
  - continued focus on smoothing fluctuations in the economy
- Monetary policy:
  - inflation target

# Strategy for the use of petroleum revenues
## (endorsed by the Parliament June 2001)

- The use of petroleum revenues over the Government budget is to be increased moderately and gradually, approximately in line with an estimated 4 per cent real return on the capital of the Petroleum Fund
- Emphasis will still be given to stabilise economic fluctuations (?)

# Structural non-oil budget deficit.

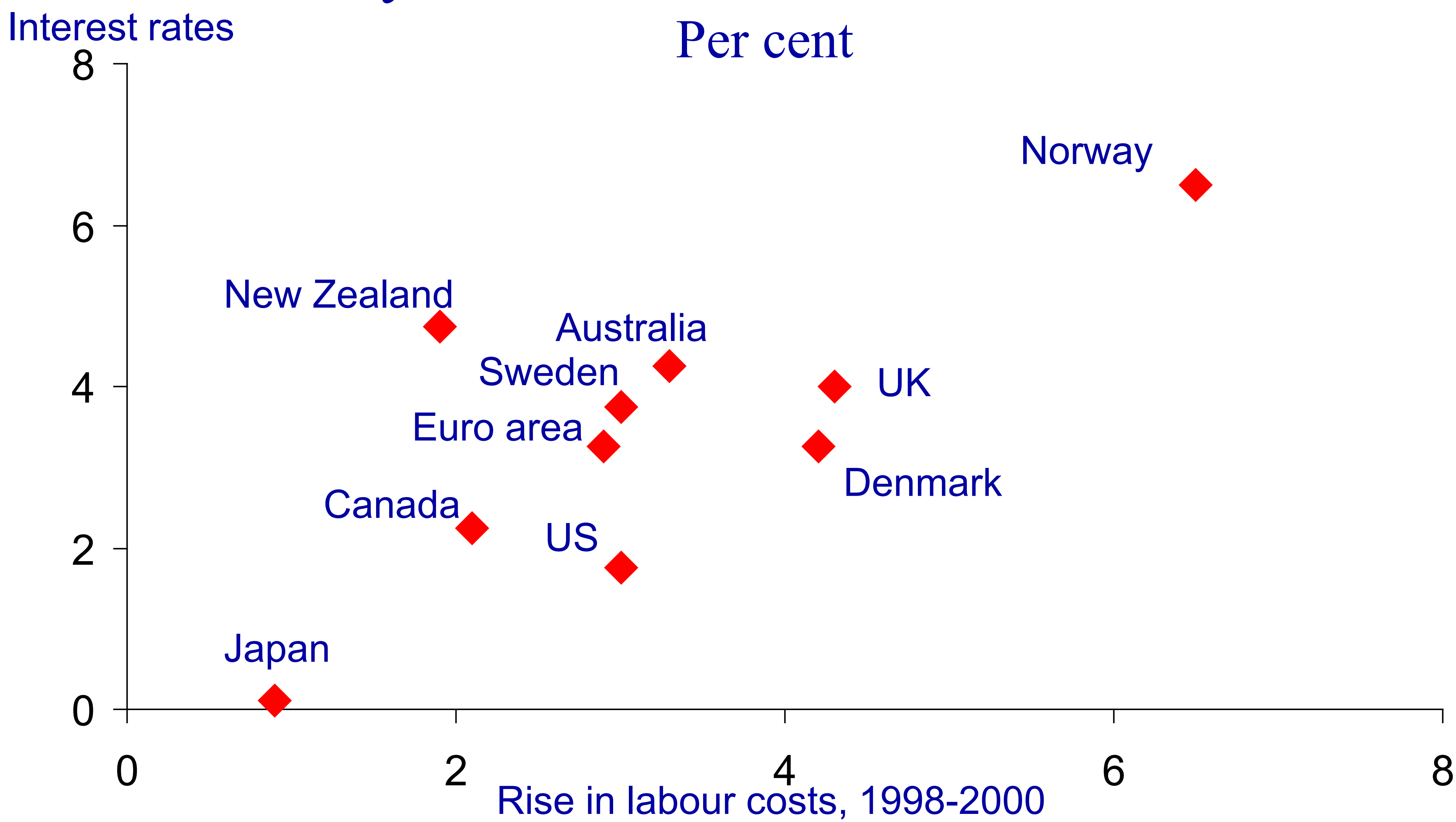
## In per cent of GDP Mainland Norway



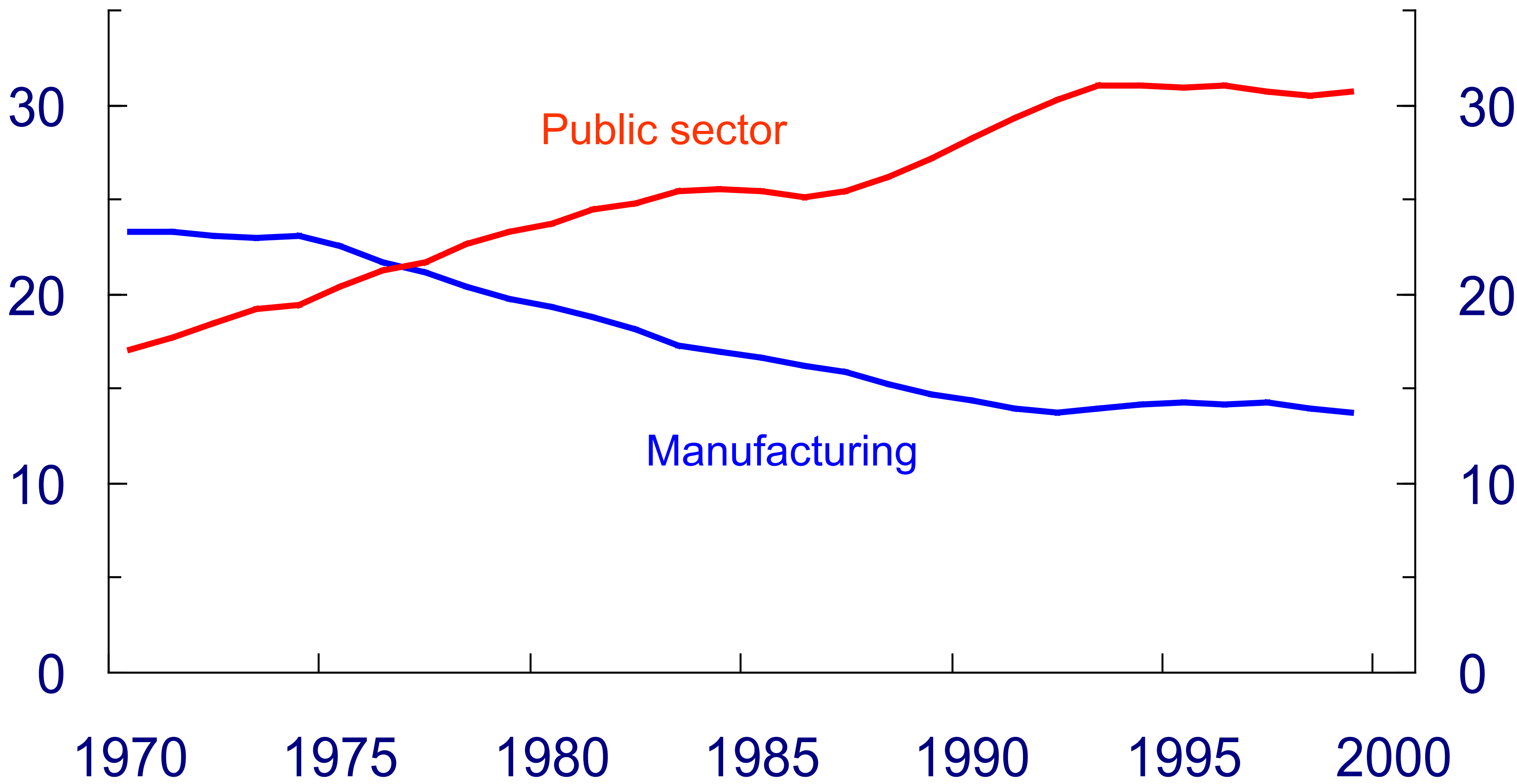

Source: Ministry of Finance

# Key rates and rise in labour costs

Per cent



# Signs of Dutch disease: Employment by sector
# Per cent of total employment




Source: Statistics Norway

# Structural effects on the Norwegian economy

- Use of petroleum revenues will entail some changes in the industry structure
- Increased spending on private and public services: Sheltered sector lay claim to a higher share of available employment
- Resources have to be transferred from the exposed sector

# Adjustments through real appreciation

- Adjustments through deteriorating competitiveness and profitability in internationally exposed industries
- Pressures on economic resources may lead to higher wage and price inflation
- Must be countered by tighter monetary policy
- Higher interest rate may result in nominal appreciation => deteriorating competitiveness
- Not everyone will be equally enthusiastic …
- … but monetary policy shall no in this situation counter the strong exchange rate.

- APPENDIX: