

Norges Bank's Annual Address 2020

The Governor did not give new monetary policy signals, as expected, in his [annual address](#). He took a long-term perspective describing the expansion of the petroleum sector. Oil and gas have been transformed to financial capital. Going forward the economy has to restructure and adjust to lower demand from the oil industry. This restructuring must happen in the private sector. The governor expressed in a discrete manner concerns over the expansion of the public sector curbing the room for private expansion.

Assessment: The governor addressed several important topics for the Norwegian economy. The main theme was structural changes. How the petroleum sector had expanded and transformed oil and gas to financial assets. Further how the petroleum sector meets new challenges like uncertainty over profitable reserves and climate issues. He pointed out the need for traditional exports to increase but was concerned that 15% decline in the NOK has not boosted exports. The private sector has to restructure over time. He stated clearly that the last ten years' rapid increase in the pensions fund to some extent was based at the depreciation of the NOK. This increases the Government's domestic purchasing power, but depreciation does not increase national wealth. Furthermore he expressed concerns over the falling labour market participation rate and underlined the need for a flexible labour force.

The first section of the address was titled "From oil and gas to financial capital". In this section the governor described the expansion of the oil and gas sector, effects from oil price shocks and how the sector had affected the mainland industries. He spent some time to talk about how income from the petroleum sector had been spent, and stated:

"Norway's oil history has produced many winners. Norwegian wage earners have over time experienced purchasing power gains that their counterparts in other countries could only have dreamed about. The main beneficiary of high oil prices this century has been government finances, thanks to the state's direct financial interest and high taxation of production profits. In good times, the gains have been substantial. At the same time, this means that the state bears much of the risk associated with oil price fluctuations."

In this section he also mentioned how the fund had developed and been exposed to variation in exchange rates, stock prices and long-term interest rates in addition to the oil price. He underlined the risk associated with owing financial assets. Also this year he mentioned that Norway had always been exposed to global economic developments.

"The substantial foreign assets we have accumulated mean that our economy is even more closely intertwined with the world economy. It is then unfortunate that the rule-based order for world trade since 1945 is losing ground. Bilateral and regional agreements are gaining ground at the expense of multinational cooperation. This contributes to uncertainty about the outlook for the global economy."

The second section: "Structural changes and new challenges" started with the outlook for the oil and gas activity: "We have always known that activity on the Norwegian shelf would eventually decline. After a half-century of oil production, about half of estimated total reserves have been extracted. About half of what remains has not yet been discovered. In recent years, known oil resources have shown little increase. There is also the question of how much of what remains would be profitable to extract".

He also addressed **climate issues** in this section:

"If the world is to meet the goals of the Paris Agreement, carbon emissions must be reduced, which means the combustion of fossil fuels, including oil and gas, must also be reduced. But the world will still need energy. How much and what share will have to be covered by oil and gas are uncertain. That will depend on a number of factors, including climate policy and technological developments."

But he also pointed out: "While climate policy is being strengthened in a number of countries, the international picture is also one of resistance to the introduction of effective measures".

And concluded: "The outlook for future oil demand reflects considerable climate and energy uncertainty. Businesses, banks and investors are paying more attention to this risk. The outlook for offshore activities on the Norwegian shelf has also become more uncertain".

He further discussed the policy measures in Norway and how they had contributed to dampen the shock from the oil price decline in 2014/2015: "The mildness of the downturn following the oil price fall shows that the Norwegian economy has effective shock absorbers, such as flexible wage formation, a floating exchange rate and solid government finances. We also had monetary policy space, which we used". He underlined the importance of confidence in the policy and that stimuli have to be reduced when the economy recovers.

Oil revenue spending over the central government budget has reached a high level, and the government has a responsibility for the balance between the public and private sector. **Here we probably find Olsen's strongest advice:** "Since 2014, public consumption and investment have risen to a record-high share of mainland GDP. The krone depreciation over the past years has entailed a sharp increase in the GPFG's value in krone terms. This has increased the government's domestic purchasing power. However, a krone depreciation does not increase our national wealth. In the years ahead, we need a larger non-oil tradable sector. If that sector is to expand, it must be given room to grow. If the government lays claim to a growing share of available production resources, the room for growth will diminish. The government must therefore be especially cautious about increasing public spending on the basis of a krone-driven rise in the fund's value".

He asked whether **Norway is competitive enough:** "The main responsibility for restructuring rests with the business sector. The recent years' improvement in cost competitiveness is a good starting point for stimulating growth in new activities. ... Despite a more than 15 percent reduction in labour costs in a common currency since 2014, the tradable sector has shown fairly weak growth, as reflected in recent trade balance developments. The non-oil trade deficit has continued to widen, which must be seen in the light of the decline in oil service exports owing to the sharp fall in global offshore oil investment".

Also the development in **the labour market is a matter of concerns:** "Employment in Norway is no longer as high as it once was. Today, a smaller share of the population aged between 25 and 54 is employed than 20 years ago, and the share is now higher in a number of countries ... Those outside the labour market share a number of characteristics. One is weak formal qualifications. Among them, we find recently arrived immigrants and young persons who have dropped out of school. Another is poor language skills. Moreover, it is worrying that disability rates are rising, particularly among young people".

"Going forward, the key to success for Norway will be the same as for other countries: We must make the most of our number one resource – labour".

He ended the address with the following: "Central bank governors tend to get it right, sooner or later. Come what may!" – the latter is also the slogan to his supported football team.

About the address: The annual address is an annual speech delivered by the Governor of Norges Bank to Norges Bank's Supervisory Council and a number of invited guests. This tradition started in 1922. The title of the address since 1986 has been "Economic perspectives". Emphasis has been placed on discussing a broader range of themes of relevance to addressing economic policy challenges. This is one of few occasions where the governor speaks for himself (and his administration) and not on behalf of the Executive Board.

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