Economic situation in Norway after the outbreak of the global financial and oil crises in the context of EU integration trends

Abstract. This research presents an analysis of influence of the global financial crisis and the following oil crisis on the EU integration trends in Norway. Our aim is to deduct the impact of the oil and gas industry on the economic situation and prosperity of Norway and indicate the effect of political and economic stability on the EU integration. The results of this research indicate that Norway prefers to stay outside the EU integration in times of crises as well, mainly due to significant profits from the petroleum industry, the country's ability to recover after crises and strong governmental support to stabilize the economy.

Keywords: Norway; Financial Crisis; Oil Crisis; EU Membership

JEL classification: F02; F15; E60

DOI: https://doi.org/10.21003/ea.V169-02

Lipková L.
PhD Student (Economics),
University of Economics in Bratislava
1 Dolnozemská cesta Str., Bratislava, 85235, Slovak Republic
lipkova@euba.sk

Hovorková K.
PhD Student (Economics),
University of Economics in Bratislava
1 Dolnozemská cesta Str., Bratislava, 85235, Slovak Republic
hovorkova.katarina@yahoo.com

© Institute of Society Transformation, 2018
3. Results

3.1. The global financial crisis in Norway

The outbreak of the global financial crisis in the US caused serious economic problems in Europe. The Norwegian economy was significantly hit, mainly due to its relatively small, dollar-based money market. International growth decreased, which led to the lowering of commodity prices, international demand and the export industry. In 2008, Oslo Bors dropped by 54% and the companies listed there lost their value (financial supervisory authority, 2009). However, Norges Bank had already adopted several measures in terms of financial regulation and supervision to prevent destabilisation in the bank sector (Hodson, Quaglia, 2009) and liberalisation of the national economy without boom-boost cycles as a consequence of the country’s participation in the international system (Jonung, 2008), which provided for a «lessons learned» effect from previous crises. After the outbreak of the global financial crisis, Norway continued its reforms regarding bank financing that improved the economy to obtain long-term finance and to enhance the liquidity situation. Norges Bank also implemented packages reducing interest rates from 8% in October 2008 to less than 4% in December 2008, and to 2.5% in February 2009 (financial supervisory authority, 2009) to minimize the debt in real estate sector, which was caused by a decrease in real estate prices by 7% in the period from January 2008 to January 2009 (financial supervisory authority, 2009) and the domestic consumption and the oil and gas industry remained strong. GDP growth increased, the unemployment rate decreased and the confidence, was strengthening. Due to non-oil government’s investments, improving the business environment and lowering taxes, the unemployment rate decreases and the GDP growth increased, the unemployment rate decreased and the house prices began to rise. Also, the government supported domestic consumption and the oil and gas industry remained profitable mainly due to significant investment incentives. A relatively strong, even if oil prices are failing (Farook Akram, 2004). The government of Norway intended to support household consumption in order to increase the domestic demand by reducing interest rates. Therefore, Norges Bank cut the rate by 50%, yet this was revised downwards to one quarter in 2015 (OECD, 2016). A significant depreciation of Krone, due to its correlation with oil prices, boosted the activity of other export sectors. The OECD expected a weak economic activity in 2016 as well, mainly due to a continuous decrease in the petroleum industry and the spillovers on non-oil sectors (OECD, 2016). In early 2016, the price of Brent dropped to USD 30 per barrel, compared with USD 110 per barrel in June 2014 (nasdaq, 2017). According to the OECD forecast, the unemployment rate was to peak in 2016 because of job shortcuts in the oil and gas industry, which would lead to a 6% decrease in petroleum production (Larsen, 2016) (Figure 1); the inflation rate was to decrease as a result of the currency depreciation, however the monetary and fiscal policy was expected to be supportive in order to prevent risks caused by the household debt and housing market (OECD, 2016). The economic outlook for 2017 was positive. According to the OECD, private consumption, as well as consumer confidence, was strengthening. Due to non-oil government’s investments, improving the business environment and lowering taxes, the unemployment rate decreases and the GDP growth remained positive (OECD, 2017). A positive economic outlook for 2018 is mainly due to a robust increase in global oil prices and economic reforms. Norges Bank focused on improving the business environment, public spending efficiency, proportionate taxation rules and neutral fiscal policies in order to prevent economic cyclical effects. Structural reforms were reflected in a slowdown in the real estate market, a decrease in the unemployment rate and increasing inflation. (OECD, 2018)

3.2. Current economic situation in Norway and the oil crisis

The importance of the Norwegian petroleum sector also played an important role in stabilising the country’s economy. Until the outbreak of the oil crisis, Norway was the 3rd largest gas exporter in the world, and 21% of its supplies were placed in Europe (Ayoub, George, 2014). A decrease in the production was caused due to the focus on newly discovered fields; however EIA expected continual growth and stabilisation in the production of gas and oil in Norway with a small increase in extraction from already existing fields.

Norway might have lost its competitiveness due to a serious breakdown of oil prices. However, the government of Norway spent a significant part of its stabilisation budget to support the petroleum industry and invested NOK 130 billion in 2010 to enhance the oil and gas production, which was an increase of 50% in investments in last 6 years (Sasson, Blomgren, 2011). The subventions were expected to be increasing; therefore the creditworthiness of the Norwegian market grew. Also, in comparison with other member states whose economy experienced serious breakdowns, the economic reforms in Norway were successful and stabilised the country’s economy. The GDP growth increased, the unemployment rate decreased and the house prices began to rise. Also, the government supported domestic consumption and the oil and gas industry remained profitable mainly due to significant investment incentives. A relatively strong, even if oil prices are failing (Farook Akram, 2004). The government of Norway intended to support household consumption in order to increase the domestic demand by reducing interest rates. Therefore, Norges Bank cut the rate by 50%, yet this was revised downwards to one quarter in 2015 (OECD, 2016). A significant depreciation of Krone, due to its correlation with oil prices, boosted the activity of other export sectors. The OECD expected a weak economic activity in 2016 as well, mainly due to a continuous decrease in the petroleum industry and the spillovers on non-oil sectors (OECD, 2016). In early 2016, the price of Brent dropped to USD 30 per barrel, compared with USD 110 per barrel in June 2014 (nasdaq, 2017). According to the OECD forecast, the unemployment rate was to peak in 2016 because of job shortcuts in the oil and gas industry, which would lead to a 6% decrease in petroleum production (Larsen, 2016) (Figure 1); the inflation rate was to decrease as a result of the currency depreciation, however the monetary and fiscal policy was expected to be supportive in order to prevent risks caused by the household debt and housing market (OECD, 2016). The economic outlook for 2017 was positive. According to the OECD, private consumption, as well as consumer confidence, was strengthening. Due to non-oil government’s investments, improving the business environment and lowering taxes, the unemployment rate decreases and the GDP growth remained positive (OECD, 2017).

A positive economic outlook for 2018 is mainly due to a robust increase in global oil prices and economic reforms. Norges Bank focused on improving the business environment, public spending efficiency, proportionate taxation rules and neutral fiscal policies in order to prevent economic cyclical effects. Structural reforms were reflected in a slowdown in the real estate market, a decrease in the unemployment rate and increasing inflation. (OECD, 2018)

3.3. Economic situation in Norway in the context of the country’s potential membership in the European Union

Norway has gone through the crisis with the least losses in Europe. The development of the crisis in Norway was unique and relatively stable due to various reasons. For example, Norway had a good working and stable economic and political environment and the country did not need to fight with the collapse in the real estate market, increasing inflation or massive unemployment. Therefore the country was not forced to change its foreign policy and become the EU member in order to stabilise its economic situation. Moreover, there are some significant reasons for Norway to stay outside the EU. As a welfare state, Norway would contribute to the EU budget significantly, mainly in the time when it is necessary to support other EU member states. Together with the EU membership, Norway would have to adopt the EU currency. Despite fluctuations in the exchange rate, the Norwegian Krone was stable even after the outbreak of
global financial crisis. Also, the decreased NOK exchange rate has had a positive effect on non-oil export industries. Norway's economic development since 2010 has brought improvement in the domestic consumption; the growth of GDP has reached the pre-crisis level and the unemployment rate, as well as the NOK exchange rate has stabilised. The above-average oil prices and the discovery of new oil fields have resulted in the government’s reliance on the petroleum industry as the leading industry in the country. Along with the economic expansion, the Norwegian Krone and consumer confidence have risen to their maximum levels over the past years, with the oil and other export sectors making Norway one of the strongest markets in Europe.

However, because of the recession beginning from 2014, Norway experienced an economic slowdown, and the oil crisis influenced country's economy more than the global financial crisis. Oil prices fell down rapidly, and oil and gas producers in the country had to cut the job positions down to stay profitable. Even if the country’s development resulted in enhanced productivity and competitiveness of other export sectors, the most important petroleum industry would need financial incentives to help the country to avoid a deeper recession. Norway's government was forced to use the nation’s wealth and resources to support the oil and gas industry, as well as non-oil sectors, in order to stabilise domestic consumption and avoid the creation of bubbles on the real estate market. Recently, negative trends in economic development have changed the attitude of the EU towards the EU integration. Historically, countries have tended to apply for a membership in regional political and economic organisations in times of recession. However, there are many reasons for Norwegians to be reluctant towards the EU membership. Norwegians would endanger their national sovereignty, limit fishery and agricultural production and contribute significantly to the EU budget. The adoption of the EU single currency would have a strong impact on Norway's export industries due to NOK depreciation. Thus, Norway prefers its membership the EEA enjoying benefits that do not endanger the national sovereignty.

The current economic stabilisation in Norway has been impacted mainly by the increase in oil prices, and the government's incentives. Neither the stagflation of 1970s, nor the recession of 1990s, when the government of Norway applied for the EU membership in order to stabilise the country’s economy, nor the 2008-2009 global financial crisis, nor the 2014-2016 oil crisis changed the attitude towards the EU integration. To conclude this research, Norway is likely to stay outside the EU integration and will not change its foreign policy stance even in times of crises. It is case of other economically developed EU member states. Such a trend is observed due to the significant profits from the petroleum industry, the country's ability to recover after crises and strong governmental support to stabilize the economy.

Reference
1. Ayoub, J., & George, R. (2014, May 16). Norway supplies more than 20% of Europe's natural gas needs. U.S. Energy Information Administration. Retrieved from https://www.eia.gov/todayinenergy/detail.cfm?id=23372

2. Barden, J. (2015, October 16). Norway’s oil production increases, but new investment is declining. Today in Energy. Retrieved from https://socioeconomics.history.ucas.edu/2015/10/16/norway-pushes-panic-button-were-in-a-crisis-now-we-cant-deny-that/

3. Durden, T. (2016, January 18). Norway Pushes Panic Button: ‘We’re In A Crisis Now, We Can’t Deny That’. Blog. Socio-Economics & History. Retrieved from https://socioeconomics.history.ucas.edu/2016/01/18/norway-pushes-panic-button-were-in-a-crisis-now-we-cant-deny-that/

4. European Central Bank (2018). ECB euro reference exchange rate: Norwegian krone (NOK). Retrieved from https://ecb.europa.eu/stats/exchange/eur/href/index.html?chart=chart-2000&chart=chart-2000

5. Eliassen, K. A., & Sitter, N. (2003). Even Closer Cooperation? The Limits of the «Norwegian Method» of European Integration. Scandinavian Political Studies, 26(2), 125-144. doi:10.1111/1467-9477.00082

6. Eurostat (2018). Fishery statistics. Retrieved from http://ec.europa.eu/eurostat/statistics-explained/index.php/Fishery_statistics

7. Farooq Akram, Q. (2004). Oil prices and exchange rates: Norwegian evidence. Journal of Comparative Economic Studies, 50(4), 564-569. doi:10.1108/10474400410575341

8. Financial Supervisory Authority (2009). The Financial Market in Norway 2008. Risk outlook. Kredit Tellayen, The Financial Supervisory Authority of Norway.

9. Hodson, D., & Quaglia, L. (2009). European Perspectives on the Global Financial Crisis: Introduction. Journal of Common Market Studies, 47(5), 939-953. doi:10.1111/j.1468-5971.2009.01840.x

10. Jonung, L. (2008). Lessons from Financial Liberalisation in Scandinavia. Comparative Economic Studies, 50(4), 564-569. doi:10.1108/10474400810889339

11. Lipkova, L., & Hovorkova, K. (2018). Economic Annals-XXI (2018), 169(1-2), 12-14

12. Larsen, M. H. (2016, July 1). Strike threatens to cut 6% of Norway’s oil production. Business Insider Nordic. Retrieved from https://nordic.businessinsider.com/strike-threatens-to-cut-6-of-norways-oil-production-2016-

13. Lipkova, L. (2011). European Union. Statistics. Retrieved from http://epp.eurostat.ec.europa.eu/portal/page/portal/nomenclature/dimension/7065

14. OECD. (2017). OECD Economic Outlook, 2017(1). doi:10.1787/160979408

15. OECD (2017). Norway Economic Outlook, 2017(1). doi:10.1787/98893373878

16. OECD (2018). Norway Economic Outlook, 2018(1). doi:10.1787/988933730427

17. Sasson, A., & Blomgren, A. (2011). Knowledge Based Oil and Gas Industry. Bit Norwegian Business School, Research Report 3/2011. Retrieved from http://www.bi.no/forarking/papers/2011/05/17/064679/759d7c5b1278771004a5d3e6/SFSE/2011/03/SassonBlomgren.pdf

18. Sitter, N. (2007). The politics of opposition and European integration in Scandinavia: Is Euroscepticism a government-opposition dynamic? Western European Politics, 24(4) 22-39. doi:10.1080/13639810701620463