



THE NORWEGIAN ECONOMY AND GLOBAL TRADE

DEPUTY GOVERNOR JON NICOLAISEN

Gardermoen, 19 November 2018

Agenda

- A small, open economy
- Clouds on the horizon
- The Norwegian economy is affected through several channels

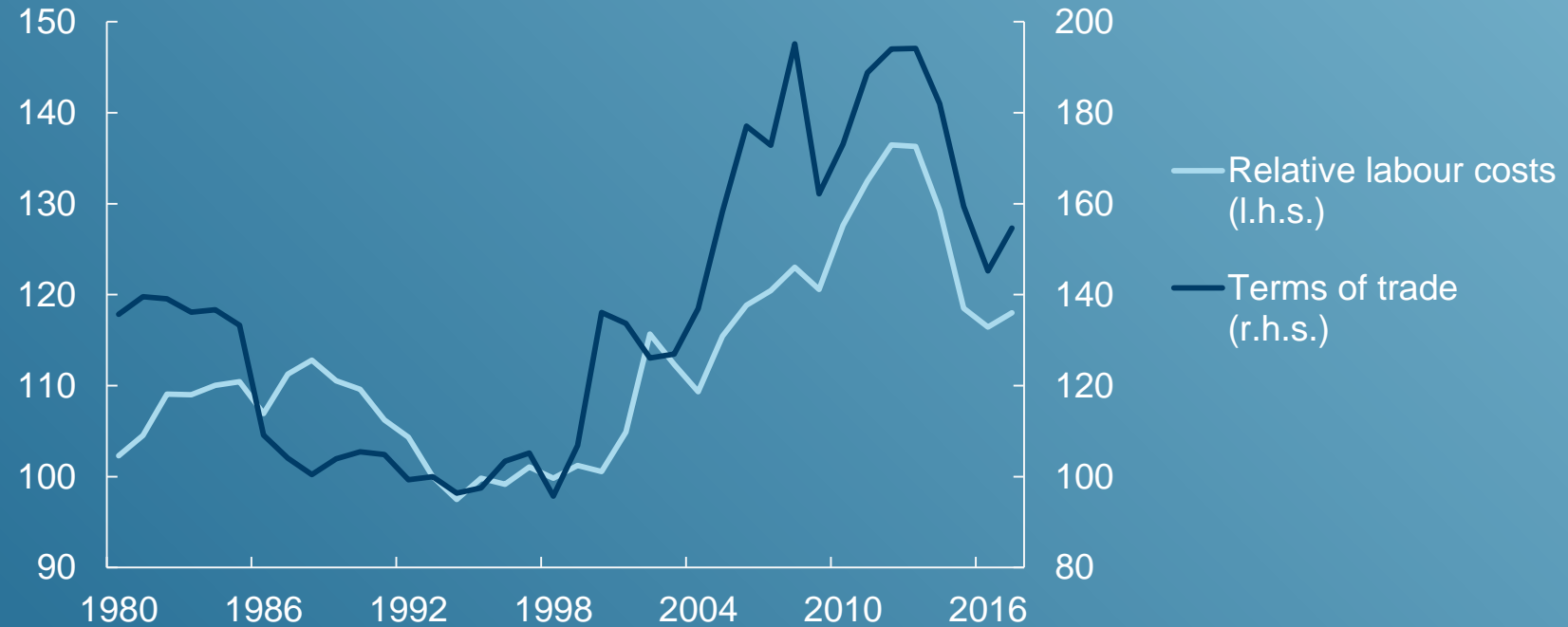


A SMALL, OPEN ECONOMY



Terms of trade affect the Norwegian economy

Ratio between export and import prices (terms of trade) and labour costs relative to trading partners¹⁾. Index. 1993 = 100

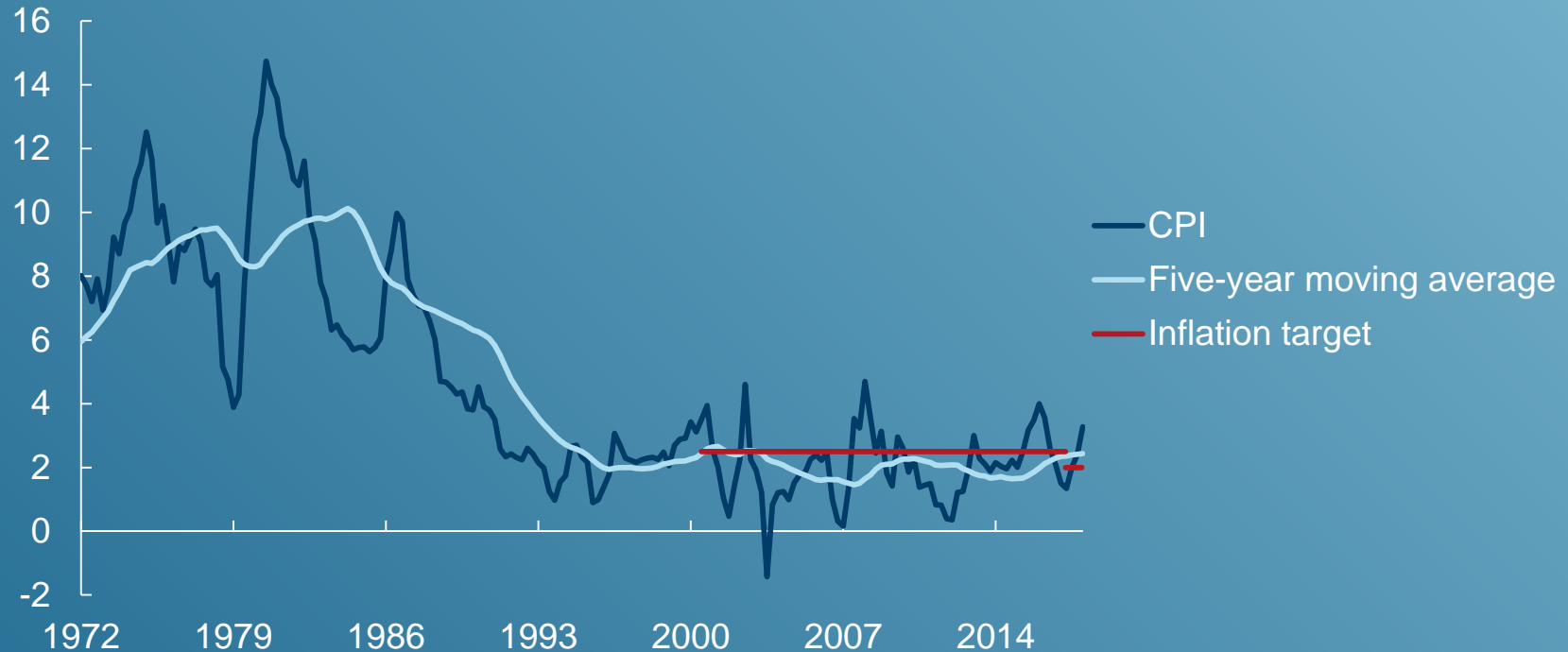


1) Measured in a common currency.



Towards low and stable inflation

Consumer price index (CPI) Norway. Twelve-month change. Percent

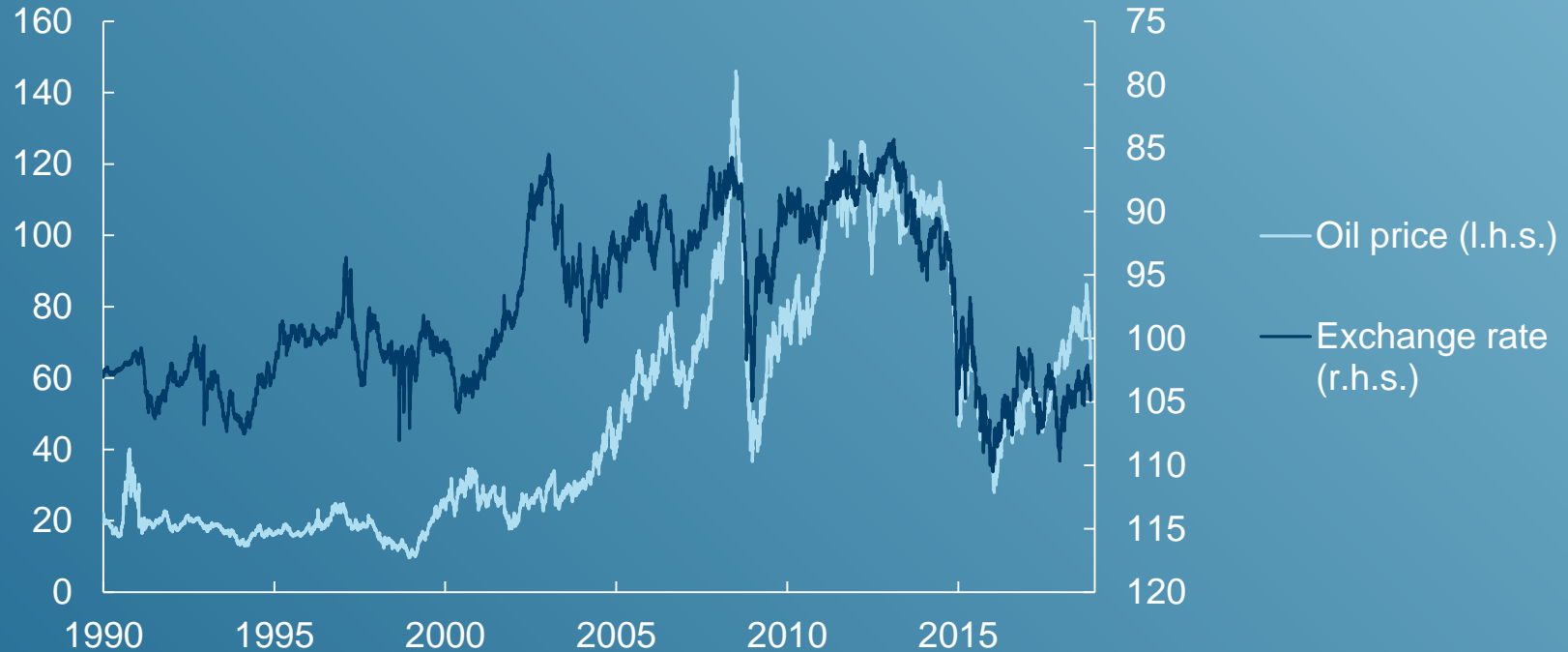


Sources: Statistics Norway and Norges Bank



The exchange rate is a buffer

Oil price (USD/barrel) and effective exchange rate index (I-44)¹⁾

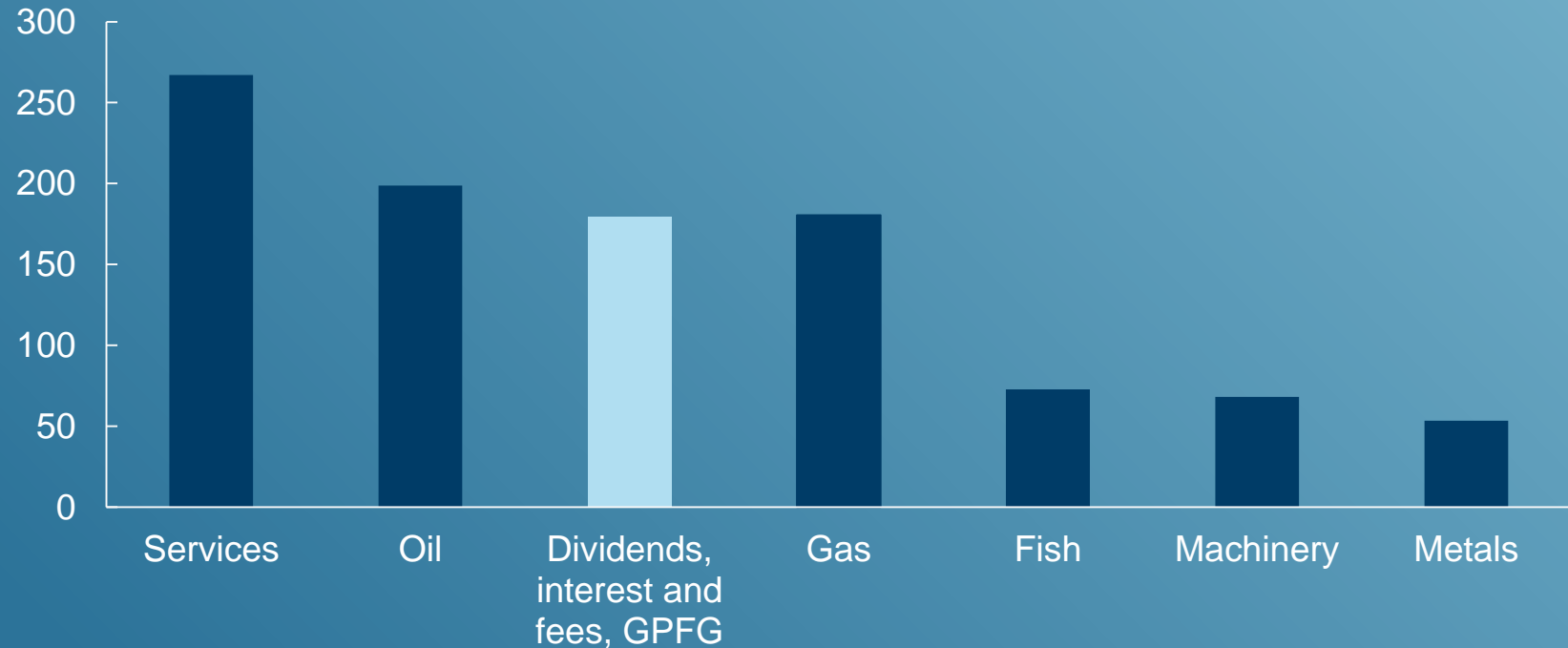


1) A positive slope denotes a stronger krone exchange rate.
Sources: Thomson Reuters and Norges Bank



Norway's income earned abroad

Exports and GPFG's¹⁾ dividends, interest and fees. In billions of NOK.
Year-to-date. 30 September 2018



1) Government Pension Fund Global.
Sources: Statistics Norway and Norges Bank

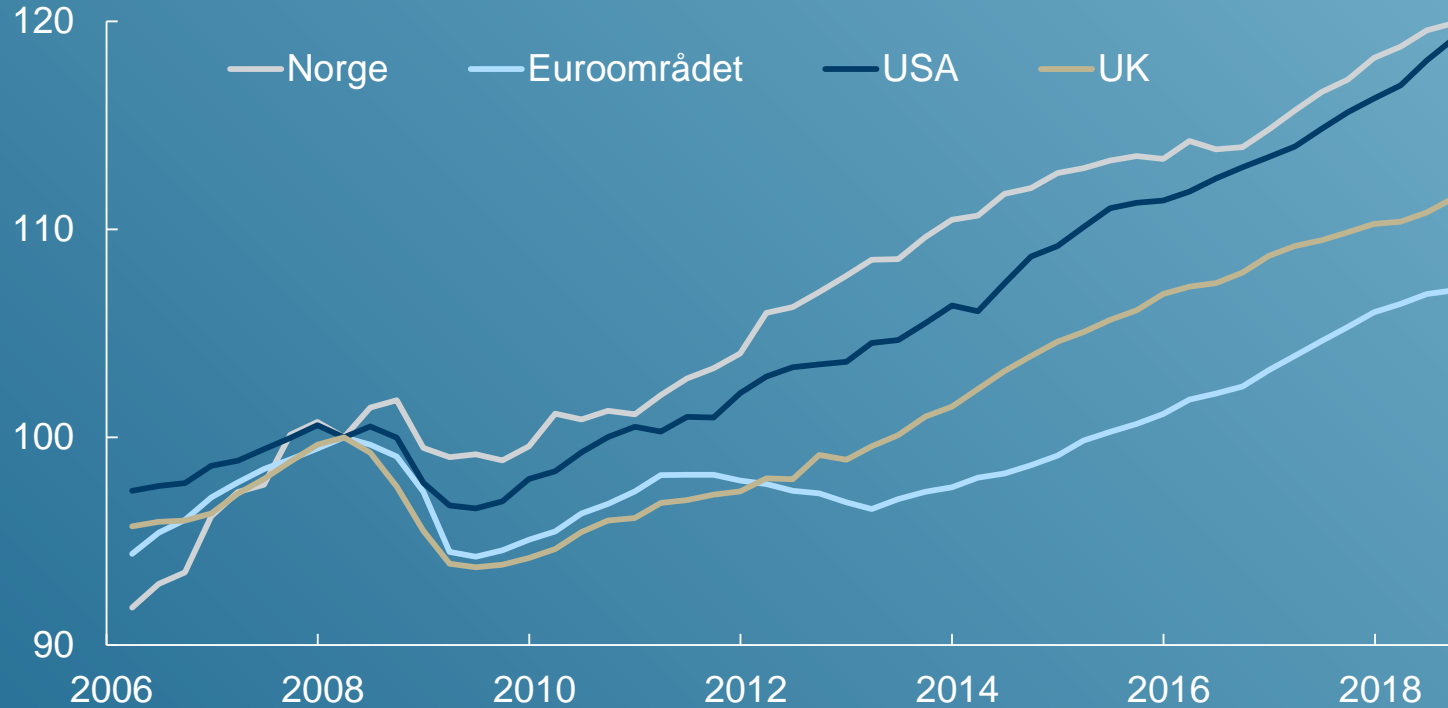


CLOUDS ON THE HORIZON



A long global upturn...

GDP. Index 2008 Q1 = 100.



Sources: Statistics Norway and Thomson Reuters



... but increased uncertainty

- Trade conflicts
- Political tensions
- Brexit
- Italy



Trade conflicts and protectionism

■ US:

- Import tariffs – USD 280bn
 - About 12% of US imports
 - Tariffs on about half of imports from China
 - Tariffs on steel and aluminium
- Regulation of foreign investment in the US and of US investment in China

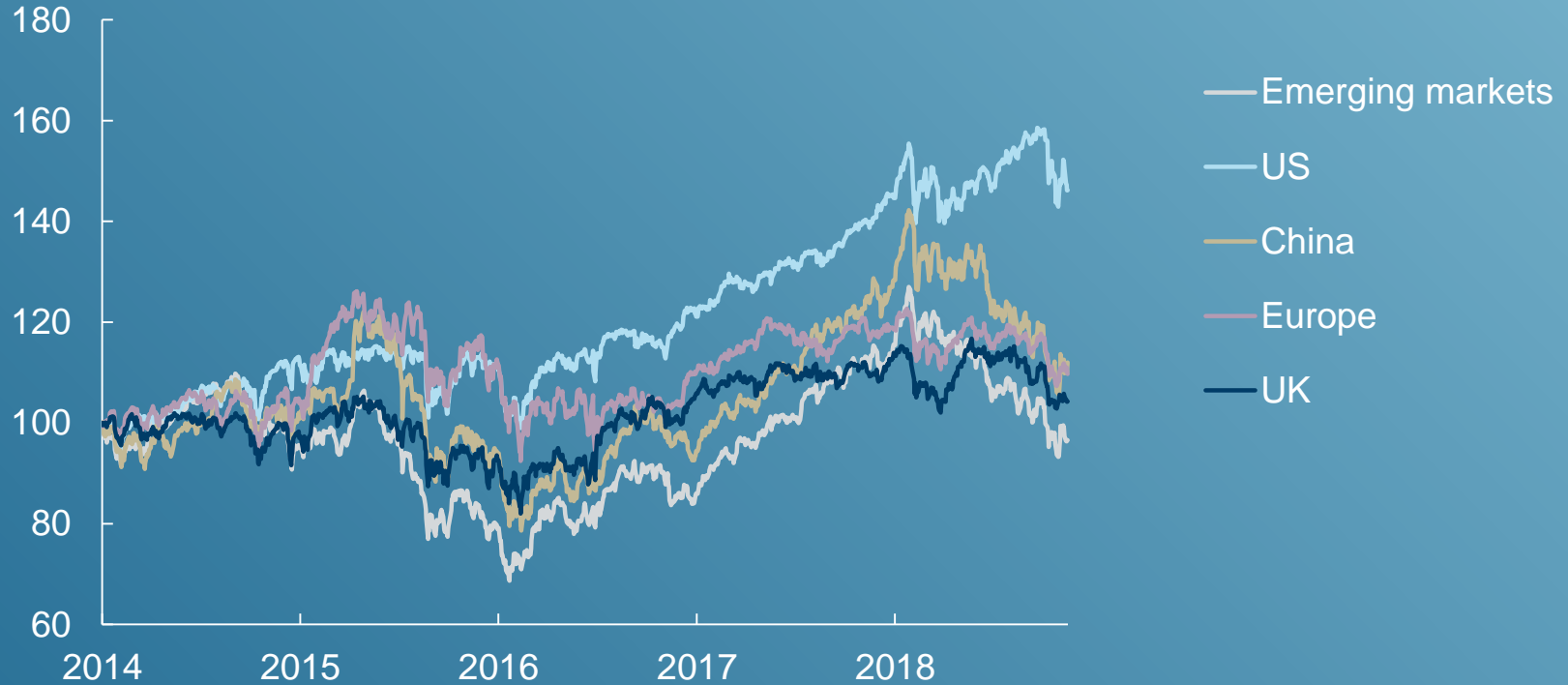
■ Several countries have implemented retaliatory measures:

- Tariffs on US exports – USD 125bn
 - About 8% of US exports



Reaction of equity markets

Index. 1 January 2014 = 100

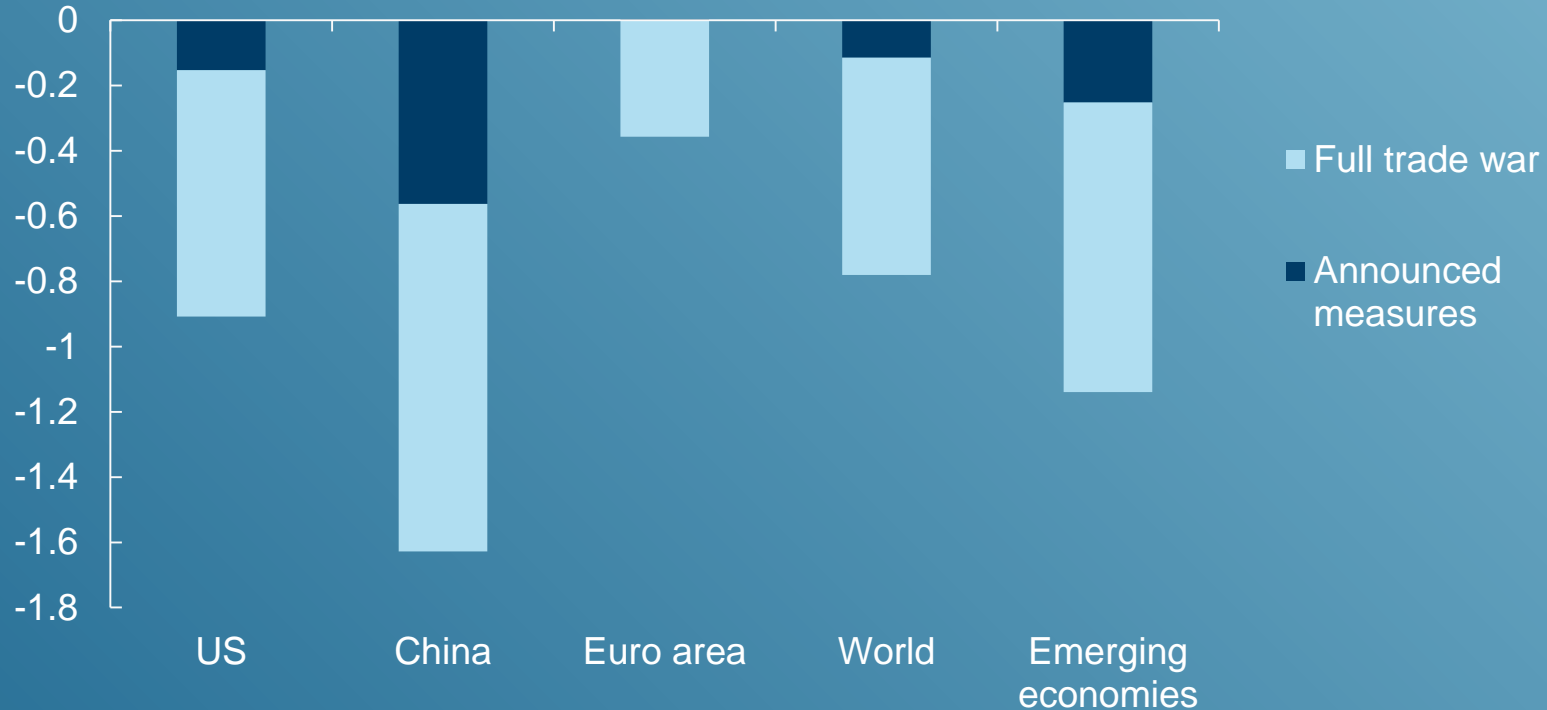


Source: Bloomberg



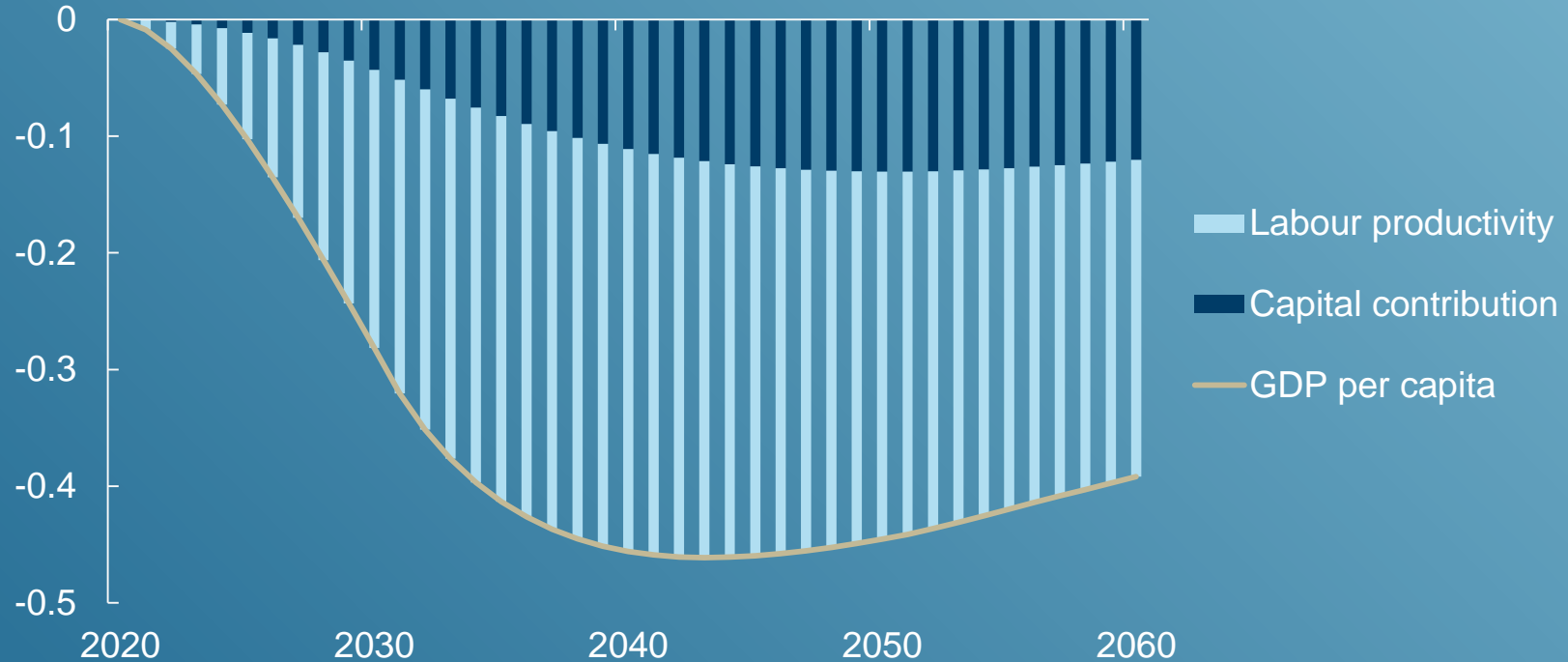
IMF scenario for rising trade tensions

Percentage reduction in GDP in 2019



Protectionism may lead to persistently lower growth

Percentage reduction in trend growth in global GDP



Source: OECD



THE NORWEGIAN ECONOMY IS AFFECTED THROUGH SEVERAL CHANNELS



INCREASED PROTECTIONISM

Global economy

Lower global growth

Higher import prices
Reduced wage pressure

Lower oil prices

Lower equity prices

Norway

Lower export growth

Reduced activity

Weaker krone

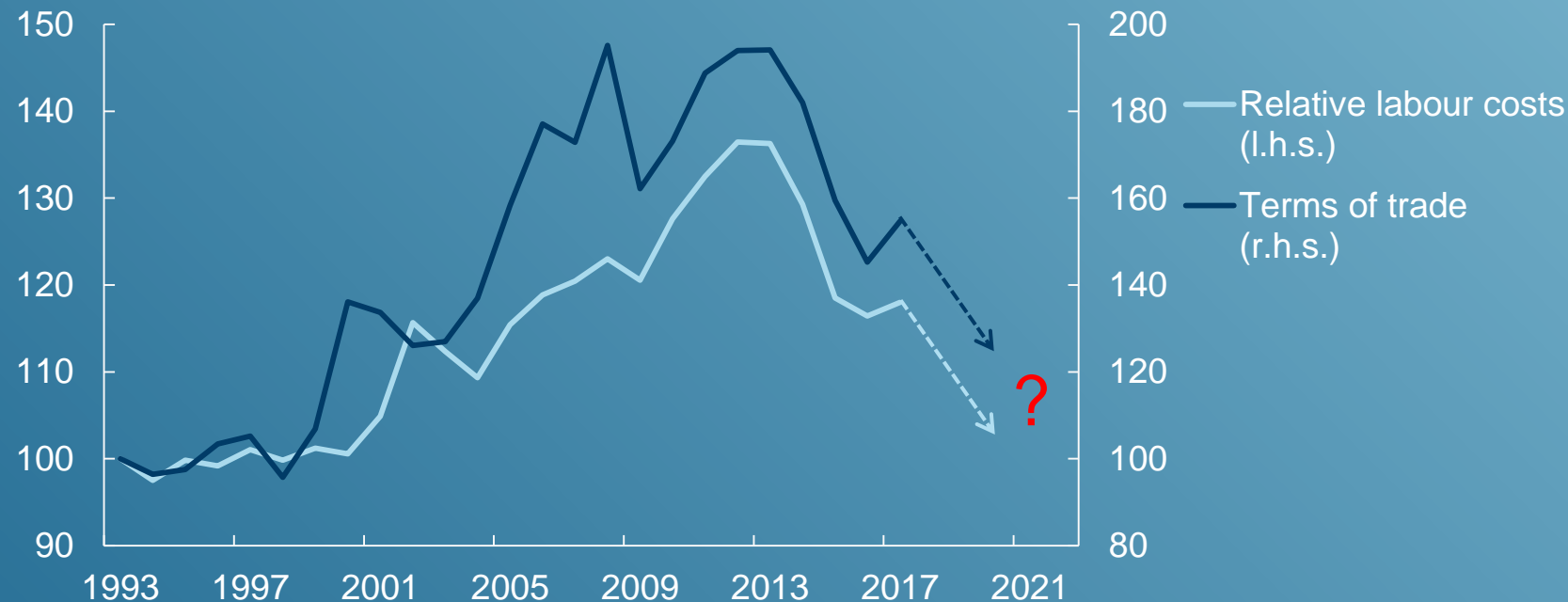
Reduction in the GPFG

Imported inflation??



Can Norway's terms of trade reverse?

Ratio between export and import prices (terms of trade) and labour costs relative to trading partners¹). Index. 1993 = 100



1) Measured in a common currency.





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