



Norwegian Ministry  
of Finance

# Managing oil revenues – Norway's experience

Senior advisor Tore Eriksen

September 13, 2018 in Maputo



# Outline

## Petroleum revenues and fund mechanism

Governance

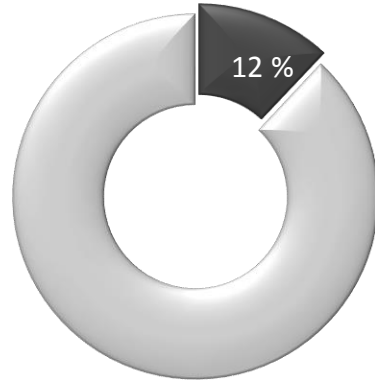
Investments

Fund performance

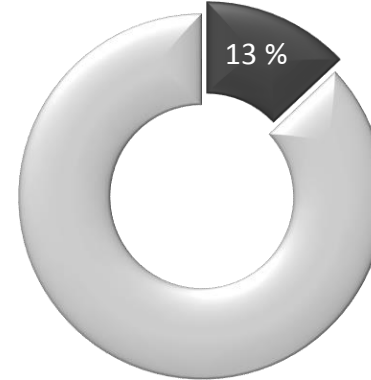
Responsible management

# Petroleum accounts for a substantial part of the Norwegian economy

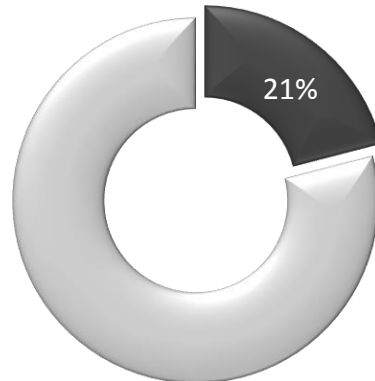
Share of GDP



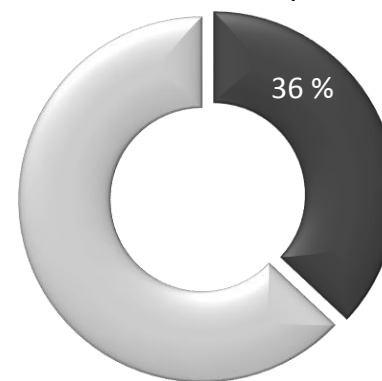
Share of state revenues



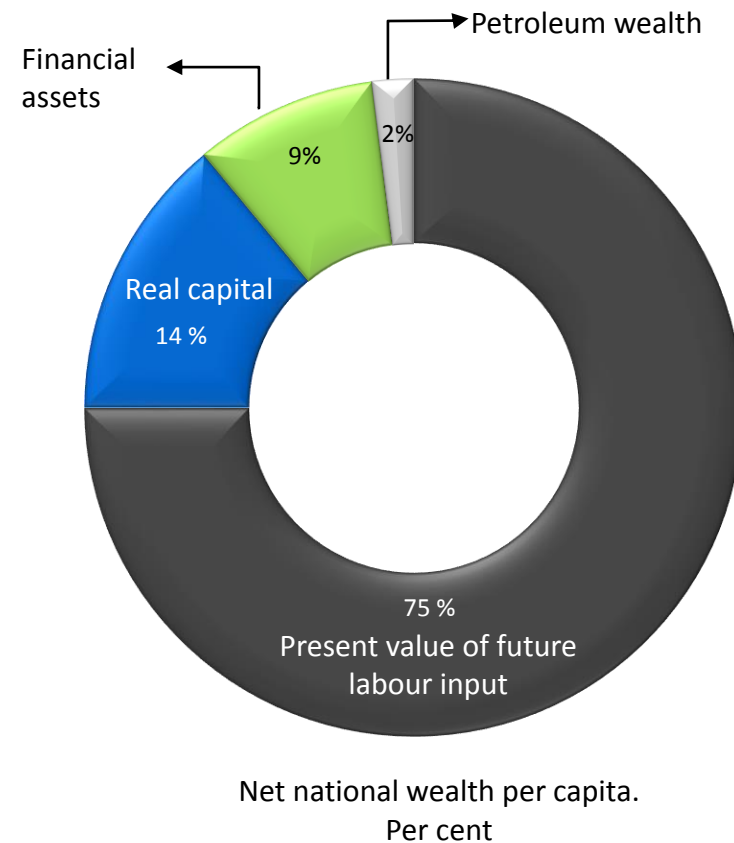
Share of total investment



Share of total exports

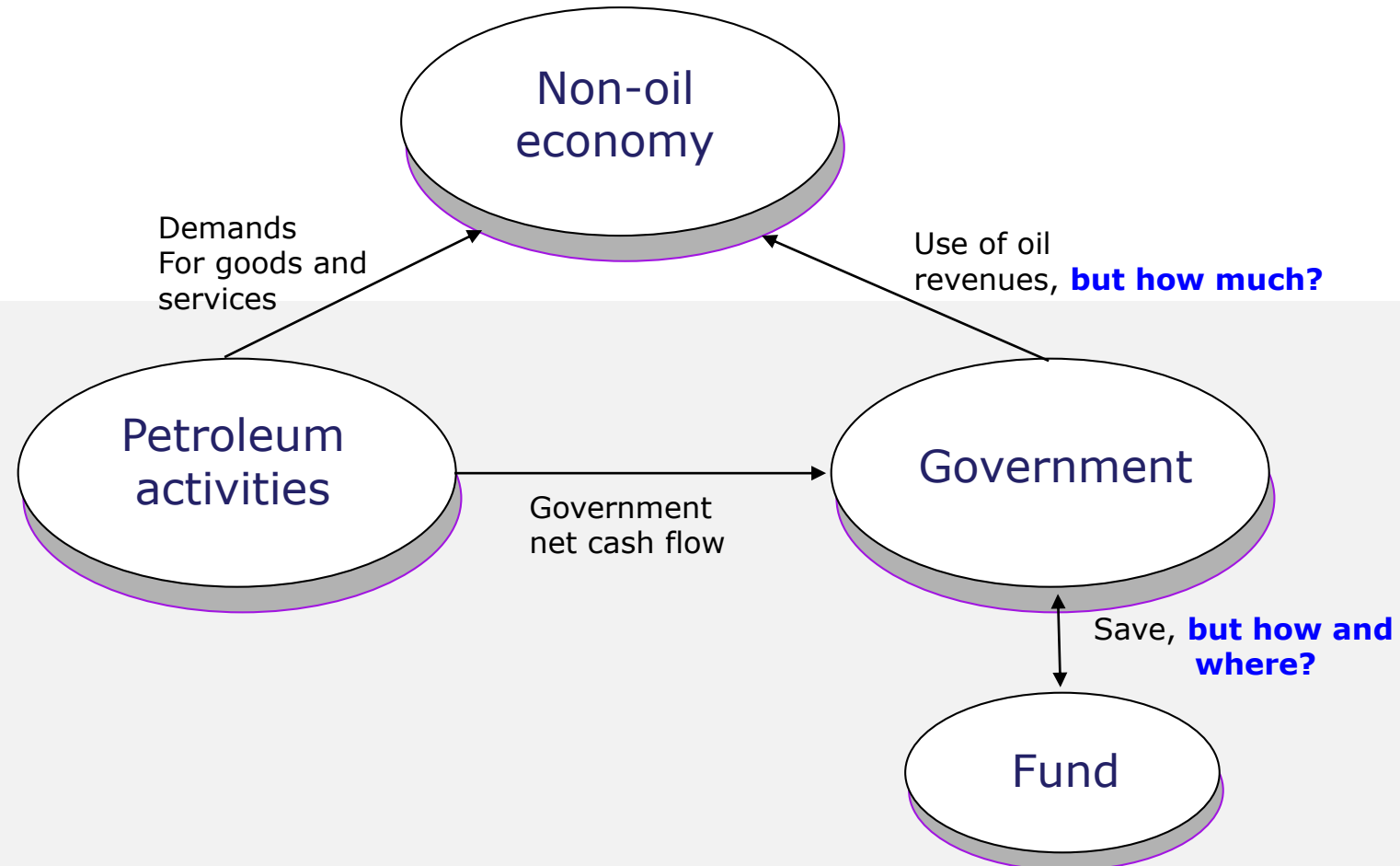


# Human capital far exceeds the importance of total petroleum wealth





# The impacts of petroleum activities on the non-oil economy



# Outline

## Petroleum revenues and fund mechanism

Governance

Investments

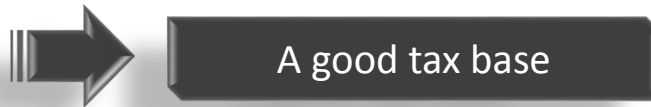
Fund performance

Responsible management

# Possible to tax the resource rent without distorting incentives to invest

## Starting point of resource rent taxation

- Extraordinary profits due to limited resources
- Immobile resources





# High government take in Norway

## Petroleum tax system

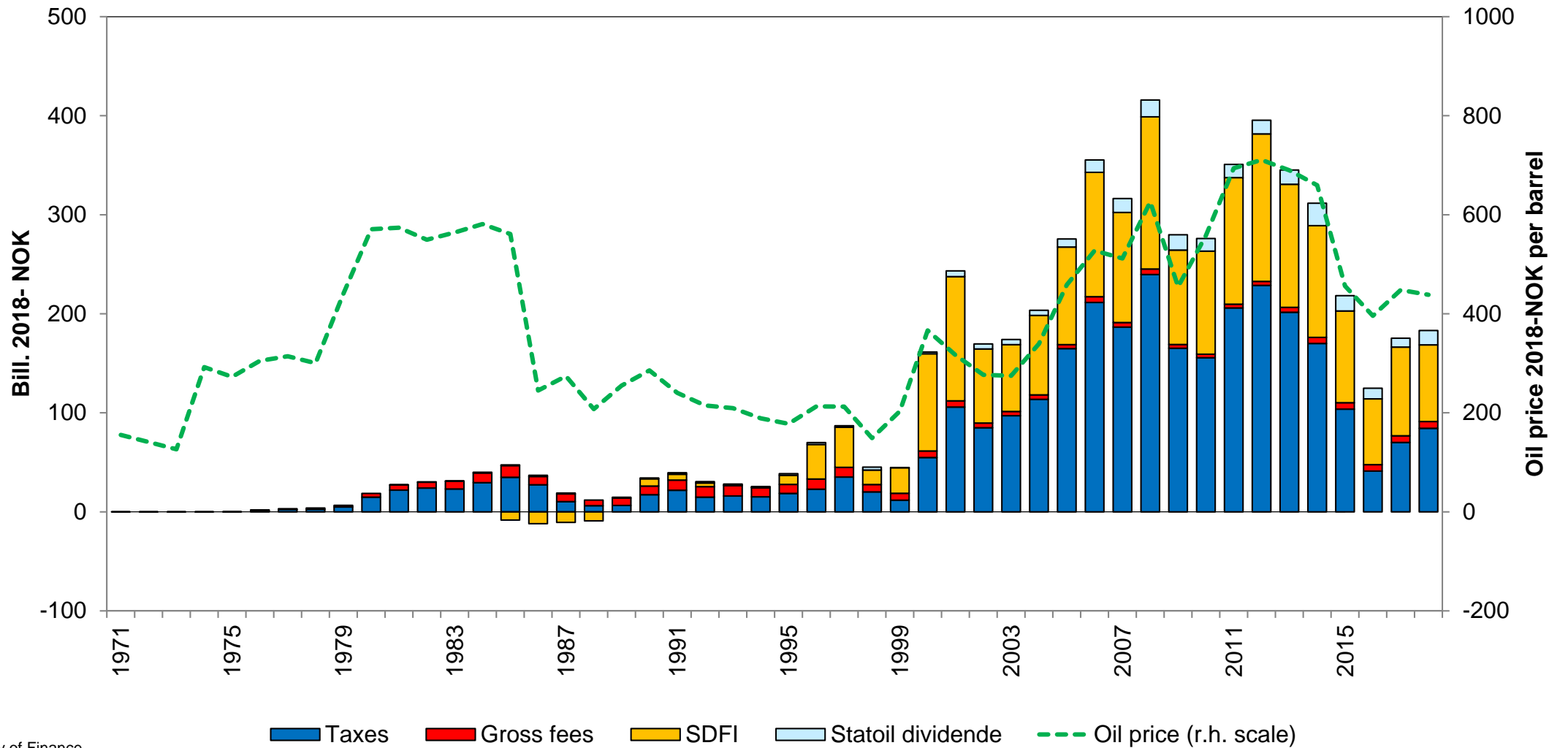
- Production from 1971
- Resource rent tax introduced 1975
- Ordinary tax rate 23%
  - + Special tax rate 55%
  - = marginal tax rate 78%
- State Direct Financial Interest (SDFI) from 1985
  - = 100% cash flow tax



Photo: Colourbox



# Government take from petroleum



# Balance sheet for a country 1

**Human Capital**

**Physical Capital**

Machinery

Factories

Houses

Infrastructure

**Financial assets**

Public

Private

**+ Natural Resources**

Petroleum

**Debt**

Public

Private

**Liabilities**

Pensions

...

....



## Balance sheet for a country 2

### Reallocation on the Asset side:

The challenge is to reallocate the petroleum wealth into other assets in ways that increases future production capabilities

- **Education (Human Capital)**
- **Infrastructure (Real Capital)**
- ...
- **Financial assets (Financial Capital)**

This challenge is common for all countries, but all countries should pursue a long-term strategy

How to reallocate best may differ between countries

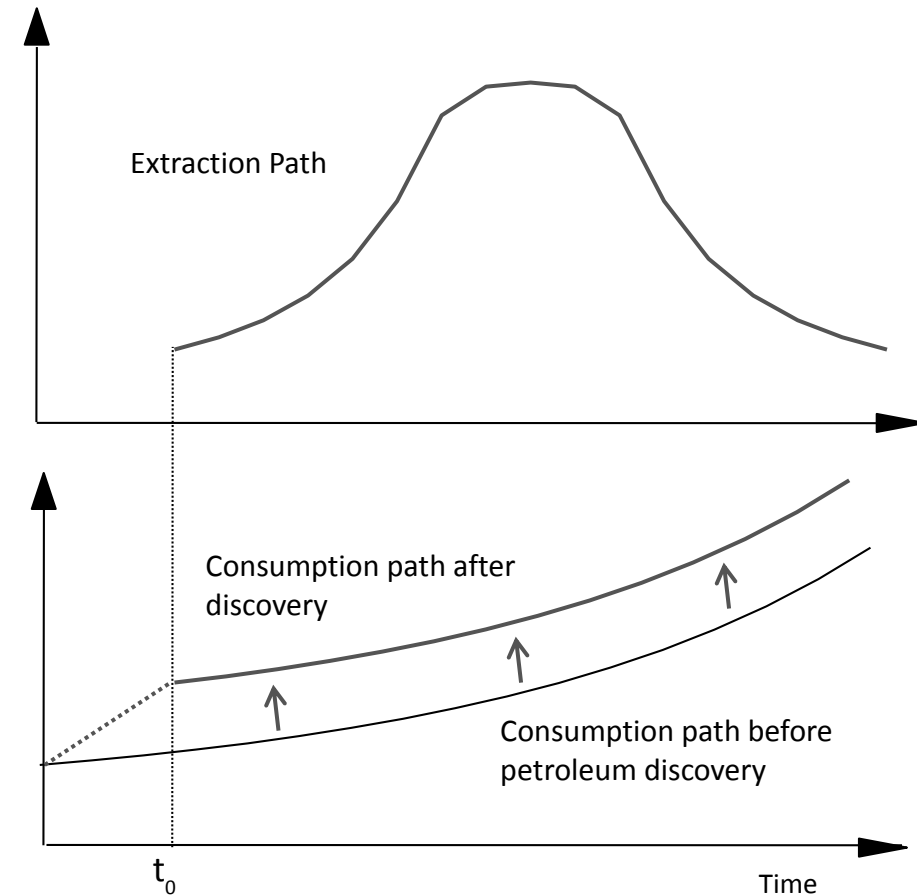


# Petroleum revenues are temporary and volatile

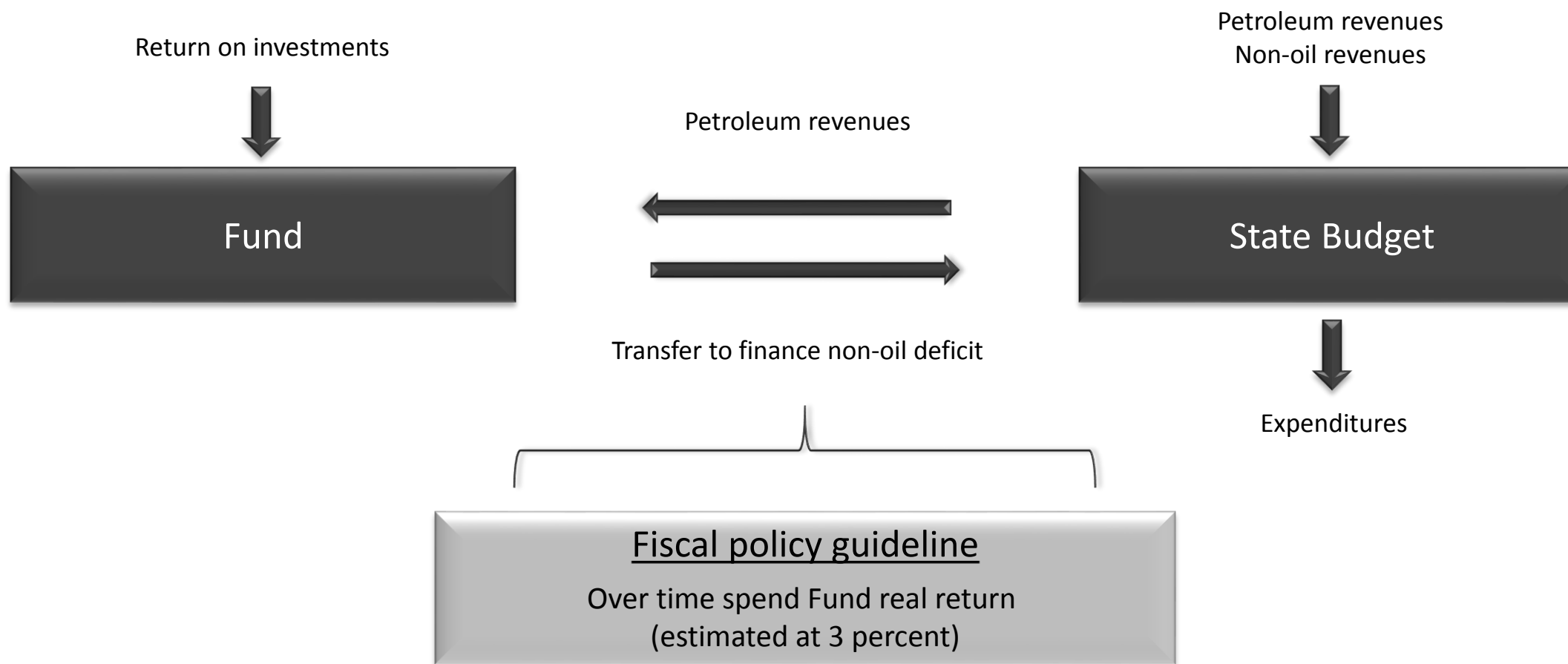
## Petroleum revenues not income in traditional sense

- Income stemming from depletion of non-renewable natural resources
- Transform windfall gain to permanent increase in consumption
- Need for separating current accrual from spending

➔ Necessitates saving a large part of petroleum revenues



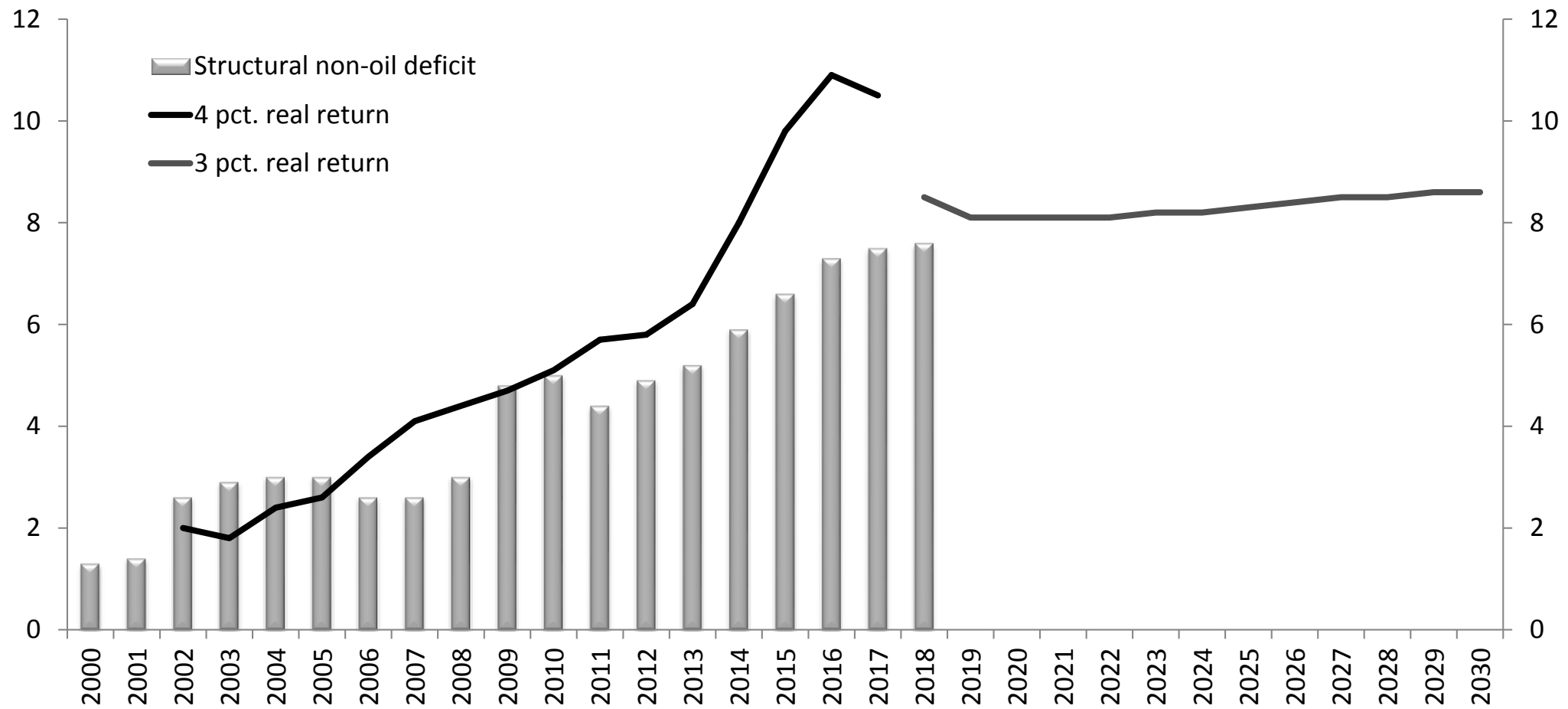
# GPFG is fully integrated with fiscal policy



## Fiscal rule (introduced in 2001)

- Petroleum revenues should be phased into the economy in line with the development in expected real return of the Fund (estimated at 3 per cent)
- Considerable emphasis put on stabilizing the economy
  - Emphasis on a smooth and sustainable phasing in of petroleum revenues
  - Automatic stabilizers are allowed to operate, focus on non-oil structural deficit
  - Discretionary fiscal policy is not ruled out...
- ...but fiscal policy should have a medium-term orientation

## Spending of oil revenues. Per cent of non-oil GDP





# Outline

Petroleum revenues and fund mechanism

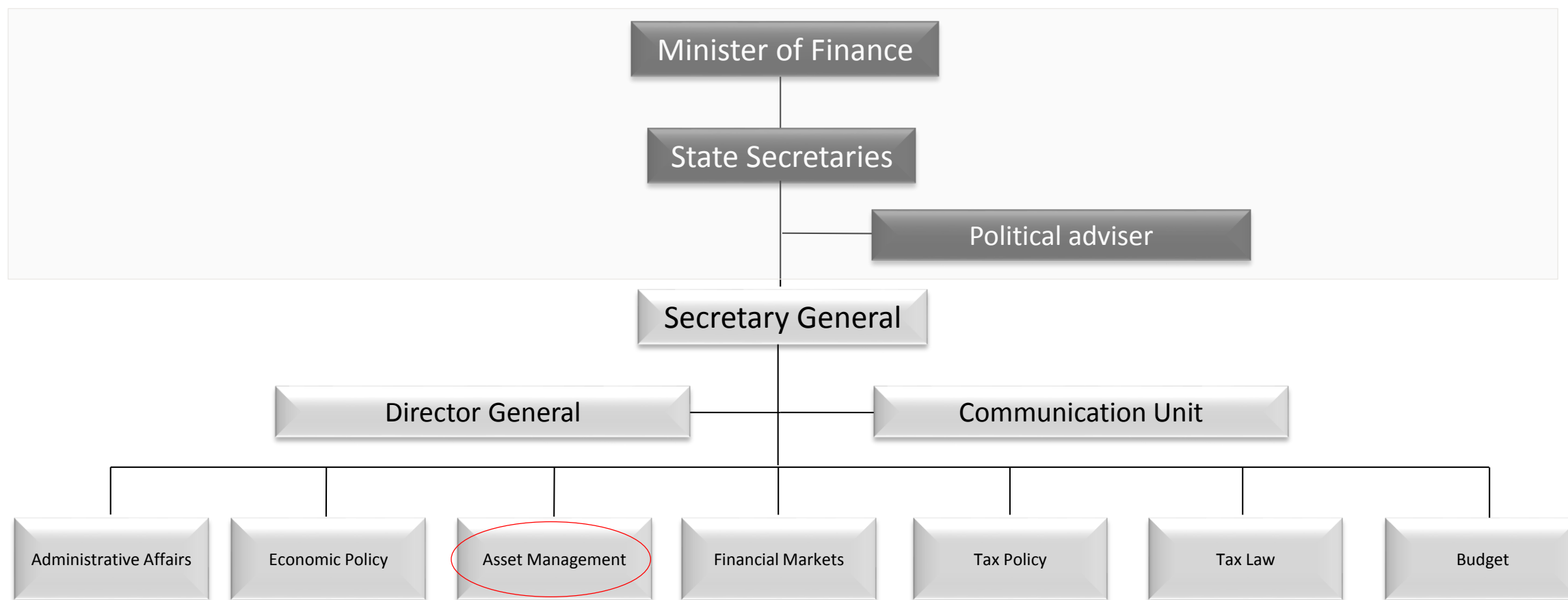
Governance

Investments

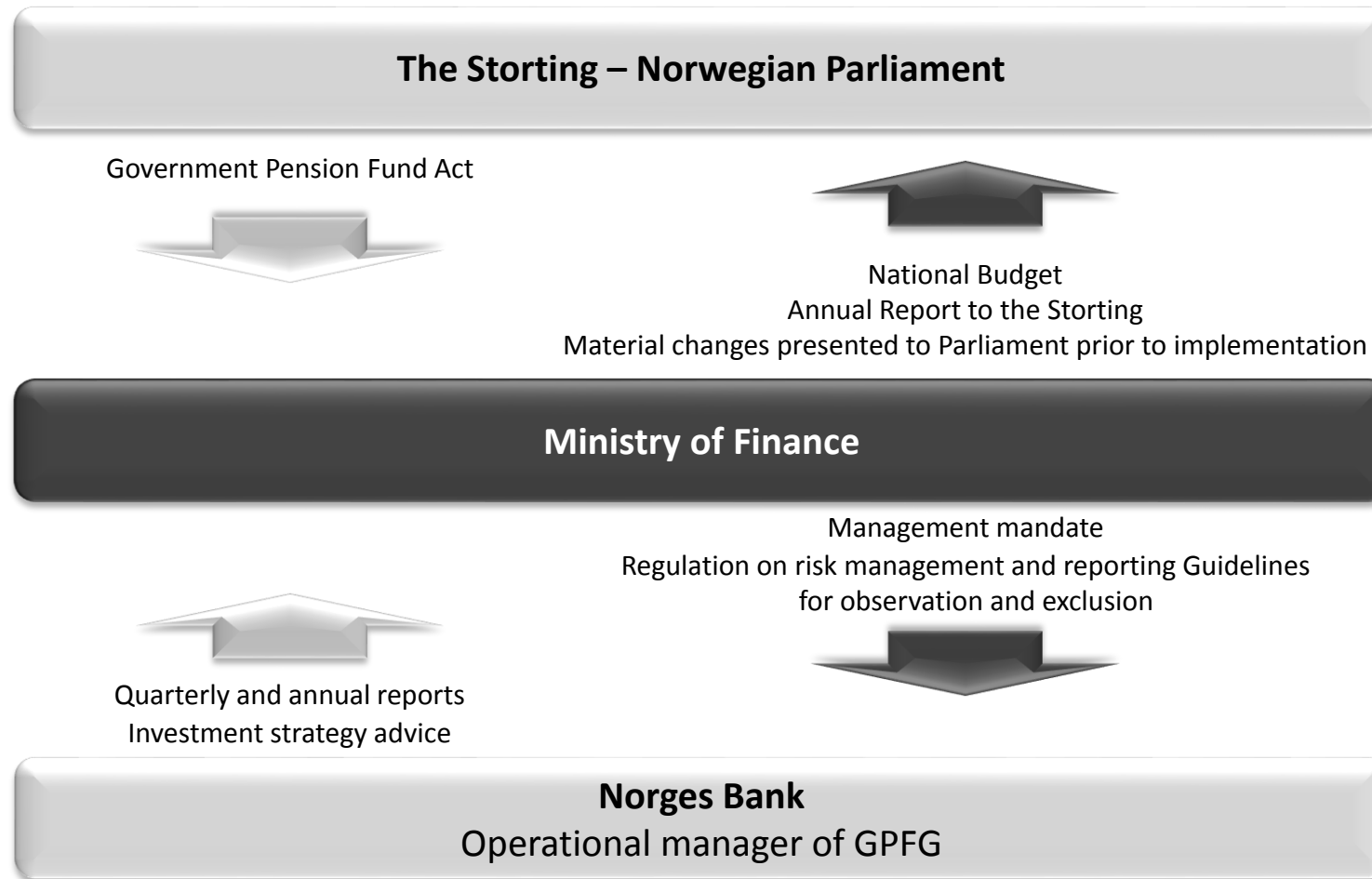
Fund performance

Responsible management

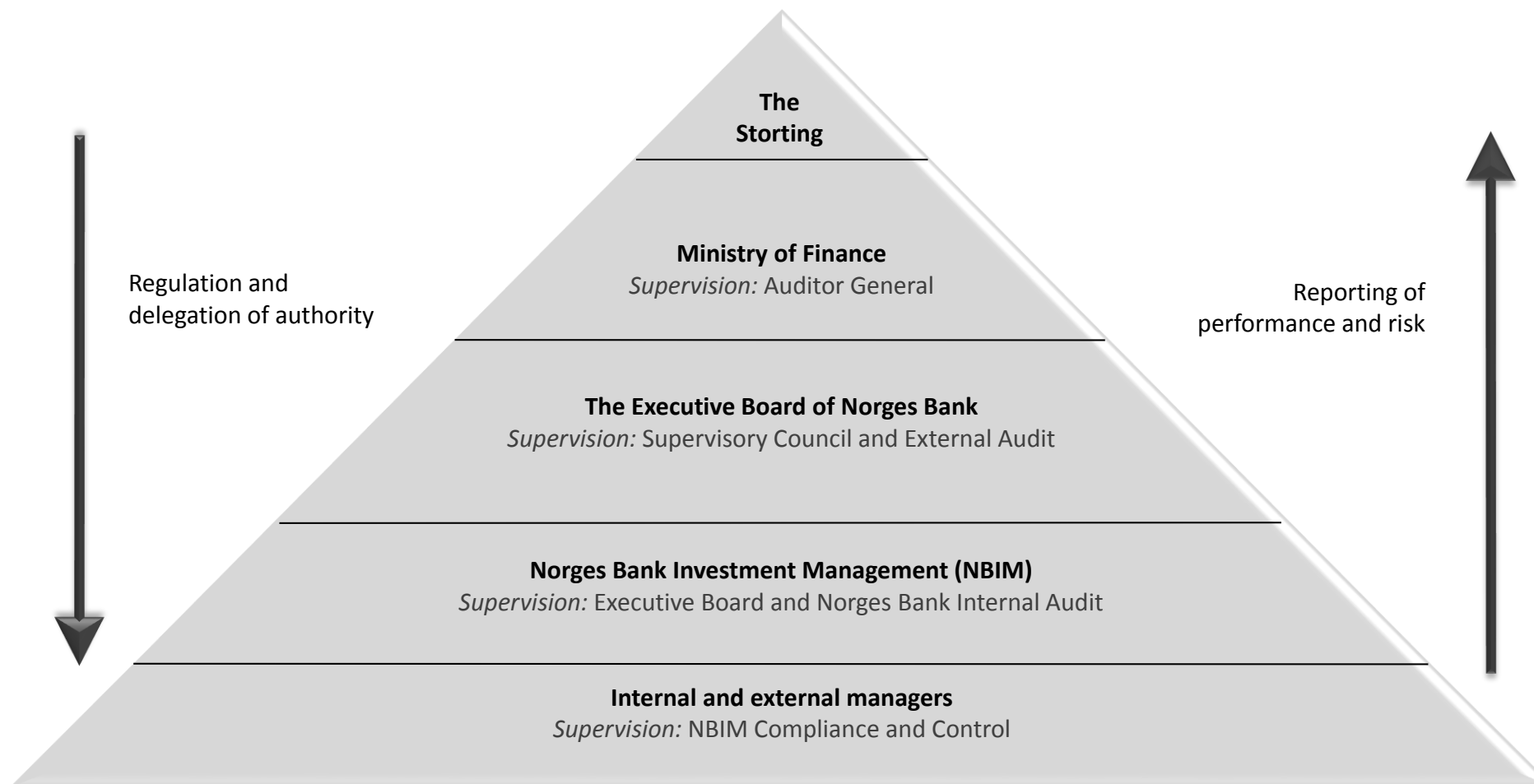
# Organizational chart, Norwegian Ministry of Finance



# Governance structure marked by clear lines of responsibilities



# Hierarchy of regulation, supervision and reporting



# Outline

Petroleum revenues and fund mechanism

Governance

Investments

Fund performance

Responsible management

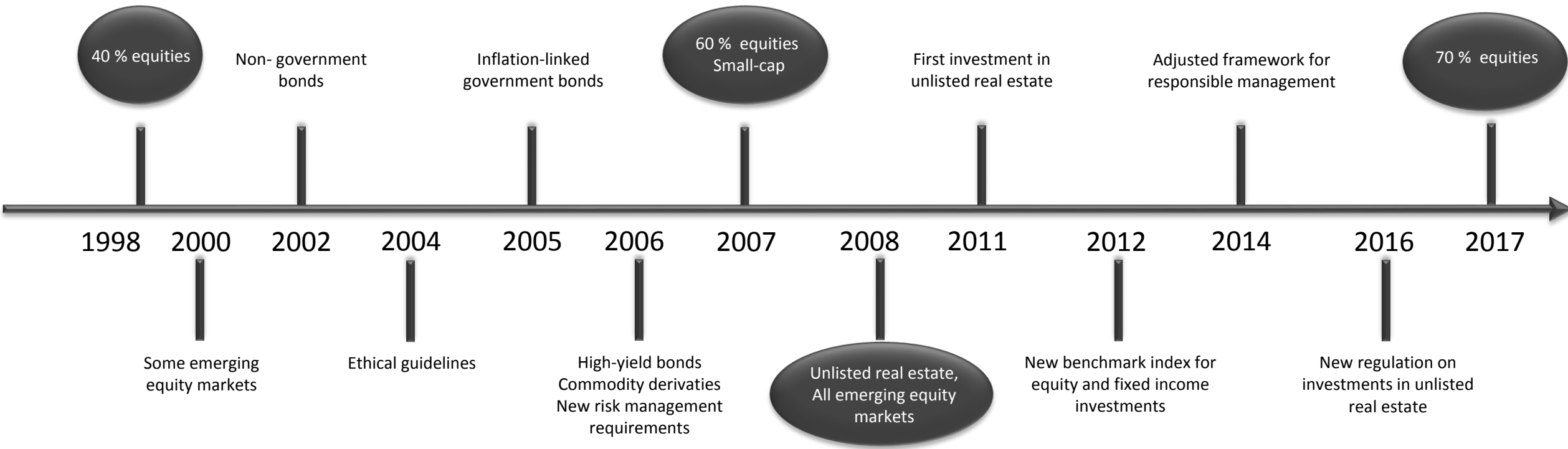
# Overall investment strategy

**Highest possible long-term financial return within a moderate level of risk**

The investment strategy is in particular characterized by:

- Broad diversification
- Harvesting of risk premia
- A moderate degree of active management
- Responsible management
- Cost efficiency
- A clear governance structure

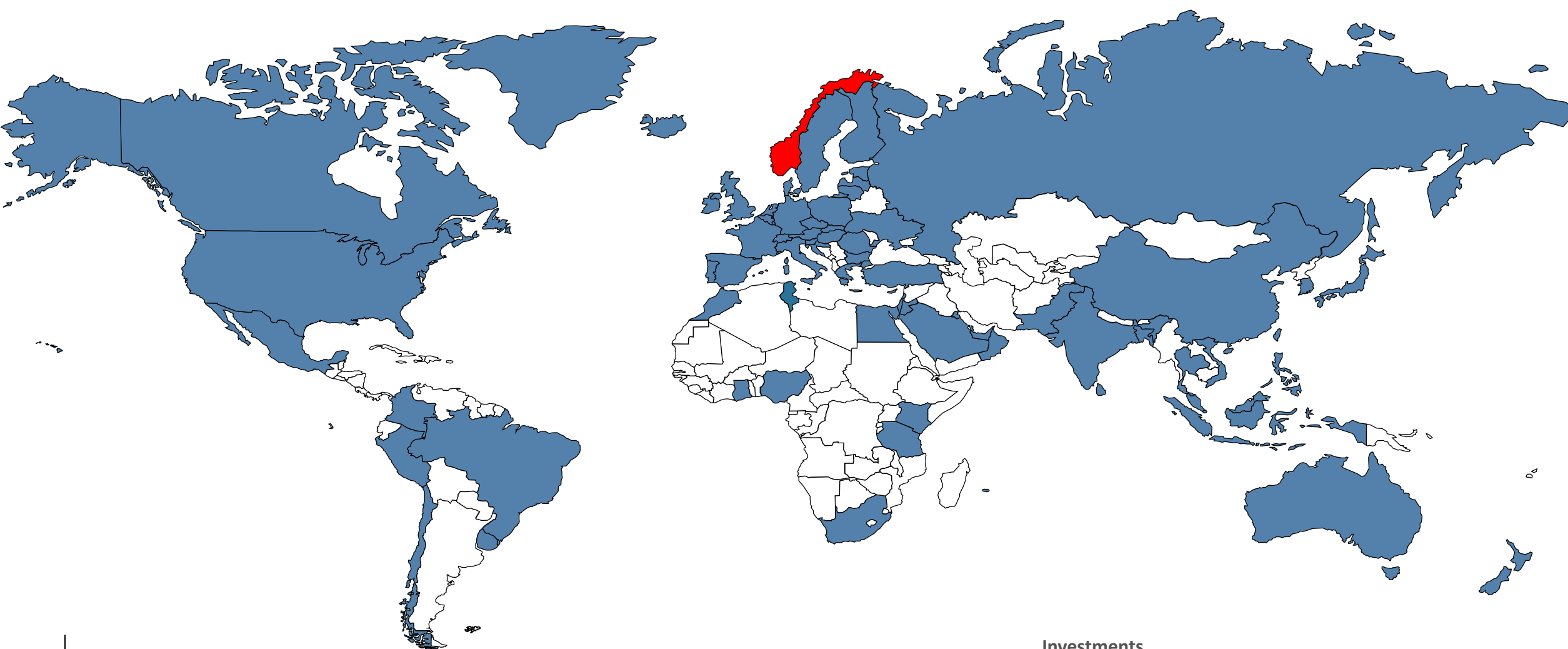
# The investment strategy of the Fund has evolved over time. Important decisions are anchored in Parliament





# Broad geographical distribution of Fund investments

Actual investments at yearend 2017



# Outline

Petroleum revenues and fund mechanism

Governance

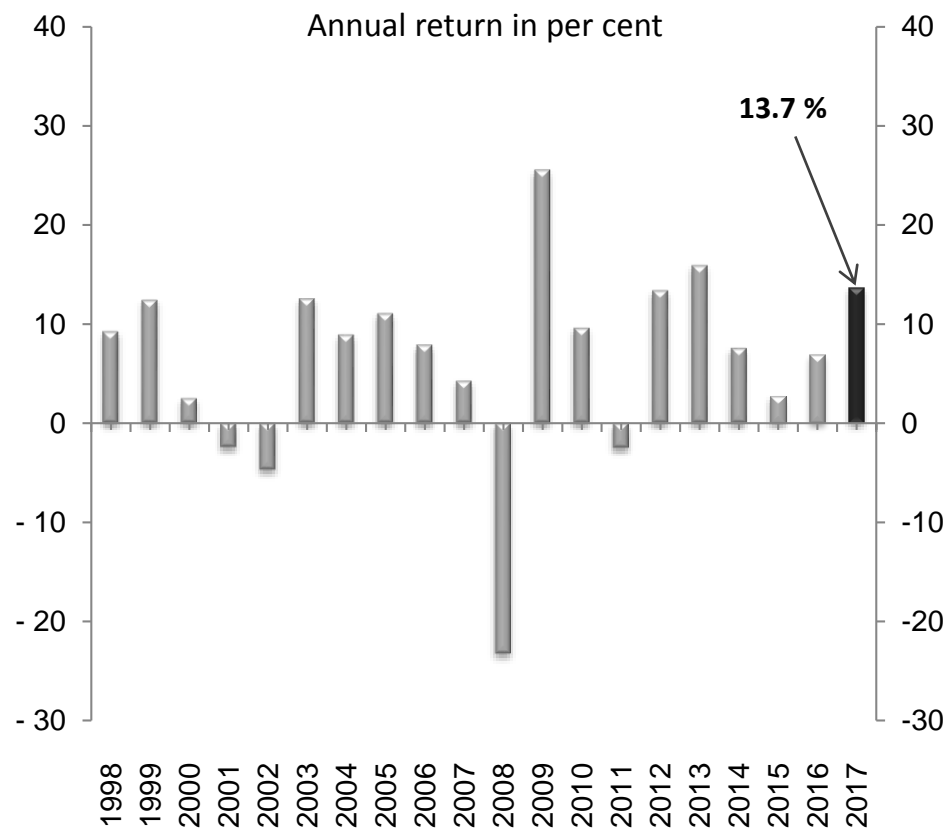
Investments

Fund performance

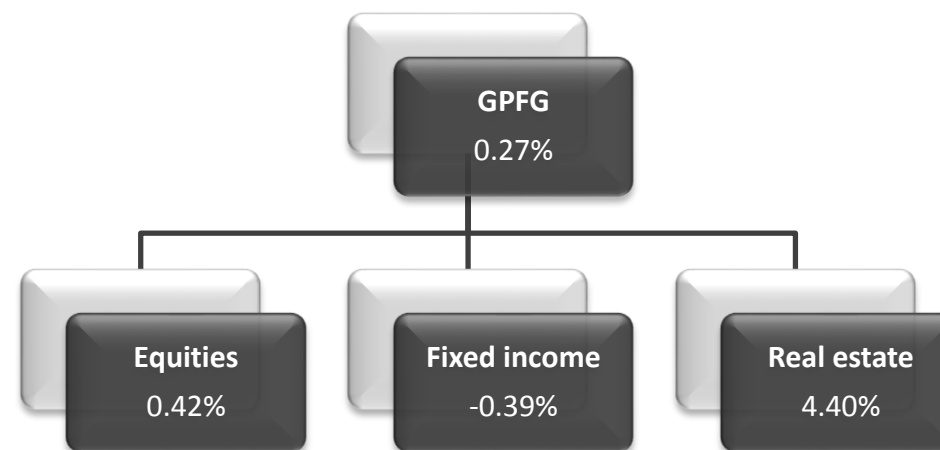
Responsible management

# Considerable return volatility

Measured in the Fund's currency basket



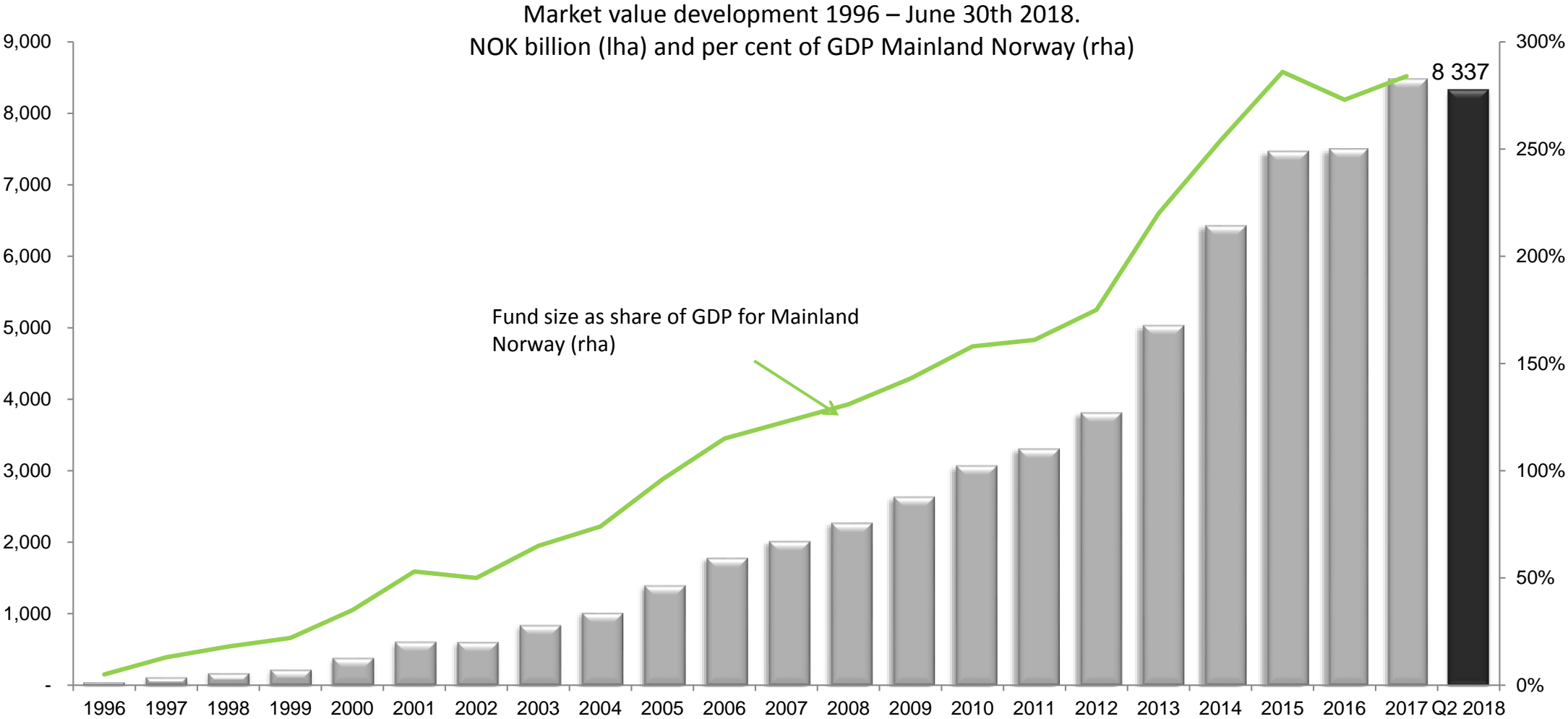
Nominal return in th first half of 2018



# Fund performance

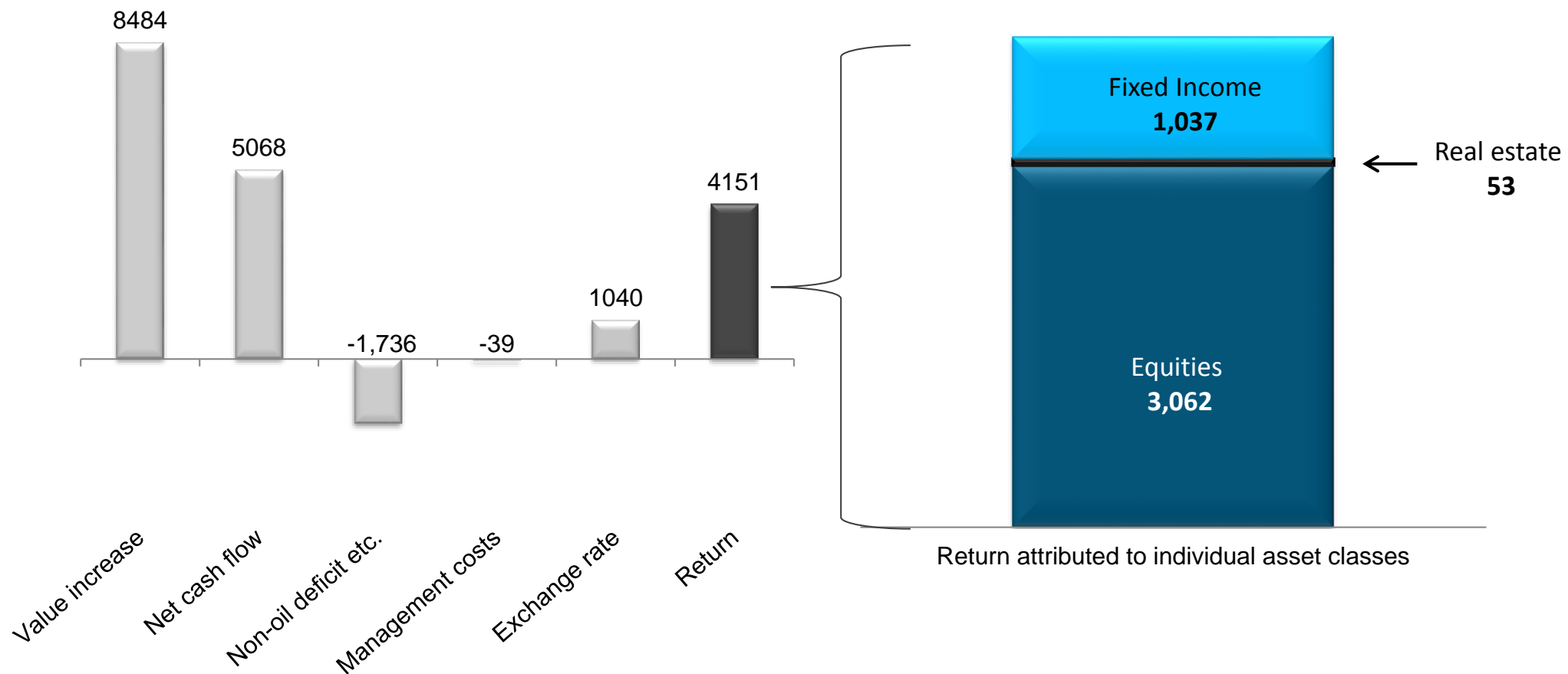
Key figures at June 30th, 2018 (annualised data in currency basket)	Last 12 months	Last 3 Years	Last 5 years	Last 10 years	Since 1.1.1998
Gross annual return (percent)	7.04	6.26	8.16	7.00	5.95
...of which relative return on equity- and fixed income investments (percentage points)	0.24	0.21	0.15	0.21	0.27
Annual price inflation (percent)	2.30	1.55	1.40	1.55	1.80
Annual management costs (percent)	0.06	0.06	0.06	0.08	0.08
Annual net real return on fund (percent)	4.57	4.57	6.60	5.29	3.99

# GPFG is among the largest funds in the world



# Fund value broken down on sources of inception

NOK billion (1996 – December 31th 2017)



# Outline

Petroleum revenues and fund mechanism

Governance

Investments

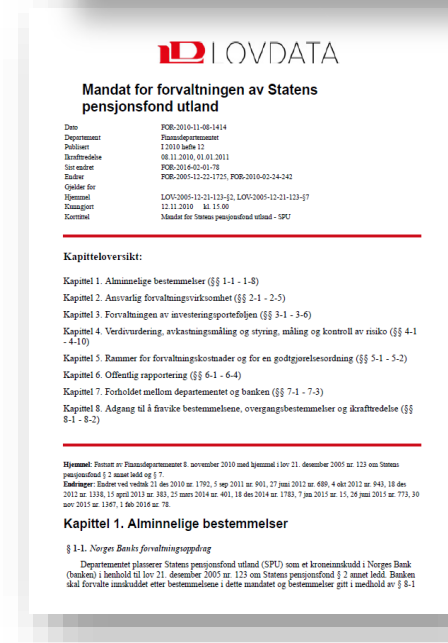
Fund performance

Responsible management



# High degree of transparency in Fund management

- Prerequisite to ensure broad support for and confidence in the management of Fund
- Management mandate states; *...greatest possible degree of transparency within the limits defined by a sound execution of the management assignment*
  - Reporting
  - Holding lists
  - Voting records
- Contributes to a robust investment strategy
  - Anchoring of risk profile with stakeholders



# Tools employed in responsible management of the GPFG

- **Measures in day-to-day business:**
  - Active ownership
  - Environment-related investments
  - International collaboration and contribution to the development of best practice
  - Research and investigation
  
- **Measures of last resort:**
  - Observation
  - Exclusion of companies



# Key lessons from Norway's experience 1

- Income from petroleum is volatile and uncertain
- There is a need to separate current spending from current revenues
- All countries need a fiscal rule, but the rule should be tailor-made
- Clear definition of roles and responsibilities, and transparency, are important aspects of any governance structure

## Key lessons from Norway's experience 2

- The petroleum sector accounts for a substantial part of our economy. Integrating the oil sector in national account statistics has been a prerequisite for understanding and analysing the sector and for economic policy making.
- Perspectives for the oil sector and for oil revenues are an integrated part of economic planning in Norway, in annual fiscal budgets and in economic perspectives presented by the Ministry of Finance to Parliament every fourth year.



Norwegian Ministry  
of Finance

**P.O.Box 8008 Dep**

**NO-0030 Oslo, Norway**

**Telephone: +47 22 24 41 63**

**E-mail: [postmottak@fin.dep.no](mailto:postmottak@fin.dep.no)**

[www.regjeringen.no/en/dep/fin](http://www.regjeringen.no/en/dep/fin)

[www.government.no/gpf](http://www.government.no/gpf)

[www.nbim.no/en](http://www.nbim.no/en)

[www.etikkradet.no/en](http://www.etikkradet.no/en)