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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

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Економічна ситуація в Норвегії після світової фінансової та нафтової криз у контексті інтеграційних тенденцій в ЄС

Анотація. У статті представлено аналіз впливу світової фінансової та нафтової криз на євроінтеграційні тенденції в Норвегії. Метою цього дослідження є вивчення впливу нафтової і газової промисловості як на економічну ситуацію в Норвегії, так і на добробут даної країни, а також визначення того, який вплив має політична та економічна стабільність на євроінтеграційні процеси. Результати проведеного дослідження показують, що євроінтеграційні процеси в Норвегії не мають активного розвитку, у тому числі й у періоди економічних криз, переважно завдяки значному прибутку, який країна отримує від нафтової промисловості, здатності відновлювати власну економіку, а також завдяки значній підтримці економіки з боку держави.

Ключові слова: Норвегія; фінансова криза; нафтова криза; членство в ЄС.

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Экономическая ситуация в Норвегии после начала мирового финансового и

нефтяного кризисов в контексте евроинтеграционных процессов

Аннотация. В статье представлен анализ влияния мирового финансового и следующего за ним нефтяного кризиса на евроинтеграционные тенденции в Норвегии. Целью данного исследования является изучение влияния нефтяной и газовой промышленности как на экономическую ситуацию в Норвегии, так и на благосостояние данной страны, а также определение того, какое влияние имеет политическая и экономическая стабильность на евроинтеграционные процессы. Результаты проведенного исследования показывают, что евроинтеграционные процессы в Норвегии не имеют активного развития, в том числе и в периоды экономических кризисов, преимущественно благодаря значительной прибыли, которую получает страна от нефтяной промышленности, способности восстанавливать собственную экономику, а так же благодаря значительной поддержке экономики со стороны государства.

Ключевые слова: Норвегия; финансовый кризис; нефтяной кризис; членство в ЕС.

1. Introduction

Norway belongs to the wealthiest countries in the world, mainly due to its strong petroleum industry and a functioning political and economic system. Norway joined the European Free Trade Association (EFTA) in the 1960s; however, in times of economic recessions or crises, the country applied for the membership in either the European Communities (EC) or the European Union (EU) three times in order to stabilise its economy. Yet, once it was the Norwegian government who withdrew its application, and the EU membership was rejected by Norwegians in referendums on the other two occasions.

In the time of the outbreak of both the global financial crisis and the current oil crisis, Norway experienced a significant economic slowdown which caused serious consequences. Since the country's interest in its possible integration into the European Union occurs mainly in times of economic recession,

we will focus on the analysis of the economic development in Norway from 2008 in context of the EU integration. On the basis of this research, our aim is to investigate whether the global financial crisis or the oil recession in Norway has a material impact on the country's desire to join the European Union.

2. Methods

Our research is grounded on the qualitative analysis and deduction of the impact of the petroleum industry on the economic stability in Norway. Furthermore, with a logical abstraction and synthesis, we will conclude whether Norway is likely to participate in the EU integration processes in times of crises, as it was in the case of other economically developed EU member states, or prefer to stay independent. The data used come from the Organisation for Economic Cooperation and Development, the European Central Bank, Eurostat, US Energy Information Administration and the Financial Market Authority of Norway.

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 Børs 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-booster 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 to support the domestic consumption in order to enhance the export industry. At the same time Norway's economy experienced a significant number of bankruptcies in the private sector. Thus, the unemployment rate increased. Because of that, the Norwegian government started to support the domestic consumption and invested mainly into the private sector, the social sector, healthcare and education.

The government's measures brought an improvement to the Norwegian economy. From 2009, the interest rates, as well as the domestic demand, became stable (Financial Supervisory Authority, 2009). According to Figure 1, the household debt raised from 2009, which later caused a boom on the housing market, which explains why the policy of interest rate stabilisation was required. The annual GDP growth slowed down from 7% in 2007 to 3% in 2009. However, starting from 2010, Norway's economy has been experiencing stable GDP growth with the average value of 4%, as of 2013. The negative impact of the global financial crisis resulted in an increase in the unemployment rate, since at the beginning of the global economic crisis the unemployment rate reached only 2%, although it was less than 3.7% during its peak in 2010.

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 EU 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 fast economic recovery was mirrored in a robust appreciation of the Norwegian Krone (ECB, 2018).

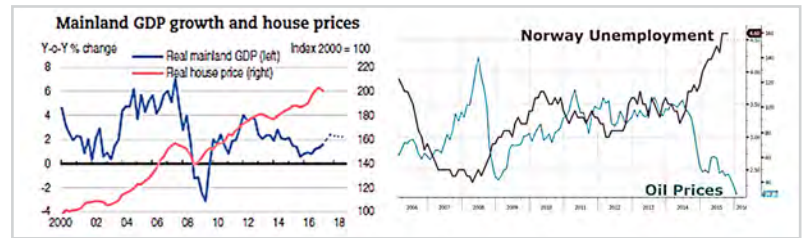


Fig. 1: Evolution of economic indicators in Norway
Source: OECD, 2017a; Durden, 2016

However, the oil prices in 2015 fell down by 50%, compared with the year 2012, and the production of oil and gas in Norway did not respond to this situation in the form of reduced production, even if the government's support to this industry decreased (Barden, 2015). At the end of 2015, the GDP growth in Norway decreased to the lowest point in 6 successive years, and the consumers' confidence peaked to the same level as during the crisis (OECD, 2016). The low income from oil extraction and the depreciation of Krone had a significant impact on the oil prices. However, in comparison with other economies reliant on oil production, the exchange rate of the Norwegian Krone is still relatively strong, even if oil prices are falling (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 down all quarters 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 oil and gas industry, 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.

Moreover, the country would have changed its fishery policy due to strict politics of the European Union in this field, since Norway's total fish catches exceeds the limits in fishing industry. Every year, the European Commission sets limits for fish catches for every EU member state considering the territory of the country, the importance of the fishery industry and the state of fish species in the sea (Lipková, 2011). Norway belongs to the biggest producers of fishes in Europe, even if the number of its total fish catches is decreasing. The total fish catches in Finland or Germany, which are the similar size as Norway, cover only 1/10 Norway's current fish catches; and if compared to the most important fishing industry, which is in the UK, the total fish catches in the UK in 2016 represented only 30% of the Norwegian ones (Eurostat, 2018). Therefore, even if the oil and gas industry is the most important industry in Norway, the fishing industry has still a significant share in Norwegian GDP, and it is strongly supported due to the ongoing crisis in the petroleum sector, due to the strategy of diversification and reorientation towards traditional industries.

Two negative referendum results on the potential EU integration in 1972 and 1994 (NSD, 1994), which showed citizens' reluctance regarding the EU membership, is another important factor. Norwegian opposition, usually consisting of Eurosceptics, has had a strong impact on referendum results (Sitter, 2007). Due to the stable economic and political environment, Norwegians have remained reluctant towards the EU integration. The result of political willingness of being an EU member state was a quasi-membership which goes beyond the limits of the EEA (European Economic Area) that includes further adoption to the EU policies and legislation in order to stay closer to the EU Single Market (Eliassen, Sitter, 2003). Currently, Norway benefits from the membership in EEA, which provides closer business relations with the EU member states, as well as from its membership in the EFTA, which makes it possible for Norway to export fishing products and industrial goods to EU member states without paying taxes.

4. Discussion and conclusion

The economic development of the county has a significant impact on political decision making and integration trends, mainly in times of crises and recessions. During the global financial crisis, Norway experienced an increase in the unemployment rate, inflation, domestic household debt and real estate prices, as well as a downturn in GDP growth. The oil and gas prices decreased despite the government's efforts to support the relevant production in order to stabilise the country's economy and to avoid job losses in the sector. Keeping in mind the fact that Norway has gone through the crisis with the least losses in Europe, the EU integration would not be beneficial in times when other EU member states are going through a deeper recession. Norway as a welfare state with a strong petroleum industry and stable political situation has no urgent

need to change its foreign policy towards the EU integration to stabilize the country's economy.

Furthermore, the country'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 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 have changed the Norwegians' 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 towards the EU membership even in times of crises, as it was the 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.

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