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Management of fiscal risks in Norway

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Paris October 28

Risk factors

- Fiscal rule
- Petroleum revenues and the SWF
- Macro fiscal forecasts
- Contingency reserves
- Insurance
- Guarantees

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Fiscal rule changed in 2001

1) Petroleum income should be phased into the economy on par with the development in expected return on the Government Pension Fund - Global

2) Considerably emphasis must be put on stabilising the economy

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"The development in expected return on the Government Pension Fund – Global"

The capital in the fund:

- At the beginning of the budget year (no petroleum reserves included)
- Petroleum revenues t-1
- Market value of the capital in the fund
- Appreciations of the NOK

Expected real return: 4 %

A gradual and sustainable increase in the use of petroleum revenues

The Government Pension Fund – Global (SWF)

Stabilisation	Liquid capital with fixed return	60 % down to 40 %
Savings	Equities with higher risks, long term investments	40 % up to 60 %
Diversification	Real estate investments	New with small share (up to 5 % in the long term)

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“Considerably emphasis must be put on stabilising the economy”

Macro-economic forecasts

- Structural deficit
- Automatic stabilization
- Revisions of the estimates during the year

Exchange rate (direct – indirect)

Interest and dividends

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Contingency reserves

Must have them (for real contingency liabilities?)

Not to large (natural disasters not important in Norway)

Medium-term expenditure framework

Private – public - partnership

Three infrastructure projects as pilots

Why do we need PPP?

- Higher productivity – lower risks
- Use money outside the fiscal rule

Insurance

Self-insurer
- Cyclical risks – the government will be the last resort anyway
- None-cyclical risks – few for the government

The Petroleum Insurance Fund
- Governmental petroleum activity; financed by a premium (notional)

Explicit guarantees

Explicit guarantees approved by the parliament

- Appropriations to cover future loss on guarantees
- If a public company has a debt-guarantee from the government they have to pay a fee
- Public financial companies have reserves for losses, but may also have appropriations for losses (traditional small losses)

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Implicit guarantees

Counties/municipalities (ROBEK)

Public enterprises
- Turned into limited companies
- Paid for quasi-fiscal operations
- Hospital sector (Draft facilities in private banks)

Financial crises
- Systemic Banking Crisis (1991)