

**COUNTRY PROFILE:****KINGDOM OF NORWAY**

IES 02/ATTACHMENT A

**DATED:****JULY 2008****CREDIT GUARANTEE:**

|                   | <i>Country Rating</i> | <i>U/W Method</i> |
|-------------------|-----------------------|-------------------|
| <i>Short-term</i> | 1A                    | No Restrictions   |

*Recent Political Highlights*

- ❑ Norway is a constitutional monarchy with a parliamentary system of government. Chief of state is King Harald V and heir apparent is Crown Prince Haakon Mangus. The chief's role is mainly ceremonial although he has influence as the symbol of national unity. Labour Party leader Jens Stoltenberg took office as prime minister in a centre-left alliance with the Socialist and Centre Parties in October 2005 after elections the previous month.
- ❑ Norway's most conservative party has suddenly cemented its position as the largest in the country confirming a trend that voters in the traditional social welfare state are leaning to the right. The Progress Party has been able to boast support from more than 30% of the country's voters for weeks; Siv Jensen could emerge as Norway's next prime minister if her party hangs on to such support through September 2009 elections. Polls have shown the Progress Party gaining voters at the expense of the three government parties that form the ruling coalition. The Labour Party dropped to 26.6% and the Socialist left (SV) and Centre Party (Sp), held 6.9% and 5.9% respectively. Another recent poll showed that 57% of Norway's voters now want a change of government.
- ❑ Analysts claim the current Labour-dominated coalition simply hasn't delivered on campaign promises made in 2005. While oil and tax revenues are higher than ever, the level of government services seems to be declining in the country and that has upset voters. There are also internal disagreements within the governing majority alliance partners and these may threaten the coalition; there is a risk the SV and Sp could withdraw ahead of the election, leaving the Labour Party as a minority administration. The EIU forecasts that the centre-left majority coalition will hold together until the general election in 2009, despite a poor performance in opinion polls.

*Recent Economic Highlights*

- ❑ Norway is one of the world's richest countries in per capita terms. It's the world's fifth-largest oil exporter and third-largest gas exporter, providing much of Europe's crude oil and gas requirements. Norway's established state petroleum fund (designed to help finance government programs once oil and gas resources become depleted) exceeded \$388bn at the end of December 2007. Norway looks to be earning more than NOK (Norwegian krone) 100bn extra on its oil production and exports this year compared with earlier estimates. For every NOK10 increase in the price of oil, Norway earns an extra NOK6.1bn. In the preliminary state budget for 2008, the oil price was calculated at NOK360 a barrel but prices are now NOK628 a barrel. Diversification remains Norway's greatest challenge.
- ❑ After almost five years of strong growth in the Norwegian economy, private consumption growth will slow in 2008-09 as employment growth slows and higher interest rates erode disposable income. GDP growth is forecast to average around 2.4% during 2008-2012 from 3.6% in 2007. CPI rose by 3.4% from June 2007 to June 2008 due to higher energy prices.
- ❑ For the first time in years, the bankruptcy rate in Norway has climbed. The 875 cases reported in the second quarter were up 26.6% compared with the same period in 2007. The bankruptcy rate for companies rose by 38.6%, while the rate for individuals increased by 10%. So far this year there have been 1,628 reported bankruptcies. This is an increase of 3.6% compared to the same period in 2007.
- ❑ Pessimism has started to grip Norwegian business leaders. A new survey indicates a majority are bracing for looming stagnation or worse. The survey revealed that one out of six businesses with more than 100 employees thinks they will have fewer staff a year from now. Business leaders polled think company results will flatten or decline within the next year. Leaders in the construction and real estate industries were the most pessimistic after several years of boom.
- ❑ The present government has agreed not open the question of full membership in the EU in 2005-2009 legislative term. Norwegian monetary policy is aimed at maintaining a stable exchange rate for the krone against European currencies, of which the euro is a key operating parameter. The NOK is forecast to average 7.97 per euro in 2008.
- ❑ Norway agreed to continue WTO-negotiations in Geneva aimed at reaching an agreement on new international trade agreement, despite opposition from Norwegian farmers. The proposed settlement calls for cutting limits of European farm subsidies by 80% and US payments by 70%. The compromise proposal also involves cuts in tariffs on agricultural imports and on industrial goods. Norwegian farmers fear the proposed tax cuts will mean the end of the Norwegian farming industry. The farmers estimate that they could be over 40,000 job losses in the next years, including the food processing industry. However, Norway's highly competitive fishing industry is asking the government to put its interest ahead of maintaining protective tariffs for the heavily subsidies farming industry.

*Latest Trade Developments*

- ❑ Main exports: petroleum and petroleum products, machinery and equipment, metals, chemicals, ships and fish.
- ❑ Main imports: machinery and equipment, chemicals, metals and foodstuffs.
- ❑ Major trade partners: UK, EU, Sweden, Germany, Denmark, Netherlands, France, US and China.
- ❑ Norwegian imports from South Africa tripled from R490.2m in 2006 to R1.4bn in 2007.